# 上海君實生物醫藥科技股份有限公司
# Shanghai Junshi Biosciences Co., Ltd.*

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

Stock code: 1877

# 2018
## Annual Report

* For identification purpose only

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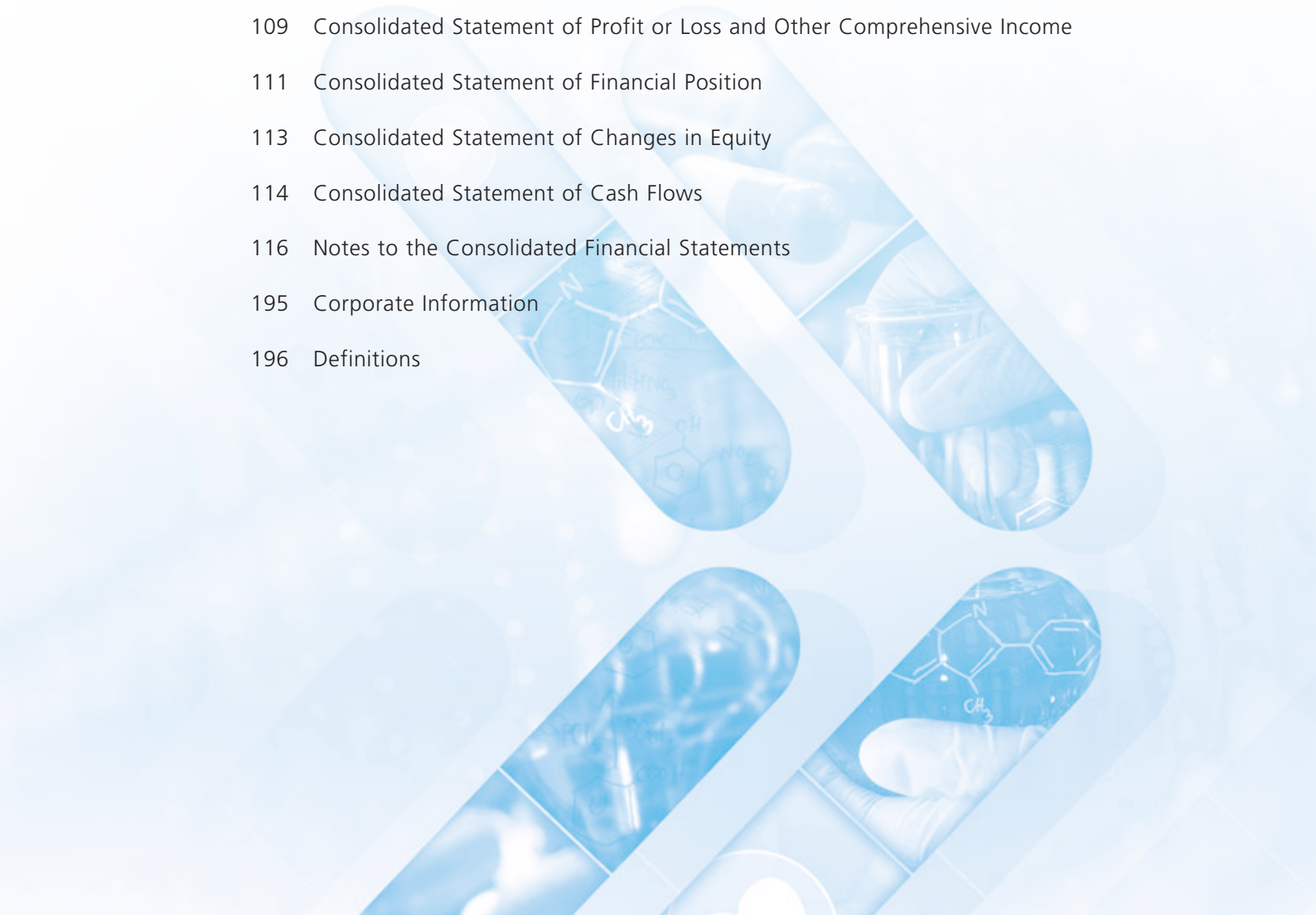


# HIGHLIGHTS

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years, as extracted from the published financial results, is set out below:

**IFRS:**

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2016 RMB'000 | 2017 RMB'000 | **2018 RMB'000** |
| **Operating Results** | | | |
| Revenue | 3,757 | 1,148 | **934** |
| Gross profit | 2,771 | 702 | **667** |
| Loss for the year from continuing operations | (131,490) | (320,802) | **(716,500)** |
| Total comprehensive expense for the year | (128,667) | (326,915) | **(714,593)** |
| **Total comprehensive expense for the year attributable to:** | | | |
| Owners of the Company | (127,720) | (326,688) | **(714,654)** |
| Non-controlling interests | (947) | (227) | **61** |
| **Loss per share** | | | |
| From continuing and discontinued operations | | | |
| Basic (RMB yuan) | (0.26) | (0.55) | **(1.19)** |
| Diluted (RMB yuan) | N/A | N/A | **(1.19)** |

| | At 31 December | | |
|---|---|---|---|
| | 2016 RMB'000 | 2017 RMB'000 | **2018 RMB'000** |
| **Financial Position** | | | |
| Non-current assets | 604,122 | 708,703 | **1,347,126** |
| Current assets | 544,908 | 511,006 | **2,910,184** |
| Total Assets | 1,149,030 | 1,219,709 | **4,257,310** |
| Non-current liabilities | 3,453 | 41,815 | **465,112** |
| Current liabilities | 18,962 | 58,560 | **471,065** |
| Total Liabilities | 22,415 | 100,375 | **936,177** |
| Net Assets | 1,126,615 | 1,119,334 | **3,321,133** |

Note: The results of 2016 and 2017 are extracted from the Prospectus.

# HIGHLIGHTS

## PRC GAAP

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2017 RMB'000 | **2018 RMB'000** |
| **Operating Results*** | | | | | |
| Revenue | 5,802 | 2,887 | 5,939 | 54,500 | **2,928** |
| Gross profit | 2,114 | 2,754 | 2,646 | 48,373 | **(1,269)** |
| Loss for the year | (25,254) | (57,970) | (136,269) | (317,571) | **(722,854)** |
| Total comprehensive expense for the year | (25,474) | (57,274) | (128,667) | (326,915) | **(721,582)** |
| **Loss per share** | | | | | |
| From continuing and discontinued operations | | | | | |
| Basic (RMB yuan) | N/A | (3.94) | (0.27) | (0.55) | **(1.21)** |
| Diluted (RMB yuan) | N/A | N/A | N/A | N/A | **N/A** |

| | At 31 December, | | | | |
|---|---|---|---|---|---|
| | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2017 RMB'000 | **2018 RMB'000** |
| **Financial Position** | | | | | |
| Non-current assets | 59,415 | 127,790 | 596,082 | 704,380 | **1,340,137** |
| Current assets | 273,525 | 500,591 | 552,948 | 515,328 | **2,910,184** |
| Total Assets | 332,940 | 628,381 | 1,149,030 | 1,219,708 | **4,250,321** |
| Non-current liabilities | 4,634 | 6,930 | 3,452 | 41,815 | **465,111** |
| Current liabilities | 13,072 | 14,163 | 18,963 | 58,560 | **471,067** |
| Total Liabilities | 17,706 | 21,093 | 22,415 | 100,375 | **936,178** |
| Net Assets | 315,234 | 607,288 | 1,126,615 | 1,119,333 | **3,314,143** |

Operating Results* include noncontinuous operation results.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I am greatly honored to present our 2018 Annual Report, which allow us to review our past and look forward to the future.

2018 marked an extraordinary year for the Company. We successfully listed on the main Board of the Hong Kong Stock Exchange, and also launched our core product JS001, in the market. Given the achievement is so apparent, I would keep it short here. On top of this, there are still a lot of events that are less eye-catching but actually worth paying attention to. We have 9 ongoing key registered clinical trials on toripalimab, completed enrollment for the Phase III clinical trial of UBP1211, and completed the Phase I clinical trial of PCSK9. American Society of Clinical Oncology The Gastrointestinal Cancers Symposium GI and American Society of Clinical Oncology accepted 2 and 6 of our articles, respectively. We also had a keynote speech at the Chinese Society of Clinical Oncology. Our production base at Wujiang entered the optimization and run-in period, while the construction of our production base at Lingang was at full steam. We had more drug candidates obtaining IND approvals, and included small molecular drugs in our pipeline. We commenced extensive cooperation and joint development. We set up a commercialization team and well prepared ourselves for marketing of drugs. The Company also further enhanced management, reaching the standards for listing in two markets.

Nevertheless, 2018 was also an ordinary year of the Company. Just like every year since our establishment in December 2012, the Company made sound and stable progress in 2018 as usual. We prepared for various foundation work at the very early stage, including the establishment of key platforms, especially the human transmembrane receptor array and high-throughput screening platform, the automated high-efficiency screening platform for antibody selection and functional assays, the high-yielding stable expression cell lines screening and establishment platform, and antibody quality research, control and assurance platform, which was the foundation for better drug discovery and development. We rapidly advanced the clinical trials for certain drugs, including JS001 (PD-1), UBP1211 (Humira biosimilar), JS002 (PCSK9) and UBP1213 (BLyS). We conducted a number of exploratory and confirmatory clinical trials to accomplish our goal in providing patients with therapies with better efficacy. We also began to establish production capacity in Wujiang and Lingang in a timely manner, so as to put our vision of providing economical therapies into reality.

# CHAIRMAN'S STATEMENT

2019 is the first year for the marketing of the Company's drugs, which is a crucial year. We have begin selling our products this year. We strive to establish the brands of both Junshi and Tuoyi (拓益), refining the sales process and improve internal management. We will continue to attend major academic conferences to enhance our influence. We will have our first globally first-in-class drug candidate commencing clinical trials in the United States, more products filing for IND, and new NDA applications. We will commence Phase II and III clinical trials on toripalimab in the United States, and various key registered clinical trials are in the pipeline. The additional production capacity in Lingang will soon be completed and commence trial production.

If we looked back at 2019 several years later, we would hope 2019 will also be an ordinary year. The debut of commercialization and listing is just our first step in the long journey. We will gain more strength to achieve a lot more from the sales revenue and trust from investors. With the use of our technology advantages, we will strive to make 2 to 3 IND applications every year, and advance the marketing of drugs with good efficacy and fewer side effects as soon as possible. Leveraging our advantage in capital among biopharmaceutical companies, we will conduct more clinical trials, joint development on therapies and mergers and acquisitions to expand our coverage. As we supplement our product pipeline and explore drug combination therapies, our innovation field has already expanded to small molecule drugs. In the next step, we will further explore R&D of more types of drugs, including antibody drug conjugates (or ADCs), as well as the exploration of the next-generation innovative therapies for cancer and autoimmune diseases. We aim at becoming a pioneer in the area of translational medicine to achieve the ultimate goal of providing therapies with better efficacy and lower costs for patients.

Thanks to the trust from investors, Junshi, my colleagues and I have an opportunity to strive for a meaningful grand blueprint.

**Xiong Jun**
*Chairman*

29 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

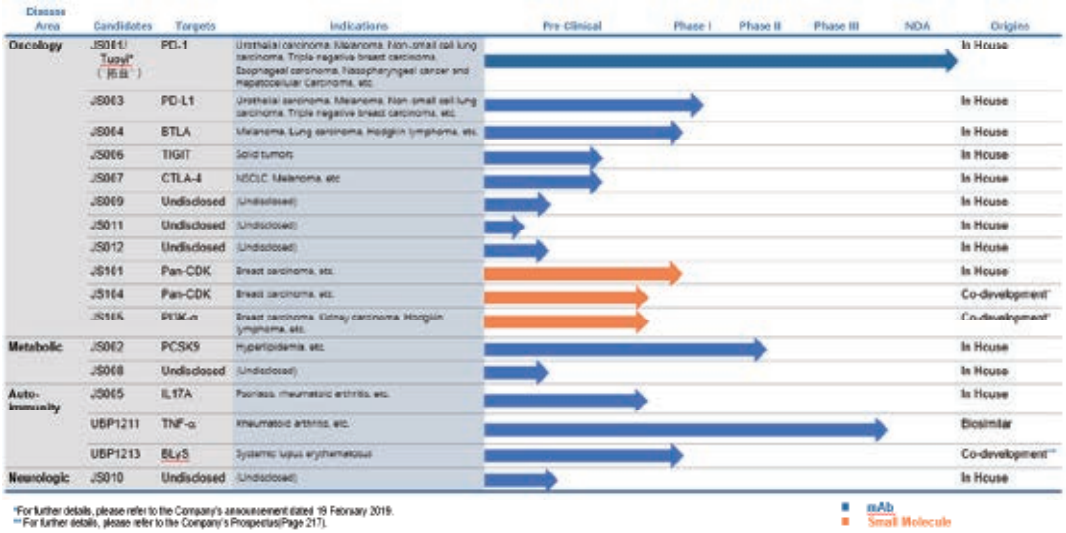
We are an innovation-driven biopharmaceutical company dedicated to the discovery and development of innovative drugs and their clinical research and commercialisation on a global scale. Since our very inception in December 2012, leveraging our advanced R&D platforms and globally integrated R&D process, we have developed a collection of drug candidates that we believe to have solid biological mechanisms. We strive to develop additional drug candidates for the fulfilment of unmet medical needs using our technology and innovation platforms in a sustainable manner.

Our mission is to provide patients with treatment options that work better and cost less. Equipped with our core platform technology of protein engineering, we stand at the frontier of R&D of macromolecular biologics.

Our aim is to develop first-in-class and best-in-class drugs through original innovation and become a pioneer in the area of translational medicine. As we supplement our product pipeline and explore drug combination therapies, we expect our innovation field to expand to R&D of more types of drugs, including small molecule drugs and antibody drug conjugates (or ADCs), as well as the exploration of the next-generation innovative therapies for cancer and autoimmune diseases.

## BUSINESS REVIEW

### Progress of R&D pipeline




*For further details, please refer to the Company's announcement dated 19 February 2019.
**For further details, please refer to the Company's Prospectus(Page 217).

The Group has developed a product pipeline comprising seventeen drug candidates covering a wide variety of indications associated with high levels of unmet medical needs. They include eleven oncology drug candidates, two drug candidates for metabolic diseases, three targeting inflammation or autoimmune diseases and one for the treatment of neurologic diseases.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, our R&D pipeline has further achieved significant progress, which mainly included:

*JS001 (anti-PD-1 mAb, Toripalimab) – Tuoyi* (拓益)*
JS001 is the first commercialized product of the Group. In March 2018, the New Drug Application ("NDA") for JS001, a recombinant humanized anti-PD-1 monoclonal antibody for injection, was accepted by the NMPA. On 17 December 2018, that was conditionally granted marketing approval for second line treatment of unresectable local progression or metastatic melanoma by the NMPA.

In its pivotal clinical trial, 128 patients were enrolled and 127 of them were included in full analysis set ("FAS"). Among them, 1 CR, 21 PR and 51 SD were observed with the ORR of 17.3% (22/127) and the DCR of 57.5% (73/127), median OS reached 23.18 months, and the one-year overall survival rate is 69.3%.

The NDA approval of JS001 witnessed the pivotal step of us transforming from a pre-revenue biotech start-up to a commercial-stage biopharmaceutical company.

*JS003 (anti-PD-L1 mAb)*
In August 2018, the IND for JS003, a humanized monoclonal antibody targeting PD-L1 protein with completely new CDR sequences solely developed by us, was approved by the NMPA. PD-L1 has emerged as an important cancer biomarker and a target for immunotherapy. Targeted blockade of PD-L1 may help restore the antitumor responses. PD-L1 is frequently expressed on tumor cells and tumor-infiltrating immune cells within the tumor microenvironment. Preclinical studies have demonstrated that JS003, which binds to PD-L1 with high affinity, is effective in blocking the interaction between PD-L1 and PD-1, thereby activating the T cell's antitumor activity.

*JS101 (CDK inhibitor)*
JS101 is a chemical drug that inhibits the function of cyclin-dependent kinases ("CDKs"). CDK inhibitor is used to treat cancers by preventing over-proliferation of cancer cells. We developed JS101 and received IND approval from the NMPA in October 2018. We have also applied for a patent regarding JS101. The Group plans to formulate our strategy for next steps of JS101 based on the progress of clinical trials.

*JS104 (CDK inhibitor) and JS105 (PI3K-α inhibitor)*
In February 2019, the Company entered into the Technology Transfer and Cooperation Agreement with 潤佳(蘇州)醫藥科技有限公司(Rizen (Suzhou) Biosciences Co., Ltd.*) ("Rizen"), pursuant to which, the parties agree to cooperate on the development of two projects, namely JS104 and JS105. JS104 is a pan-CDK inhibitor that effectively inhibits the activity of various cyclin-dependent protein kinases including CDK-1, CDK-2, CDK-4, CDK-6 and CDK-9. A completed preclinical study showed that the drug candidate has ideal pharmacokinetic profile in laboratory animals and was found to have significantly low acute toxicity. JS105 is an oral small molecule α-specific PI3K inhibitor. In a breast cancer cell line carrying the PIK3CA mutation, the drug candidate has the potential to inhibit the PI3K pathway and has an inhibitory effect on cell proliferation. The pharmacokinetic properties of the drug candidate are characterized by high efficacy and low toxicity. According to the Technology Transfer and Cooperation Agreement, the Group obtained a 50% interest in each of these two drugs. For further details, please refer to the announcement of the Company dated 19 February 2019.

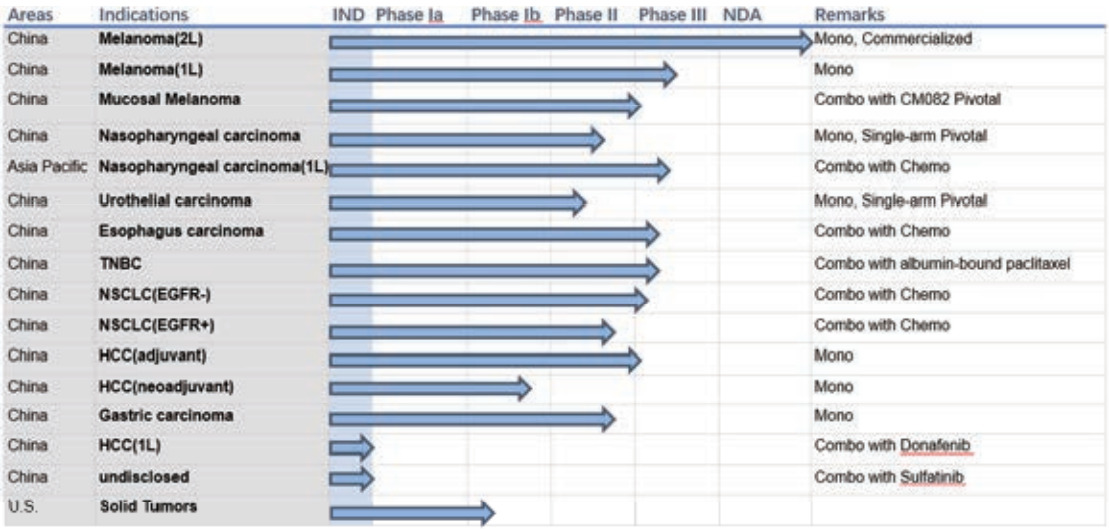
# MANAGEMENT DISCUSSION AND ANALYSIS

*UBP1213 (anti-BLyS)*

UBP1213 is a recombinant human anti-BLyS monoclonal antibody injection for the treatment of systemic lupus erythematosus and other autoimmune diseases. UBP1213 reduces the production of antibodies against autoantigens by inhibiting the specific function of B cells, achieving long- term relief of systemic lupus erythematosus, reducing systemic hormone use, and reducing the recurrence of flare. The Company is the only PRC company to receive IND approval from the NMPA for such product.

## Progress of clinical projects

*JS001 (anti-PD-1 mAb, Toripalimab)*




During the Reporting Period, we nearly completed the Phase Ib/II clinical trials enrollment of toripalimab monotherapy or combined with standard therapy for advanced gastric cancer, advanced esophageal cancer, advanced head and neck squamous carcinoma, and advanced nasopharyngeal carcinoma; conducted the enrollment of pivotal clinical trial for advanced urothelial carcinoma; conducted Phase II clinical trial of JS001, combined with standard therapy for advanced EGFR-mutation non-small cell lung cancer and completed most of the enrollment; conducted or was ready to conduct the Phase III pivotal clinical trial of the monotherapy or in combination with standard therapy for advanced melanoma, advanced esophageal cancer, adjuvant treatment of advanced hepatocellular carcinoma, non-small cell lung cancer (EGFR-) and other 1L treatment in the PRC; and conducted the Phase III multi-center clinical trial for advanced nasopharyngeal cancer 1L treatment in Asia Pacific region.

On 9 January 2018, JS001 obtained IND approval from the United States Food and Drug Administration ("FDA") to conduct the Phase I clinical trial, and its Phase Ia clinical trial in the United States has been completed.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Company launched a series of clinical trial explorations relating to the combination therapy with JS001 with a number of pharmaceutical companies. We cooperated with CSPC Pharmaceutical Group Limited to conduct the Phase III clinical trial of toripalimab in combination with albumin-bound paclitaxel for the 1L treatment of advanced triple-negative breast cancer; cooperated with 蘇州澤璟生物製藥有限公司(Suzhou Zelgen Biopharmaceuticals Co., Ltd.) ("Zelgen") to conduct the clinical trial of toripalimab in combination with donafenib for hepatocellular carcinoma; and cooperated with Betta Pharmaceuticals Co., Ltd. to conduct the clinical trial of toripalimab in combination with CM082 (Vorolanib) for the treatment of mucosal melanoma.

*JS002 (anti-PCSK9 mAb)*
JS002 is an anti-PCSK9 monoclonal antibody that has been approved by the FDA for the treatment of hyperlipidemia and the prevention of cardiovascular events. According to the Frost & Sullivan Report (as a further detailed in the Prospectus), the prevalence of hypercholesterolemia in China reached 79.3 million in 2017, and is expected to grow to 95.9 million in 2022 with a CAGR of 3.9%. We believe the action mechanism of JS002 is differentiated from the currently available lipid-lowering medications, and the launch of JS002 could benefit a large number of patients with hypercholesterolemia. The Company is the first PRC company to obtain anti-PCSK9 mAb IND approval from the NMPA, and has completed Phase I clinical trial in 2018.

*UBP1211 (anti-TNF-α mAb; Humira Biosimilar)*
UBP1211 is a biosimilar of Humira (adalimumab) used for the treatment of autoimmune diseases such as rheumatoid arthritis and ankylosing spondylitis. Humira ranked first among all medicines globally by sales for six consecutive years up to and including 2017 with sales totaling USD18.9 billion in 2017. The enrollment of Phase III clinical trial of UBP1211 was completed in 2018.

## Production

Wujiang Production Base in Suzhou, PRC with a production capacity of 1,500L (3*500L) received on-site inspection and dynamic three batch check in August and September 2018 before the marketing approval of JS001 (Toripalimab), and successfully obtained the GMP certificate in December 2018. Lingang Production Base has completed its structural construction of structure in October 2018, and is now in the stage of equipment installation.

## Commercialisation

Since the establishment of the Commercial Marketing Department in October 2018, the Company has rapidly established and improved five key departments: marketing, sales, product medicine, internal operations (including administrative personnel, training, SFE and others), and external operations (channels, access and government affairs). We have 240 employees in the Commercial Marketing Department with a majority of them coming from the oncology department of international and multinational corporations such as Roche, AstraZeneca and Bayer, as well as well-known domestic companies. On 7 January 2019, the Company announced that the price of Tuoyi* (拓益) to be RMB7,200/240mg (per vial), and the first prescription was issued on 26 February 2019, which signified that we have progressed into the stage of commercial sales.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE AND PROSPECTS

With leading R&D capability and standing at the forefront of medical innovation, we see it as our mission to fulfill unmet medical needs and bring cure to the diseased. Through continuous development and commercialisation of innovative drugs, we intend to become an innovative biotech company with global competitiveness harboring full industrial chain operations integrating R&D, manufacturing and commercialisation. The Group will continue to focus on the advancement and commercialisation of existing drug candidates, rapidly expand our product pipeline and scale up our macromolecules fermentation capacity and lower production cost.

### Clinical Development Plan

UBP1211 (Humira biosimilar) is the only biosimilar product of the Company, and we are analyzing and summarising it, and preparing for the marketing application. We will apply for NDA to NMPA in 2019.

The Company will accelerate the clinical trials of JS001 (anti-PD-1 mAb; Toripalimab) which has been conducted and may continue to cooperate with more third parties to further explore the various efficacy and safety of JS001 in combination therapy. We will also launch more pivotal clinical trials based on our solid Phase Ib/II studies, and conduct Phase II clinical trials in the United States in 2019

In addition, JS002 (anti-PCSK9 mAb) will soon enter Phase II clinical trial, and JS003 (and PD-L1 mAb) will conduct clinical trial this year.

### Preclinical R&D

On 22 March 2019 (the U.S. time), the IND application for a first in human (FIH) recombinant humanized, IgG4 Monoclonal Antibody TAB004/JS004, specific to B- and T-lymphocyte attenuator (BTLA) was accepted for review by US FDA for the proposed indications of advanced unresectable or metastatic solid tumors, including patients refractory to prior immunotherapy. In vitro and in vivo studies have shown that TAB004/JS004 can promote antigen specific T cell proliferation and effector function, reduce tumor burden and improve survival in human BTLA knock-in tumor models. The Group plan to initiate FIH dose escalation study of TAB004/JS004 in advance solid tumors refractory to prior immunotherapy and explore combination use of TAB004/JS004 with JS001, the Group marketed anti-PD-1 antibody, in the dose expansion phase of the trial. For further details, please refer to the announcement of the Company dated 25 March 2019.

Additionally, in 2019, the Company plans to apply IND for JS005 (anti-IL-17A mAb) in the PRC.

### Production

For Wujiang Production Base, in addition to the original production capacity of 1,500L (3*500L), the Group has started to increase the fermentation capacity by 1,500L (3*500L) by the end of 2018. Installation and commissioning have been completed. It is expected to pass the inspection and application in the first half of 2019. Wujiang Production Base will commence production at full steam to guarantee commercial sales and clinical drug demand.

In the production process of Lingang Production Base, we have adjusted the planning on production capacity. At present, the designed fermentation capacity of Lingang Production Base is 30,000L (15*2000L). The construction and equipment installation are expected to be completed in the first half of 2019. Trial production will begin in the third quarter of 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Commercialisation

The Company's arrangements on commercialisation for JS001 (anti-PD-1 mAb; Toripalimab) in 2019 mainly includes: with reference to the product characteristics, clinical data and prescription information, we will establish the brand image of Tuoyi* (拓益) and set up effective marketing strategies and plans. In view of market potential and product characteristics, we will carry out meaningful Investigator Sponsored Study ("ISS") and Real World Study ("RWS") to find the best immune tumor program. We will work on the training and expansion of professional sales personnel.

## FINANCIAL REVIEW

### Revenue

For the years ended 31 December 2017 and 2018, we had not commercialized any drugs and therefore did not record any revenue from drug product sales. During the two years ended 31 December 2017 and 2018, we derived our revenue from consulting and research services income through fee-for-service contracts, pursuant to which we provided specific project-related consultancy services related to technology, personnel and production process and equipment for the development of drug candidates, among others, as well as pharmaceutical research services. We recognized revenue of approximately RMB1.1 million and RMB0.9 million for the years ended 31 December 2017 and 2018, respectively.

### Other income

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Interest income from bank and time deposit | **3,756** | 2,308 |
| Government grants *(Note a)* | **4,631** | 2,614 |
| Income received from collaboration agreements *(Note b)* | **–** | 47,420 |
| | **8,387** | 52,342 |

*Notes:*

(a) Government grants include subsidies from the PRC government which are specifically for (i) the capital expenditure incurred for plant and machinery, which is recognised as income over the useful life of the related assets; (ii) the incentives and other subsidies for research and development activities, which are recognised as income upon meeting specific conditions; and (iii) the incentives which have no specific conditions attached to the grants.

(b) On 28 February 2017, the Group entered into an agreement with Jiangsu T-mab Biopharma Co., Ltd (江蘇泰康生物醫藥有限公司) ("T-mab"), pursuant to which the Group provided T-mab with know-how and consulting services to build up a certificate of Good Manufacturing Practice ("cGMP") compliant facility. All performance obligations were completed in 2017 and therefore the Group recognised RMB10.8 million as service income in 2017.

On 28 August 2017, the Group and T-mab entered into a co-development and commercialisation agreement (the "Collaboration Agreement") for UBP1211, a biosimilar the Group originally had sole ownership of patents and know-how. Under the terms of the Collaboration Agreement, the patents and know-how from the research and development of UBP1211 will be registered under the name of both parties while all future research and development costs and net profit from sales of UBP1211 upon successful commercialisation will be evenly shared between the Group and T-mab. The Group has joint control over the arrangement that unanimous consent is required from all parties to the agreement for relevant activities including clinical studies, manufacturing and marketing. As such, the Group accounted for the arrangement as joint operation. A non-refundable consideration of RMB36.6 million received upon the signing of the Collaboration Agreement from T-mab on passing T-mab the right to access the know-how of UBP1211 was recognised in other income during the year ended 31 December 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Research and Development Expenses

Our research and development expenses mainly include clinical trial expenses, preclinical study costs, reagents and consumables, staff salary and welfare and depreciation and amortization.

For the years ended 31 December 2017 and 2018, we incurred research and development expenses in the amount of approximately RMB275.3 million and RMB538.2 million, respectively. The significant increases in our research and development expenses were mainly due to (i) increases in clinical trial expenses and preclinical study costs, as we initiated a number of preclinical research and clinical trials for several new indications and accelerated the progress of clinical trials; (ii) increases in our staff salary and welfare for research and development personnel, which was primarily due to the increase in the number of our research and development.

### Selling and Distribution expenses

Our selling and distribution expenses mainly include staff costs, marketing and promotion activities, travelling cost.

For the year ended 31 December 2018, our selling and distribution expenses were RMB20.3 million for the preparation for the JS001's commercialization.

### Administrative Expenses

Our administrative expenses primarily consist of administrative staff cost, office administration expenses, depreciation and amortization and audit and consultancy fees.

For the years ended 31 December 2017 and 2018, our administrative expenses were approximately RMB73.8 million, RMB124.8 million, respectively. The significant increases in our administrative expenses were mainly due to (i) new hiring; (ii) audit and consultancy fees for the annual audit and business development; (iii) more office administration expenses in line with business expansion.

## LIQUIDITY AND CAPITAL RESOURCES

As at the 31 December 2018, our bank balance and cash increased to RMB2,763.6 million from RMB266.3 million as at 31 December 2017. The increase was mainly due to successfully initial public offering on the Stock Exchange of Hong Kong Limited.

The Company has foreign currency bank balances and trade and other payables, which expose the Group to foreign currency risk. The Group does not have a foreign currency hedging policy or implement any hedging instruments currently. However, the management will monitor foreign exchange exposure and risks.

Foreign currency bank balance at 31 December 2018 are:

| | '000 |
|---|---|
| HKD | **2,964,639** |
| USD | **18,647** |

# MANAGEMENT DISCUSSION AND ANALYSIS

## DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY

In April 2018, the shareholder of Beijing Junke Jingde Biotechnology Co., Ltd. (a non-wholly owned subsidiary of the company), resolved to dispose of the segment of sales of biological reagent. The Group entered into a sales and purchase agreement with an independent third party to dispose of its entire interest in Beijing Xinjingke Biotechnology Co., Ltd. for a cash consideration of RMB2.0 million. The disposal was completed on 29 June 2018, on which date control of Xinjingke was passed to the acquirer. The reason for the disposal was that the Group can concentrate its resources on development and documentation of drugs.

The profit (loss) for the year ended 31 December 2018 from the discontinued operations is RMB0.1 million.

## DIVIDEND

No dividend was paid or declared by the Company during the two years ended 31 December 2018 and 2017.

## LOSS PER SHARE

**(a) Basic**

*From continuing and discontinued operations*

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

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Loss for the year attributable to owners of the Company for the purpose of basic loss per share | **(716,414)** | (320,844) |

**Number of shares:**

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **601,917,890** | 579,608,904 |

# MANAGEMENT DISCUSSION AND ANALYSIS

*From continuing operations*

The calculation of the basic loss per share from continuing operations attributable to the owners of the Company is based on the following data:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Loss for the year attributable to owners of the Company | **(716,414)** | (320,844) |
| Less: Profit (loss) for the year from discontinued operations attributable to owners of the Company | **89** | (161) |
| Loss for the year for the purpose of basic loss per share from continuing operations | **(716,503)** | (320,683) |

*From discontinued operations*

Basic earnings per share for the discontinued operations is RMB0.01 cent per share for the year ended 31 December 2018 (2017: basic loss of RMB0.03 cent per share), based on the profit for the year from the discontinued operations of RMB0.1 million for the year ended 31 December 2018 (2017: loss of RMB0.2 million), and the denominators detailed above for the basic loss per share from continuing and discontinued operations.

**(b) Diluted**

The Company issued the convertible loan notes during the year. For the purpose of calculation of diluted loss per share, it did not assume the conversion of the convertible loan notes since their assumed conversion would result in a decrease in loss per share. The Group granted Pre-IPO Share Options on 14 May 2018. The computation of diluted loss per share for the year ended 31 December 2018 does not assume the exercise of the Company's outstanding share options and over-allotment share options since their assumed exercise would result in a decrease in loss per share.

The Company does not have any dilutive potential ordinary shares outstanding during the year ended 31 December 2017 and thus no diluted loss per share for the year ended 31 December 2017 are presented.

## INVENTORIES

Our inventories increased significantly from approximately RMB30.6 million as at 31 December 2017 to approximately RMB48.5 million as at 31 December 2018, mainly because increased purchase volumes of raw materials and consumables in line with our clinical trial progress and preparation for Commercial production.

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Raw materials | **48,468** | 28,893 |
| Finished goods | **–** | 1,710 |
| | **48,468** | 30,603 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## OTHER FINANCIAL ASSETS/LIABILITIES

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Current assets** | | |
| Financial assets measured at FVTPL | | |
| – Financial products *(Note a)* | **5,500** | 45,000 |
| – Fund *(Note b)* | **16** | 102,434 |
| | **5,516** | 147,434 |
| **Non-current assets** | | |
| Financial assets measured at FVTPL | | |
| – Unlisted equity investment *(Note c)* | **18,000** | – |
| Investments in debt instrument measured at FVTOCI | | |
| – Corporate bond *(Note d)* | **–** | 4,323 |
| **Current liabilities** | | |
| Financial liabilities measured at FVTPL | | |
| – Foreign exchange forward contracts *(Note e)* | **–** | 16,034 |

(a) The Group entered into contracts in respect of financial products (the "Financial Products") with financial institutions, with contractual terms from 7 days to 21 days. The principal is not guaranteed by the relevant financial institutions and the expected return rate is 3.95% per annum for the year ended 31 December 2018 (2017: 2.74% to 3.13% per annum).

(b) The Group entered into several contracts of funds (the "Fund") with financial institutions. The principals are not guaranteed and the return of the Fund are determined by reference to the performance of the underlying instruments including equity and debt securities.

(c) The Group invested in Hebei Boke Biotechnology Co., Ltd. (河北博科生物技術有限公司) ("Boke") at the fair value of RMB15.0 million in April 2018, representing 5% of the registered capital of Boke. Boke is mainly engaged in drug discovery and development consulting services. The Group also invested in Beijing Zhenzhi Medical Technology Co., Ltd. (北京臻知醫學科技有限責任公司) ("Zhenzhi") at the fair value of RMB3.0 million in September 2018, representing 15% of the registered capital of Zhenzhi. Zhenzhi is mainly engaged in technology services and medical research and development.

(d) In August 2013, the Group invested in a listed corporate bond which was traded publicly in the Shanghai Stock Exchange and was subsequently disposed in March 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

(e) The Group entered into several foreign exchange forward contracts with banks in order to manage the Group's foreign currency exposure in relation to United States Dollar ("USD") against RMB for its planned operating funding transfer to a subsidiary in the United States. The major terms of these contracts are as follows:

At 31 December 2017

| Notional amount | Maturity | Exchange rate |
|---|---|---|
| Buy USD15,000,000 | May 15, 2018 | USD1/RMB7.0092 |
| Buy USD2,000,000 | May 15, 2018 | USD1/RMB7.0092 |
| Buy USD18,000,000 | May 16, 2018 | USD1/RMB7.0213 |

There was no outstanding foreign exchange forward contracts as at 31 December 2018.

## TRADE RECEIVABLES

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers were amounted to nil and RMB0.2 million, respectively. There has been no change in the estimation techniques or significant assumptions made during both years.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The aged analysis of the Group's trade receivables, based on invoice date at the end of each reporting period are as follows:

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **–** | 106 |
| 31 – 90 days | **–** | 31 |
| 91 – 180 days | **–** | 33 |
| 181 days – 1 year | **–** | 24 |
| 1 – 2 years | **–** | 26 |
| | **–** | 220 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## TRADE PAYABLES

The following is an aging analysis of trade payables presented based on invoice date at the end of the reporting period:

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **33,372** | 15,289 |
| 31 – 60 days | **198** | 207 |
| 61 – 180 days | **81** | 209 |
| Over 180 days | **6,527** | 601 |
| | **40,178** | 16,306 |

## CONTRACT LIABILITIES

As at 1 January 2017, the balance of contract liabilities was RMB0.6 million and fully recognised as revenue in 2017. During the year ended 31 December 2018, no revenue was recognised that was included in the contract liabilities balance at the beginning of the year.

## INDEBTEDNESS

### Borrowings

*Unsecured borrowings*

As at 31 December 2018, we had unguaranteed and unsecured borrowings of RMB18.1 million and RMB160.3 million from Bank and an independent third party respectively. The group incurred new borrowings to: i) on-going clinical trials and preclinical studies for our drug candidates ii) construction of Lingang and Wujiang Production base iii) JS001 commercialization and daily operation expenses.

These borrowings bear fixed interest rates ranging from 4.35% to 10.5% per annum.

Our collaboration partner T-mab granted us a loan commitment of RMB60 million at 30% premium over the benchmark borrowing rate of the People's Bank of China with expiration date of 27 August 2019 under the Collaboration Agreement. As at 31 December 2018, RMB20.0 million of unguaranteed and unsecured loan was drawn down by us.

# MANAGEMENT DISCUSSION AND ANALYSIS

*Secured borrowings*

In October 2018, we entered a four-year loan facility of up to RMB150.0 million with the Bank of Shanghai and drew down RMB150.0 million of guaranteed and secured loan under such facility as of 31 December 2018. The loan facility bears a variable interest rate by floating upwards by 40% based on the relevant one to five years benchmark interest rate published by the People's Bank of China per annum.

The loan is guaranteed by us and our subsidiary Suzhou Union Biopharm, and secured by mortgages over our property, plant and equipment situated in Shanghai Lingang and Wujiang Economic and Industrial Development Zone held by our subsidiaries Junshi Biotechnology and Suzhou Union Biopharm.

As at 31 December 2018, the Group has pledged the following assets as securities for the Group's bank borrowings:

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **775,938** | – |
| Prepaid lease payments | **62,915** | – |
| | **838,853** | – |

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Maturity structure of bank and other borrowings | | |
| – within one year | **178,632** | – |
| – one to two years | **5,000** | – |
| – two to five years | **145,000** | – |
| Total | **328,632** | – |

All bank and other borrowings are denominated in RMB as at December 31, 2018.

## Convertible loan notes

On 9 February 2018, the Company obtained no objection letter from the Shanghai Stock Exchange for the issue of convertible loan notes in a principal amount of no more than RMB500.0 million. On 23 February 2018, the Company issued convertible loan notes in a principal amount of RMB200.0 million to qualified investors.

# MANAGEMENT DISCUSSION AND ANALYSIS

The movement of the convertible loan notes for the year is set out as below:

| | Fair value of convertible loan notes RMB'000 |
|---|---|
| At 23 February 2018 (date of issuance) | 200,000 |
| Change in fair value charged to profit or loss | 32,396 |
| Change in fair value charged to other comprehensive income attributable to change in credit risk | 9,367 |
| At 31 December 2018 | 241,763 |

The Company has used the binominal option pricing model to determine the fair value of the convertible loan notes as of the date of issuance and at the end of each reporting period.

## CONTRACTUAL COMMITMENTS

### Operating leases

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises was RMB51.3 million, which increased by 205.1% from RMB16.8 million as at 31 December 2017, mainly due to business expansion.

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are generally negotiated for a lease term of one to six years (2017: one to three years) at fixed rentals.

### Capital commitments

As at 31 December 2018, the Group's capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements was RMB383.9 million, which increased by 166.4% from RMB144.1 million as at 31December 2017, mainly for Lin gang production base.

For disposal of subsidiaries please refer to "DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY".

### Financing plan

The Group intends to apply for approximately RMB2,000 million credit line(s) (including the original credit line and the new credit line(s)) from the banks in the coming year, to support the production and operation of the Company and the quick development of project construction.

## GEARING RATIO

Gearing ratio is calculated using interest-bearing borrowings less bank balances and cash, divided by total equity and multiplied by 100%. As at 31 December 2018, the Group was in a net cash position and thus, gearing ratio is not applicable.

# MANAGEMENT DISCUSSION AND ANALYSIS

## HUMAN RESOURCES

As at 31 December 2018, the Group had a total of 600 employees, who were located in the PRC and the United States. Employees are important resources for the Group's sustainable operation and steady development. The Company has formulated policies related to employees' remuneration, rights and interests and conducted various staff training, details of which are further set out in the "Environmental, Social and Governance Report" in this annual report. The Company has also established its share incentive scheme, details of which are set out in "Report of the Directors – Share Incentives" in this annual report.

## INDUSTRY COMPETITION LANDSCAPE AND DEVELOPMENT TREND

The corporate mission of "to provide patients with treatment options that work better and cost less" takes firm root among people, providing better development opportunity for management and core technical personnel, so that they can grow with the Company, build the Company, and achieve themselves. Riding on the superior efficacy of biologics, the significant development in biotechnology, and the increasing R&D investments, it is expected that the global biologics market will further grow to USD404.0 billion in 2022, representing a CAGR of 11.0% from 2017 to 2022.

Driven by a combination of increasing R&D investments, significant developments in biotechnology and favorable policies, original biologics market is expected to continuously grow in the near future. At the same time, the global market for biosimilars has also increased rapidly driven by factors such as the expiry of patents protecting original biologics, increasing demand for lower-priced drugs with similar efficacy, evolvement of regulatory systems and improving R&D of biosimilar manufacturers. The number of self-developed drugs is also increasing in the PRC. Since 2015, the accelerated review and approval of drugs and the introduction of the priority review policy have had a major impact on the pharmaceutical industry. Regardless of the imported or domestic products, the number of approvals has increased rapidly since 2016. Among them, the number of approvals for imported products in 2013 was about 148. In 2016, the number was reduced to a record low of about 9. In 2018, a total of 59 drug approvals were granted. The number of approvals for domestic products in 2013 was about 187. In 2016, the number was reduced to a record low of about 74. As at the end of November 2018, a total of 330 drug approvals were granted. As the industry gradually enters the stage of rapid differentiation, structural upgrading, and elimination of backward production capacity, enterprises with independent medical innovation capabilities and intellectual property protection will be in an advantageous position in the future market competition.

The Company is an innovation-driven biopharmaceutical company dedicated to the discovery and development of innovative drugs and their clinical research and commercialization on a global scale. The Company's mission is to provide patients with treatment options that work better and cost less. Equipped with the core platform technology of protein engineering, the Company stands at the frontier of R&D of macromolecular drugs. With the distinguished capability of innovative drug discovery, advanced biotechnological R&D, large-scale production capacity on the full industry chain and rapidly expanding drug candidate portfolio of tremendous market potential, the Company has a leading edge in the PRC in the emerging field of immuno-oncology and for the treatment of autoimmune and autoimmune diseases. The Company's aim is to develop first-in-class and best-in-class drugs through original innovation and become a pioneer in the area of translational medicine. As the Company supplement its product pipeline and explore drug combination therapies, the innovation field of the Company will expand to R&D of more types of drugs, including small molecule drugs and antibody drug conjugates (or ADCs), as well as the exploration of the next-generation innovative therapies for cancer and autoimmune diseases. The Company will adhere to the following development strategies:

1. Focus on the advancement and commercialization of existing drug candidates

2. Rapidly expand product pipeline

3. Scale up macromolecules fermentation capacity and lower production cost

# MANAGEMENT DISCUSSION AND ANALYSIS

## POTENTIAL RISKS

1. *R&D risk of new drugs*

   Classified as technical innovations, the R&D of new drugs is characterized by long R&D cycles, significant investment, high risks and low success rate. From laboratory research to obtaining approval, new drugs go through a lengthy process linked by complicated stages, including preclinical study, clinical trial, registration and marketing of new drugs and after-sales supervision. Any of the above stages is subject to the risk of failure.

   The Company will strengthen its forward-looking strategic research, and determine the direction of new drug R&D according to the needs of clinical drug use. The Company will also formulate reasonable new drug technology solutions, continuously increase the investment in R&D of new drugs, and uphold the principle of prudence in launching R&D projects for new drugs. In particular, the Company implements phase-based assessment on product candidates in the course of R&D. If it is found that the expected result cannot be achieved, the subsequent R&D of such product will be terminated at once, so as to minimize the R&D risks of new drugs.

2. *Market competition risk*

   The R&D and commercialization of new drugs are highly competitive. The Company's recent drug candidates and any drug that may be sought for R&D and commercialization in the future will face competition from pharmaceutical companies and biotechnology companies around the world. Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize drugs that are safer, more effective or have fewer side effects than the drugs we developed. Our competitors may also obtain approval from the NMPA or FDA faster than we may obtain approval for ours, such that they may establish a strong market position before we are able to enter the market. The Company will maintain its market competitiveness with its rapid advancement in R&D and clinical trial of drugs, corroborant efficacy and stable production process.

3. *Quality control risk of drugs*

   The quality and safety of drugs not only concern the health of drug users but also arouse wide public concern. Due to various factors, drugs are subject to quality control risks in all stages, including R&D, manufacturing, distribution and use. Therefore, risk control runs through the entire process of drug development, manufacturing, distribution, and use. The Company will secure necessary resources, strengthen training in risk management, and improve various rules and regulations, so as to ensure strict compliance with the GMP standards and control the quality risk of drugs.

# MANAGEMENT DISCUSSION AND ANALYSIS

4. *Risk of not making a profit in short run*

One of the most prominent characteristics of the biopharmaceutical industry is a long profit cycle. Generally, a biopharmaceutical enterprise in R&D stage takes a longer time to make a profit. As an early-stage biopharmaceutical enterprise, the Company is under a period of making significant R&D investments. With the further supplement of product pipelines, as well as rapid advancement in domestic and international clinical trials for drug candidates, the Company will continue to make significant R&D investments. Our future profit will be dependent on the marketing progress of drug candidates, and the sales of marketed drugs. In addition, significant R&D investment, business promotion cost and operation cost create more uncertainties in making profits. Therefore, the Company is subject to the risk of not making a profit in short run.

The Company's first drug candidate, namely "Toripalimab", was officially granted the marketing approval by NMPA on 17 December 2018. The official launch of the first drug product will promptly improve the Company's financial position and enable the Company to turn losses into profits as soon as possible.

5. *Risk of industry regulation and policies*

In view of the further reform in the medical and health system and the establishment of the new National Medical Security Administration, as well as the implementation of a series of policies such as control in medical insurance fees, publication of the revised Essential Medicine List, consistency evaluation, reform in drug approval, compliance regulations, the commencement of centralized procurement of "4+7" drugs on a trial basis and "zero tariff" on imported drugs, encouragement of innovation and reduction in drug prices by pharmaceutical enterprises have become an inevitable trend, and the industry landscape is facing renovation. The Company will adapt to changes in external policies, and strive to increase R&D, in order to respond to challenges through innovation. The Company will also adhere to legal compliance by adapting its business activities to changes in regulatory policies, thereby preventing policy risks.

Since its establishment, the Company has embraced "innovation" as its core competence. Apart from a biosimilar product, our pipeline products are all new drugs. In the face of the aforesaid industry and policy risks, the Company will adapt to changes in external policies by continuous improvement in capabilities of innovation and sustainable development, increased R&D investments and accelerated clinical trials and launching of innovative drugs, in order to respond to challenges through innovation. On this basis, the Company will further expand its production capacity and reduce the unit cost of its products, so as to address the price reduction of drugs; meanwhile, the Company will also adhere to legal compliance by adapting its business activities to changes in regulatory policies, thereby preventing policy risks.

6. *Risks of foreign exchange*

The exchange rate risk of the Company mainly comes from the financial assets and financial liabilities denominated in foreign currencies. Due to the complexity of financial markets, when the exchange rate drastically fluctuates, the value of the Company's assets denominated in foreign currencies will also substantially increase or decrease, which will affect profits of the Company.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

### Executive Directors

**Xiong Jun 熊俊, 45**

*Chairman of the Board, Legal Representative, Chairman of Nomination Committee and Strategic Committee & Member of Remuneration Committee*

*Appointed to the Board: March 2015*
*Joined the Group: April 2013*

Mr. Xiong is the chairman of board of directors of certain of the Group's subsidiaries, namely, Jiangsu Union Biopharm. Qianhai Junshi, Suzhou Junshi, Suzhou Junao, Suzhou Junshi Biotechnology Co., Ltd., Wuhan Guobo Hospital Management Co., Ltd.. He is also the general manager of Jiangsu Union Biopharm, Suzhou Junshi and Suzhou Junao.

Mr. Xiong started his investment in the Group since January 2013. From March 2004 to July 2006, Mr. Xiong was a research associate and fund manager assistant in Guolian Fund Management Co., Ltd.; from March 2013 to November 2015, he was the chairman of the board of directors of Shanghai Union Biopharm (a company previously listed on the NEEQ (stock code: 430598.NEEQ) and merged with the Company in June 2016), and he also served as its general manager from September 2013 to November 2015; since March 2015, has been a director of Sichuan Huapu Modern Agriculture Co., Ltd. (a company listed on the NEEQ (stock code: 837890.NEEQ)); since February 2007, he has been the chairman of the board of directors of Shanghai Baoying Asset Management Co., Ltd.*.

Mr. Xiong obtained his MBA from the Chinese University of Hong Kong in December 2007.

Mr. Xiong is the son of Mr. Xiong Fengxiang, a Shareholder of the Company and a party to the 2017 Concert Party Agreement. Mr. Xiong is deemed to be interested in 183,050,736 Domestic Shares under the SFO, see "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

**Li Ning 李寧, 57**

*Chief Executive Officer, General Manager & Member of Remuneration Committee and Strategic Committee*

*Appointed to the Board: June 2018*
*Joined the Group: January 2018*

Dr. Li's main experience prior to joining the Group includes: he held various positions, including team leader of the Office of Biostatistics, team leader of mathematical statistician and a statistical reviewer at the FDA; he was employed by Sanofi from September 2009 to January 2018, and the last position he held was Vice President Asia Regulatory Affairs in Global Regulatory Affairs; from November 2010 to November 2012, he was a guest professor at the Clinical Research Institute of Peking University and from January 2012 to December 2014 he was a part-time professor at the Medical Informatics Center of Peking University.

Dr. Li obtained his bachelor's degree in public health from Shanghai Medical College of Fudan University, the PRC in July 1984 and his master's degree in medicine from Shanghai Medical College of Fudan University, the PRC in October 1987. He obtained his Ph.D. degree in preventive medicine from University of Iowa, the United States in August 1994.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Feng Hui 馮輝, 42**
*Chief Operations Officer*

*Appointed to the Board: March 2015*
*Joined the Group: January 2014*

Dr. Feng has over 10 years of industry experience in biotechnology and drug discovery. His experience spans across multiple areas of drug development including antibody discovery, protein engineering, and immuno-oncology. From 2003 to 2007, he worked at Albert Einstein College of Medicine; from 2007 to 2010, he was a production manager in HumanZyme Inc.; from September 2010 to November 2013, he was a scientist in MedImmune, Inc. (a subsidiary of AstraZeneca).

Dr. Feng is the chief operations officer of TopAlliance, an executive director and legal representative of Junshi Biotechnology and the legal representative, executive director and general manager of Suzhou Junmeng. He took part in the invention of certain registered patents and patents in application in relation to JS001, JS002 and JS003 for the Group.

Dr. Feng obtained his bachelor's degree in biological sciences and technology from Tsinghua University, PRC in July 1997 and his Ph.D. degree in molecular pharmacology from Albert Einstein College of Medicine, the United States in September 2003. Dr. Feng has published a number of academic articles and is an inventor of a number of patents.

Mr. Fung is deemed to be interested in 17,520,000 Domestic Shares under the SFO, see "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

**Zhang Zhuobing 張卓兵, 51**
*Deputy General Manager*

*Appointed to the Board: December 2016*
*Joined the Group: December 2012*

Mr. Zhang has over 10 years of experience in the pharmaceutical industry. Mr. Zhang has also been a director of Shanghai Union Biopharm from November 2011 to November 2015 and a deputy general manager of Shanghai Union Biopharm from July 2008 to November 2015, the legal representative, executive director and general manager of Suzhou Union Biopharm since October 2013, a director of Beijing Xinjingke Biotechnology from May 2016 until June 2018 when it was transferred and a director of Beijing Tianshi since April 2016.

Mr. Zhang was one of the founders of the Company when it was established in December 2012 and was a supervisor of the Company from December 2012 to March 2013. He has also been an executive director and general manager of Suzhou Union Biopharm since October 2013.

Mr. Zhang obtained his master's degree in biochemistry from Tsinghua University, PRC in July 1995. Mr. Zhang was awarded the first prize of the Shandong district award for invention in 2005.

Mr. Zhang is deemed to be interested in 17,537,376 Domestic Shares under the SFO, see in this annual report "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" for details.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Wu Hai 武海, 46**
*Deputy General Manager & Chief Science Officer*

*Appointed to the Board: December 2016*
*Joined the Group: June 2013*

Dr. Wu has over 10 years of experience in the biopharmaceutical industry. From March 2003 to September 2007, he worked as a postdoctoral res affiliate at the Stanford University; from August 2007 to February 2009, he was a scientist at Trellis Biosciences; from February 2009 to May 2013, he was a senior scientist at Amgen. He is also now the chief financial officer and president of TopAlliance. He took part in the invention of certain registered patents and patents in application in relation to JS002 and JS003 for the Group.

Dr. Wu obtained his bachelor's degree in biochemistry from Nanjing University, PRC in July 1994 and his Ph.D. degree from the University of Texas Southwestern Medical Center at Dallas, the United States in May 2002. He has published approximately 20 articles in relation to biopharmaceutical in academic journals including Nature, Science and EMBO.

**Yao Sheng 姚盛, 43**
*Deputy General Manager & Senior Vice President of TopAlliance*

*Appointed to the Board: December 2016*
*Joined the Group: June 2014*

Dr. Yao's main experience prior to joining the Group includes: from January 2003 to April 2004, he was a research fellow in immunology at the Mayo Clinic College of Medicine; in 2004, he was a research fellow at the Johns Hopkins University School of Medicine in the Department of Dermatology; from January 2011 to November 2011, he was an associate research scientist in the Human Translational Immunology Department at Yale University; from October 2011 to October 2013, he was a senior scientist at Amplimmune Inc., a subsidiary of AstraZeneca, responsible for the tumor immunology and anti-autoimmune diseases antibody project. Dr. Yao is also Senior Vice President of TopAlliance and a director of Suzhou Junao. He took part in an invention of certain registered patents and patents in application in relation to JS002 and JS003 for the Group.

Dr. Yao obtained his bachelor's degree in biotechnology from School of Life Sciences of Peking University, the PRC in June 1998 and his Ph.D. degree from Albert Einstein College of Medicine, the United States in January 2003. Dr. Yao has a number of articles published in journals including Nature Communications, Science Advances, Immunity, Jem, Blood and JI. Dr. Yao is also an inventor of six registered patents or patents in application.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Non-Executive Directors

**Tang Yi 湯毅, 50**

*Appointed to the Board: May 2015*
*Joined the Group: May 2015*

Mr. Tang has over 20 years of experience in the equity investment industry. Mr. Tang's main experience includes: since June 1996, he has been the chairman of the board of directors at Shenzhen Finevalue Capital Co., Ltd.*; since March 2001, he has been the chairman of the board of directors at Shenzhen Finevalue Technology Co., Ltd.*; since December 2010, he has been the chairman of the board of directors at Shenzhen Dingyuan Growth Investment Management Co., Ltd.*; from October 2010 to October 2013, he was a director at Jiajia Food Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002650.SZ); from June 2011 to November 2018, he was a director of SMMC Marine Drive Systems (Suzhou) Co., Ltd. (a company previously listed on NEEQ (stock code: 832549.NEEQ) and delisted in August 2017); since April 2013, he has been a director of Shenzhen Yuanben; since June 2014, he has been an executive partner representative at Suzhou Ruiyuan, the Shareholder; since July 2017, he has been the chairman of the board of directors of Jiangsu Xinyun Capital Management Co., Ltd.*. He is also a director of Suzhou Junshi, Suzhou Junao, Qianhai Junshi and Suzhou Junshi Biotechnology Co., Ltd..

Mr. Tang obtained his bachelor's double degree in mechanical engineering and business management from the National Huaqiao University, the PRC in July 1989 and January 1990, respectively.

Mr. Tang is deemed to be interested in 186,503,736 Domestic Shares under the SFO, see "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

**Li Cong 李聰, 55**

*Member of Audit Committee*

*Appointed to the Board: December 2016*
*Joined the Group: December 2016*

Mr. Li has over 14 years of experience in the pharmaceutical industry. From January 2004 to March 2019, he had successfully held the positions of regional manager, sales director and general manager at Tonghua Dongbao Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600867.SH)), responsible for manufacturing of diabetes products and operations.

Mr. Li obtained his bachelor's degree in medicine from Shanghai Tiedao University School of Medicine (now known as Tongji University School of Medicine), the PRC in July 1986.

Mr. Li is deemed to be interested in 3,657,600 Domestic Shares under the SFO, see "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Yi Qingqing 易清清, 47**

*Appointed to the Board: December 2016*
*Joined the Group: December 2016*

Mr. Yi is a partner at Hillhouse Capital Group and has worked with Hillhouse Capital since 2005. Mr. Yi's work at Hillhouse includes investments in the healthcare sector.

Mr. Yi received a B.S. degree in engineering from Shanghai Maritime University, the PRC in July 1995 and his MBA from University of Southern California, the United States in May 2003. Mr. Yi has also been an independent non-executive Director of BeiGene, Ltd. (a company listed on NASDAQ (stock code: BGNE.NASDAQ) and Hong Kong Stock Exchange (stock code: 6160.HK)) since October 2014.

**Lin Lijun 林利軍, 45**

*Appointed to the Board: June 2018*
*Joined the Group: June 2018*

Mr. Lin founded Loyal Valley Innovation Capital and has been its chairman since November 2015. Since June 2015, he has been an executive director of Shanghai Shengge Asset Management Co., Ltd.* and he was a general manager at China Universal Asset Management Co., Ltd. from May 2004 to May 2015. Mr. Lin has served as a director of Hangzhou Jiuyan Technology Co., Ltd. (a company listed on NEEQ (stock code: 836484.NEEQ)) since July 2015 and a non-executive director of Wenzhou Kangning Hospital Co., Ltd. (a company listed on Hong Kong Stock Exchange (stock code: 2120.HK)) since June 2017. Mr. Lin has also served as an independent non-executive director in each of the following companies: Shanghai Chengtou Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600649.SH)) from June 2014 to March 2017; Shanghai Xinhua Media Co., Ltd (stock code: 600825.SH) since September 2017; Hwabao Trust Co., Ltd., a subsidiary of China Baowu Steel Group from March 2017 to June 2018; Yintech Investment Holdings Limited (a company listed on NASDAQ (stock code: YIN.US)) since April 2016; TANSH Global Food Group Co., Ltd. (a company listed on Hong Kong Stock Exchange (stock code: 3666.HK)) since March 2016; Yunfeng Financial Group Limited (a company listed on Hong Kong Stock Exchange (stock code: 376.HK)) since November 2015.

Mr. Lin obtained his master's degree in global economics from Fudan University, the PRC in June 1997 and his master's degree in business administration from Harvard University, the United States in June 2003.

Mr. Lin is deemed to be interested in 59,396,274 Domestic Shares and 37,189,000 H Shares under the SFO, see "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

**Chen Lieping 陳列平, 62**

*Member of Strategic Committee*

*Appointed to the Board: June 2018*
*Joined the Group: June 2018*

Dr. Chen has over 35 years in the medical and pharmaceutical R&D and education industry. He discovered B7-H1 (also called PD-L1) molecule in 1999, demonstrated the role of PD-L1 in the evasion of immunity in tumor microenvironment, established the PD-1/PD-L1 pathway as the target for immuno-oncology in 1999-2002, initiated and helped organize the first-in-man clinical trial of anti-PD-1 monoclonal antibody for treating human cancer in 2006 and developed PD-L1 staining as a biomarker to predict treatment outcome. Dr. Chen's experience includes: in 1990, he was a scientist at the Bristol-Myers Squibb Company; in 1997, he was a professor in the Johns Hopkins University School of Medicine and Mayo Clinic; in 2004, Dr. Chen joined the faculty at School of Medicine of Johns Hopkins University. Since 2011, Dr. Chen has held various positions at the School of Medicine of Yale University, including Professor of Immunobiology, Professor of Medicine (medical oncology), Professor of Dermatology, co-director of the Cancer Immunology Program at Yale Cancer Center and United Technologies Corporation Professor in Cancer Research. He also worked on SPORE in Lung Cancer at the School of Medicine of Yale University.

Dr. Chen is the chairman of the board of directors and directly interested in 60% of the equity interest of Fuzhou Tuoxin Tiancheng Biological Technology Co., Ltd.* (福州拓新天成生物科技有限公司) ("Fuzhou Tuoxin"), which was a limited liability company established in the PRC on 17 April 2017 with a registered capital of RMB2 million. According to its business licence, Fuzhou Tuoxin is licensed to engage in business activities including, among others, R&D in biological and pharmaceutical areas. As confirmed by Dr. Chen, Fuzhou Tuoxin focused on the area of cellular immunotherapy in practice and it currently maintains a minimal operation with no substantial business. The Company is of the view that as Fuzhou Tuoxin has no substantial business operation or R&D activities, Fuzhou Tuoxin is not in competition with the Group. Dr. Chen has undertaken to the Company to keep the Company promptly and fully informed of his business or other activities which would or is likely to be in conflict or in competition (or may potentially compete) with the Group.

Dr. Chen is a director and directly interested in 15% of the equity interest of Dayou Huaxia Biotech Medical Group Co. Ltd.* (大有華夏生物醫藥集團有限公司) ("Dayou Huaxia"), which was a limited liability company established in the PRC on 27 September 2016 with a registered capital of RMB300 million. According to its business licence, Dayou Huaxia is licensed to engage in business activities including, among others, R&D in biopharmaceutical technology and diagnostic technology, medical research and tests. As confirmed by Dr. Chen, Dayou Huaxia is engaged in development of new antibody drug candidates and immunotherapy in practice, and it is currently at an early stage of R&D, and as of the date of this report, it had not registered or applied for registration of any patents, and there is currently no overlap between the Group's biologic drug candidates and those of Dayou Huaxia. The Company is of the view that since Dayou Huaxia is only at an early stage of R&D and with reference to the progress the Group has already achieved, there is no actual competition between the and Dayou Huaxia, notwithstanding that there may be potential competition in the future if Dayou Huaxia achieves any significant advancement in their R&D.

Dr. Chen obtained his M.D. degree from Fujian Medical University, Fuzhou, the PRC in 1982, M.S. degree from Peking Union Medical College, Beijing, the PRC in 1986 and Ph.D. degree from Drexel University College of Medicine, Philadelphia, Pennsylvania, the United States in 1989. Dr. Chen has received several awards and professional recognitions including William B. Coley Award (2014) of Cancer Research Institute, AAI-Steinman Award of American Association of Immunologists (2016), Warren Alpert Foundation Prize (2017) and Luminary Award of World Affairs Council of Connecticut (2018).

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**He Jia 何佳, 64**

*Chairman of Remuneration Committee and Member of Strategic Committee*

*Appointed to the Board: June 2018*
*Joined the Group: June 2018*

Dr. He has over 20 years of experience in the finance and education industry. Dr. He was an associate professor (life tenure) of the University of Houston from September 1996, a professor of the Department of Finance of the Chinese University of Hong Kong from August 1997 to August 2014, a member of the Strategy and Development Committee of the CSRC from June 2001 to July 2002. Dr. He has served as an independent non-executive director in the following listed companies: Bank of Tianjin Co., Ltd. (a company listed on Hong Kong Stock Exchange (stock code: 1578.HK) since June 2018, Norinco International Cooperation Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 000065.SZ)) since January 2017, CITIC Securities Company Limited (a company listed on Hong Kong Stock Exchange (stock code: 6030.HK) and Shanghai Stock Exchange (stock code: 600030.SH)) since March 2016, China Chengtong Development Group Limited (a company listed on Hong Kong Stock Exchange (stock code: 217.HK)) since September 2015, Tsinghua Tongfang Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600100.SH)) since May 2015, Shenzhen Xinguodu Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 300130.SZ)) since May 2014, Tibet Huayu Mining Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 601020.SH)) from October 2015 to October 2018 and OP Financial Limited (a company listed on Hong Kong Stock Exchange (stock code: 1140.HK)) since February 2003.

Dr. He also held various other positions, including serving as a chair professor of Southern University of Science and Technology of China, Cheung Kong Visiting Chair Professor of the Ministry of Education, executive director and academic member of the China Society for Finance and Banking, and financial consultant for Quanzhou government.

Dr. He graduated from Heilongjiang University, the PRC in August 1978 majoring in mathematics (worker-peasant-soldier student), obtained his double master's degree in computer science and decision science engineering from Shanghai Jiao Tong University, the PRC in November 1983 and obtained his Ph.D. degree in finance from the Wharton School of the University of Pennsylvania, the United States in May 1989.

**Chen Xinjun 陳新軍, 46**

*Chairman of Audit Committee and Member of Remuneration Committee and Nomination Committee*

*Appointed to the Board: June 2018*
*Joined the Group: June 2018*

Mr. Chen's experiences include: from April 1998 to March 2005, he worked at the investment banking department of GF Securities Co., Ltd. and was responsible for general securities business; from March 2005 to September 2011, he was an executive general manager at the investment banking department of Pingan Securities Company Limited and was responsible for general securities business; from August 2011 to June 2014, he was a managing director at the investment banking department of Chinalion Securities Co., Ltd.; since November 2015, he has been a deputy general manager at the investment banking department of Haitong Securities Co., Ltd.

Mr. Chen obtained his master's degree in engineering from South China University of Technology, the PRC in April 1998. He has been qualified as a Chartered Financial Analyst since March 2007 and a sponsor representative under the Securities Association of China since 2004.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Qian Zhi 錢智, 50**

*Member of Audit Committee, Remuneration Committee and Nomination Committee*

*Appointed to the Board: June 2018*
*Joined the Group: June 2018*

Mr. Qian previously worked at Jiangsu Law School, Nanjing Xiemanlin Law Firm and Jiangsu Weishide Law Firm; since March 2006, he has been a lawyer and is currently a partner at Jiangsu Gowin Law Firm.

Mr. Qian obtained his bachelor of laws degree from Fudan University, the PRC in July 1989 and his master of laws degree from Nanjing University, the PRC in December 2004. Mr. Qian was also awarded "grade one lawyer" (一級律師) by the Jiangsu Municipal Human Resources and Social Security Bureau in November 2015. Mr. Qian has been an arbitrator under the Nanjing Arbitration Committee since September 2017 and was employed as a legal consultant of the Nanjing People's Government in December 2017.

**Roy Steven Herbst, 56**

*Member of Strategic Committee*

*Appointed to the Board: June 2018*
*Joined the Group: June 2018*

Dr. Herbst was a Clinical Fellow from July 1991 to June 1994 at Harvard Medical School; he held various positions at the University of Texas M.D. Anderson Cancer Center (UT-MDACC) including the Barnhart Family Distinguished Professor of Targeted Therapy, Professor of Cancer Biology, and the Chief of Section of Thoracic Medical Oncology at the Department of Thoracic/Head and Neck Medical Oncology; since March 2011, he has held various positions at Yale University, including Ensign Professor of Medicine (Medical Oncology), Professor of Pharmacology, Professor of Medicine, Chief of Medical Oncology at Yale Cancer Center, leader of the Clinical Research Program in Phase I Cancers at Smilow Cancer Hospital, Associate Director for Translational Research at the Yale Cancer Center and leader of Disease Aligned Research Team in the Thoracic Oncology Program at the Yale Cancer Center.

Dr. Herbst obtained his M.S. degree from Yale University, the United States in June 1984, his Ph.D. in Molecular Cell Biology from The Rockefeller University, the United States in June 1990, his M.D. degree in Medicine from Cornell University Medical College, the United States in May 1991, his M.S. degree from Harvard University, the United States in November 1997 and an Honorary M.A. degree from Yale University in December 2012.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## SUPERVISORS

**Gao Yucai 高玉才, 38**

*Appointed to the Board of Supervisor: March 2015*
*Joined the Group: June 2014*

Mr. Gao joined the Group as a senior researcher at Suzhou Junmeng and has been a deputy manager at Suzhou Junmeng since June 2017. Mr. Gao took part in an invention of a patent in relation to JS001 for the Group. Mr. Gao's main experience includes: from September 2010 to October 2011, he was a team leader at Shanghai Celgen Biopharma Co., Ltd. (上海賽金生物醫藥有限公司) responsible for the product development of recombinant human antibody receptor fusion protein; from December 2011 to April 2013, he worked at Wuxi AppTec Biotechnology Co., Ltd. Mr. Gao obtained his bachelor's degree in business management from Yan Tai University, the PRC in January 2009.

Mr. Gao is deemed to be interested in 100,000 Domestic Shares under the SFO, see "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

**Liu Hongchuan 劉洪川, 31**

*Appointed to the Board of Supervisor: March 2015*
*Joined the Group: June 2013*

Mr. Liu joined the Group as a researcher at the Company until December 2013. He joined Suzhou Junmeng as a researcher in February 2014. Mr. Liu took part in an invention of patents in relation to JS001 and JS002 for the Group. Mr. Liu obtained his master's degree in pharmacology from the Shanghai Institute of Materia Medica, Chinese Academy of Sciences, the PRC in July 2013. Mr. Liu is one of the inventors of anti-PCSK9 antibody and application and humanized monoclonal antibody stabilizer. He has published a number of science research articles.

Mr. Liu is deemed to be interested in 120,000 Domestic Shares under the SFO, see "-Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

**Wang Pingping 王萍萍, 37**

*Appointed to the Board of Supervisor: June 2018*
*Joined the Group: June 2018*

Ms. Wang has been a full-time teacher at the College of Economics and Management of the Shanghai University of Electric Power since October 2008. She obtained her master's degree in statistics from Shanghai University of Finance and Economics, the PRC in January 2006 and was awarded the college teacher qualification by the Shanghai Municipal Education Commission in September 2006.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Wu Yu 鄔煜, 33**

*Appointed to the Board of Supervisor: June 2018*
*Joined the Group: June 2018*

Mr. Wu's experience includes: from November 2011 to October 2013, he was the analyst at Sinolink Securities Research Centre; from January 2016 to April 2017, he worked at Huatai Securities Co., Ltd.; since October 2017, he has been the investment director at Shanghai Guoyin Asset Management Centre (LP)*. Mr. Wu obtained his bachelor's degree in electrical engineering and automation from Shanghai Jiao Tong University, the PRC in July 2008 and his master's degree in computational mathematics from Shanghai Jiao Tong University, the PRC in January 2011.

## SENIOR MANAGEMENT

**Gu Juanhong 顧娟紅, 49**

Ms. Gu joined the Group and has served as the deputy general manager in the clinical research and operations department of the Company since January 2018. Ms. Gu has over 20 years of experience in the medical and clinical research industry. Ms. Gu's main experience includes: from August 1997 to March 1999, she worked at Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.; from April 1999 to May 2002, she was a clinical research project manager at MSD R&D (China) Co., Ltd.; from May 2002 to August 2005, she worked at Fujisawa Hong Kong, Limited Shanghai representative office; from August 2005 to August 2012, she was the head of clinical operations, TA medical science director of the medical department and medicine development department at GlaxoSmithKline (China) R&D Company Limited; from August 2012 to December 2017, she was a clinical development senior director at AstraZeneca Investment (China) Co., Ltd. Ms. Gu obtained her master's degree in pediatrics from Shanghai Medical College of Fudan University, the PRC in June 1997.

**Yuan Lu 原璐, 36**

Ms. Yuan joined the Group and has served as the financial director of the Company since June 2018. Ms. Yuan has over 10 years of experience on finance controlling. Ms. Yuan's main experience includes: from April 2007 to July 2009, she was a finance analyst at Dow Chemical (China) Co. Ltd.; from August 2009 to May 2011, she was employed as a senior finance analyst for the Junior Management Program (Finance and Controlling) at Bosch (China) Investment Co., Ltd.; she worked in Henkel (China) Investment Company Limited from May 2011 to September 2017, the last position held was BU-Adhesive Consumer China controller; from September 2017 to June 2018, she was the Asia-Pacific business controller at Festo (China) Co., Ltd. Ms. Yuan obtained her bachelor's degree in financial management from Shanghai University of Finance and Economics, School of Accountancy, the PRC in July 2004 and her master's degree in financial management from Shanghai University of Finance and Economics, School of Accountancy, the PRC in January 2007.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Chen Yingge 陳英格, 27**

Ms. Chen has served as the secretary of the Board since January 2018. Ms. Chen joined the Group in April 2017 and was a securities affairs representative of the Company from April 2017 to January 2018. Prior to joining the Group, Ms. Chen was a corporate banking assistant manager at China Merchants Bank, Shanghai branch from July 2016 to March 2017.

Ms. Chen obtained her bachelor's degree in pharmacy from Shanghai University of Traditional Chinese Medicine, the PRC in July 2014 and her master's of science degree in drug design from University College London, the United Kingdom in November 2015. Ms. Chen has obtained the qualification of NEEQ secretary of the Board since November 2017.

**Other senior management team**

Our senior management also include Dr. Li Ning (general manager), Mr. Zhang Zhuobing (deputy general manager), Dr. Wu Hai (deputy general manager) and Dr. Yao Sheng (deputy general manager), see "- Executive Directors" above for biographical details of Dr. Li Ning, Mr. Zhang Zhuobing, Dr. Wu Hai and Dr. Yao Sheng.

## JOINT COMPANY SECRETARIES

### Chen Yingge 陳英格

See "- Senior Management" above for biographical details of Ms. Chen Yingge.

### Yuen Wing Yan Winnie 袁穎欣

Ms. Yuen was appointed as a joint company secretary in December 2018. She is a director of corporate services division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Yuen has over 25 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Yuen is currently the company secretary of five listed companies on Hong Kong Stock Exchange, namely, China First Chemical Holdings Limited (stock code: 2121.HK), Genes Tech Group Holdings Company Limited (stock code: 8257.HK), OneForce Holdings Limited (stock code: 1933.HK), Wuxi Apptec Co., Ltd. (stock code: 2359.HK) and Aoyuan Healthy Life Group Company Limited (stock code: 3662.HK).

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules.

The Company has also in place a corporate governance framework and has established a set of policies and procedures based on the CG Code. Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

The H Shares of the Company were first listed on the Stock Exchange on 24 December 2018 (the "Listing Date"). The Board is of the view that from the Listing Date and up to 31 December 2018, the Company has complied with all code provisions as set out in the CG Code.

## DIRECTORS' SECURITIES TRANSACTIONS/MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the period from the Listing Date to 31 December 2018.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

# CORPORATE GOVERNANCE REPORT

## Board Composition

The Board currently comprises 15 Directors, consisting of 6 Executive Directors, 4 Non-executive Directors, and 5 Independent Non-executive Directors, namely:–

*Executive Directors*
Mr. Xiong Jun *(Chairman and Legal Representative)*
Dr. Li Ning *(Chief Executive Officer and General Manager)*
Dr. Feng Hui
Mr. Zhang Zhuobing
Dr. Wu Hai
Dr. Yao Sheng

*Non-executive Directors*
Mr. Tang Yi
Mr. Li Cong
Mr. Yi Qingqing
Mr. Lin Lijun

*Independent Non-executive Directors*
Dr. Chen Lieping
Dr. He Jia
Mr. Chen Xinjun
Mr. Qian Zhi
Dr. Roy Steven Herbst

The biographical information of the Directors are set out in the section headed "Directors, supervisors and senior management" on pages 23 to 33 of the Annual Report.

None of the members of the Board is related to one another.

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the year ended 31 December 2018 (including the period when the Company was not listed on the Stock Exchange), the Board held 19 meetings.

# CORPORATE GOVERNANCE REPORT

## Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Xiong Jun and Dr. Li Ning respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board, the overall management of the Company, implementing decisions of the Company and its operations, overseeing the Group's regulatory and commercial suitability and sustainability. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally and is also responsible for formulating business strategies and managing operations of the Group, and overseeing the Group's regulatory and commercial suitability and sustainability.

## Independent Non-executive Directors

Since the Listing Date, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

## Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas Code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors has been appointed for an initial term of three years, subject to re-election by shareholders.

## Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent opinion and judgement on corporate actions and operations in order to give the Company the benefit of their skills, expertise and background.

# CORPORATE GOVERNANCE REPORT

All Directors have full and timely access to all the information of the Company and may, upon request, seek the advice of legal advisers and other independent professional in appropriate circumstances (including to facilitate the identification of any conflict and competition situation, and to facilitate the enforcement of the above mechanisms if any actual or potential conflict or competition arise), at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

### Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. The Directors will be provided with and are required to receive continuous professional training on corporate governance and directors' duties including, Directors' fiduciary duties and duty to avoid conflict, and on identifying potential conflict situation.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2018 (including the period when the Company was not listed on the Stock Exchange), the Company organized a training session conducted by the lawyer for its Directors and/or senior management. Such training session covers a wide range of relevant topics including directors' duties and responsibilities/ corporate governance etc. In addition, relevant reading materials including directors' manual/legal and regulatory update/ seminar handouts have been provided to the directors for their reference and studying.

# CORPORATE GOVERNANCE REPORT

The record of CPD relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2018 and up to date of this report are summarized as follows:

| Directors | Type of Training *Note* |
|---|---|
| **Executive Directors** | |
| Mr. Xiong Jun | A & B |
| Dr. Li Ning | A & B |
| Dr. Feng Hui | A & B |
| Mr. Zhang Zhuobing | A & B |
| Dr. Wu Hai | A & B |
| Dr. Yao Sheng | A & B |
| **Non-Executive Directors** | |
| Mr. Tang Yi | A & B |
| Mr. Li Cong | A & B |
| Mr. Yi Qingqing | A & B |
| Mr. Lin Lijun | A & B |
| **Independent Non-Executive Directors** | |
| Dr. Chen Lieping | A & B |
| Dr. He Jia | A & B |
| Mr. Chen Xinjun | A & B |
| Mr. Qian Zhi | A & B |
| Dr. Roy Steven Herbst | A & B |

*Note:*

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and/or workshops
B: Reading materials relevant to corporate governance, director's duties and responsibilities and other relevant rules and ordinances

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

The Board has 4 Board committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which set out clearly their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and the Nomination Committee are made available to shareholders and the public on the Company's website and the Stock Exchange's website.

### Audit Committee

The Audit Committee consists of two Independent Non-executive Directors, namely Mr. Chen Xinjun (chairman of the Audit Committee), Mr. Qian Zhi and one Non-executive Director, namely Mr. Li Cong. Mr. Chen Xinjun holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are in compliance with Rule 3.21 of the Listing Rules and paragraphs C.3 and D.3 the CG Code. The main duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee would hold at least two meetings for a year to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties. The Audit Committee would also meet the external auditors at least twice for a year without the presence of the Executive Directors.

For the year ended 31 December 2018 (including the period when the Company was not listed on the Stock Exchange), one meeting of the Audit Committee was held, to consider and approve the accountants' report of the Group for the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2018 and other relevant documents, the continuing connected transaction of the Group and the whistleblowing policy.

As the Company's H Shares were listed on the Stock Exchange on 24 December 2018, the Audit Committee had not met the external auditors without the presence of the Executive Directors for the year ended 31 December 2018.

The Audit Committee has reviewed the financial results of the Group for the year ended 31 December 2018 and considered the re-appointment of Deloitte Touche Tohmatsu as the Company's external auditors for listing on Hong Kong Stock Exchange in 2019.

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors, namely Dr. He Jia (chairman of the Remuneration Committee), Mr. Qian Zhi and Mr. Chen Xinjun, and two executive Directors, namely Mr. Xiong Jun and Dr. Li Ning.

The terms of reference of the Remuneration Committee are in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code. The primary functions of the Remuneration Committee include: (i) making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

For the year ended 31 December 2018 (including the period when the Company was not listed on the Stock Exchange), one meeting of the Remuneration Committee was held, to consider the service contracts for the Directors.

Details of the remuneration of the senior management by band are set out in note 12 in the Notes to the Consolidated Financial Statements for the year ended 31 December 2018.

## Nomination Committee

The Nomination Committee consists of consists of two independent non-executive Directors, namely Mr. Chen Xinjun and Mr. Qian Zhi, and one executive Director, namely Mr. Xiong Jun (chairman of the Nomination Committee).

The terms of reference of the Nomination Committee are in compliance with paragraph A.5 of the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to our Board on matters relating to the appointment of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Company's board diversity policy, as appropriate, to ensure the effectiveness of the Policy.

# CORPORATE GOVERNANCE REPORT

Set out below are the gender, age and length of service of the directors as required to be disclosed by the Company's board diversity policy:

| Directors | Gender | Age | Length of Service as Director (Date of Appointment as Director) |
|---|---|---|---|
| **Executive Directors** | | | |
| Mr. Xiong Jun | Male | 45 | More than 4 years (27 March 2015) |
| Dr. Li Ning | Male | 57 | More than 9 months (24 June 2018) |
| Dr. Feng Hui | Male | 42 | More than 4 years (27 March 2015) |
| Mr. Zhang Zhuobing | Male | 51 | More than 2 years (22 December 2016) |
| Dr. Wu Hai | Male | 46 | More than 2 years (22 December 2016) |
| Dr. Yao Sheng | Male | 43 | More than 2 years (22 December 2016) |
| **Non-Executive Directors** | | | |
| Mr. Tang Yi | Male | 50 | More than 3 years (30 May 2015) |
| Mr. Li Cong | Male | 55 | More than 2 years (22 December 2016) |
| Mr. Yi Qingqing | Male | 47 | More than 2 years (22 December 2016) |
| Mr. Lin Lijun | Male | 45 | More than 9 months (24 June 2018) |
| **Independent Non-Executive Directors** | | | |
| Dr. Chen Lieping | Male | 62 | More than 9 months (24 June 2018) |
| Dr. He Jia | Male | 64 | More than 9 months (24 June 2018) |
| Mr. Chen Xinjun | Male | 46 | More than 9 months (24 June 2018) |
| Mr. Qian Zhi | Male | 50 | More than 9 months (24 June 2018) |
| Dr. Roy Steven Herbst | Male | 56 | More than 9 months (24 June 2018) |

For the year ended 31 December 2018 (including the period when the Company was not listed on the Stock Exchange), one meeting of the Nomination Committee was held. The matters under discussion and review included the resolutions regarding the Board diversity policy.

# CORPORATE GOVERNANCE REPORT

### Strategic Committee

The Strategic Committee consists of three independent non-executive Directors, namely Dr. Chen Lieping, Dr. Roy Steven Herbst and Dr. He Jia, and two executive Directors, namely Mr. Xiong Jun (chairman of the Strategic Committee) and Dr. Li Ning.

The primary functions of the Strategic Committee include considering and making recommendations to the Board in relation to our Company's long-term development strategies and major investment decisions.

As the Company's H Shares were listed on the Stock Exchange on 24 December 2018, no Strategic Committee meeting was held for the year ended 31 December 2018.

### Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report during the year ended 31 December 2018.

## ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held for the year ended 31 December 2018 (including the period when the Company was not listed on the Stock Exchange) is set out in the table below:

| | Attendance/Number of Meetings | | | | | | |
|---|---|---|---|---|---|---|---|
| Name of Director | Board | Audit Committee | Remuneration Committee | Nomination Committee | Strategic Committee | Annual General Meeting (if any) | Extraordinary General Meeting (if any) |
| Mr. Xiong Jun | 19/19 | – | 1/1 | 1/1 | 0/0 | 1/1 | 8/8 |
| Dr. Li Ning* | 9/9 | – | 1/1 | – | 0/0 | – | 4/4 |
| Dr. Feng Hui | 19/19 | – | – | – | – | 1/1 | 8/8 |
| Mr. Zhang Zhuobing | 19/19 | – | – | – | – | 1/1 | 8/8 |
| Dr. Wu Hai | 19/19 | – | – | – | – | 1/1 | 8/8 |
| Dr. Yao Sheng | 19/19 | – | – | – | – | 1/1 | 8/8 |
| Mr. Tang Yi | 19/19 | – | – | – | – | 1/1 | 8/8 |
| Mr. Li Cong | 19/19 | 1/1 | – | – | – | 1/1 | 8/8 |
| Mr. Yi Qingqing | 19/19 | – | – | – | – | 1/1 | 8/8 |
| Mr. Lin Lijun* | 9/9 | – | – | – | – | – | 4/4 |
| Dr. Chen Lieping* | 4/9 | – | – | – | 0/0 | – | 4/4 |
| Dr. He Jia* | 8/9 | – | 1/1 | – | 0/0 | – | 4/4 |
| Mr. Chen Xinjun* | 9/9 | 1/1 | 1/1 | 1/1 | – | – | 4/4 |
| Mr. Qian Zhi* | 9/9 | 1/1 | 1/1 | 1/1 | – | – | 4/4 |
| Dr. Roy Steven Herbst* | 3/9 | – | – | – | 0/0 | – | 4/4 |

* *Note 1:* The directors were only appointed on 24 June 2018.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee, assists the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

The Company has adopted a series of internal control policies, procedures and programs designed to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

*Scientific and Clinical Medicines Committee* – The Company has established a Scientific and Clinical Medicines Committee comprising our executive Directors, senior management and certain heads of department, which holds meetings on a monthly basis and is mainly responsible for the overall governance and decision making on drug development investment, strategy and planning of the Company.

*Listing Rules Compliance* – We have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions, notifiable transactions, inside information and securities transactions by the Directors.

*Code of Conduct* – Our code of conduct explicitly communicates to each employee our values and our ground rules for behavior.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The Board had reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

# CORPORATE GOVERNANCE REPORT

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Company has engaged external professional firm for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit function examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 105 to 108.

Where appropriate, a statement from the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

## AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2018 amounted to RMB7,378,000 and RMB835,000 respectively.

An analysis of the remuneration paid to the external auditors of the Company (including Shanghai and Hong Kong), Messrs Deloitte Touche Tohmatsu, in respect of audit services and non-audit services for year ended 31 December 2018 is set out below:

| **Service Category** | | **Fees Paid/Payable (RMB)** |
|---|---|---|
| Audit Services | | 7,378,000 |
| – Initial Public Offerings Service | 5,578,000 | |
| – Annual Audit Service | 1,800,000 | |
| Non-audit Services | | 835,000 |
| – Internal Control Service | 440,000 | |
| – Others | 395,000 | |
| | | 8,213,000 |

# CORPORATE GOVERNANCE REPORT

## COMPANY SECRETARY

Ms. Chen Yingge and Ms. Yuen Wing Yan, Winnie of Tricor Services Limited, external service provider, have been appointed as the Company's joint company secretaries. The primary contact person of Ms. Yuen Wing Yan, Winnie at the Company is Ms. Chen Yingge, secretary of the Board.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

Ms. Chen Yingge and Ms. Yuen Wing Yan, Winnie, the joint company secretaries, have complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training for the year ended 31 December 2018.

## SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels. The Company's shareholders communication policy is made available on the Company's website.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening an Extraordinary General Meeting

Shareholders holding 10% or more of the Shares (individually or together with others) shall be entitled to request for an extraordinary general meeting or class meeting.

The aforesaid shareholder(s) may sign one or more written requests of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the subject of the meeting. Shares held by the above shareholders shall be calculated as of the date on which the written request is made by shareholder(s).

### Putting Forward Proposals at Extraordinary General Meetings

When a general meeting is held by the Company, the Board, the board of supervisors of the Company or shareholder(s) who individually or jointly holding at least 3% of the Shares of the Company shall have the right to submit new proposals to the Company.

Shareholder(s) who individually or together holding at least 3% of the Shares of the Company may propose an extempore proposal 10 days prior to the general meeting by submitting the same to the convener in writing. The convener shall issue a supplemental notice of general meeting within 2 days after receiving the proposed motion specifying the content of the extempore motion.

Except as provided in the preceding paragraph, the convener shall not amend the proposals specified in the notice of the general meeting nor add new proposals after the notice is dispatched.

# CORPORATE GOVERNANCE REPORT

### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

### Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

*For H Shareholders*

Address: Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
(For the attention of the Board of Directors/Company Secretary)
Fax: +852 2810 8185

*For Domestic Shareholders*

Address: Suite 610, No. 780 Cailun Road, Zhangjiang High-Tec Park, Pudong District, Shanghai, China
(For the attention of the Board of Directors/Company Secretary)
Post Code: 201203
Fax: +86 021 8016 4691

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law. Shareholders may call the Company at telephone no. +86 021 2024 8288 for any assistance.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

Since the Listing Date and up to the date of this annual report, the Company has not held any general meeting.

The forthcoming Annual General Meeting would be held on 15 May 2019. The notice of Annual General Meeting has been sent to shareholders on 29 March 2019 in accordance with the requirements set out in the Listing Rules and Articles of Association.

The Articles of Association of the Company were amended pursuant to a special resolution passed at the general meeting of the Company and took effect on 24 December 2018, being the date on which dealing in H Shares on the Stock Exchange commenced. Further, the Company's Articles of Association were amended effective on 9 January 2019, being the date on which the over-allotment option (as described in the prospectus of the Company dated 11 December 2018) completed. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

# CORPORATE GOVERNANCE REPORT

## Policies relating to Shareholders

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019, such details has also set out in its Articles of Association and summarized as follows:

The Company may distribute dividends in the form of (or a combination of two or more of the followings):

(1) cash;

(2) shares;

(3) other means as permitted by the laws, administrative regulations, departmental rules and regulatory rules in the place where the Company's shares are listed.

When distributing each year's after-tax profits, a company shall set aside ten percent of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, the company may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits.

After making up for the losses and making contributions to the reserve fund, any remaining after-tax profits shall be distributed by the Company to the shareholders in proportion to their respective shareholdings according to the resolutions adopted at the general meeting.

The reserve funds of the Company shall be used to make up the losses of the Company, expand its production and operation or increase its capital. However, the capital reserve fund shall not be used to make up any losses of the Company. In capitalizing the statutory common reserve fund, the remaining balance of such fund shall not be less than 25% of the registered capital of the Company prior to such capitalization.

Where the general meeting violates the preceding paragraph and decides on the distribution of profits to shareholders prior to making up the losses of the Company and allocating to the statutory common reserve fund, shareholders must return the profit so distributed to the Company.

The shares of the Company held by the Company shall not be entitled to any profit distribution. Where any resolution concerning cash dividends, bonus issue or capitalization of capital reserve fund is passed at a general meeting, the Company shall implement the specific proposals within two months upon conclusion of the meeting.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THE REPORT

- Reporting Period:

  From 1 January 2018 to 31 December 2018 ("2018").

- Reporting Scope:

  The scope of this report mainly covers Shanghai Junshi Biosciences Co., Ltd.* ("Junshi Biosciences") and its entities within the scope of listing, including Suzhou Union Biopharm Biosciences Co., Ltd.* ("Suzhou Union Biopharm"), Shanghai Junshi Biotechnology Co., Ltd.* ("Junshi Biotechnology"), Suzhou Junmeng Biosciences Co., Ltd.* ("Suzhou Junmeng"), Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd.* ("Jiangsu Union Biopharm"), Suzhou Junshi Biosciences Co., Ltd.* ("Suzhou Junshi"), Taizhou Junshi Biosciences Co., Ltd.* ("Taizhou Junshi"), Beijing Junkejingde Biotechnology Co., Ltd.* ("Junkejingde"), Shenzhen Qianhai Junshi Hospital Investment Management Co., Ltd * ("Qianhai Junshi"), Suzhou Junao Medicine Co., Ltd.* ("Suzhou Junao"), Beijing Union Biopharm Junshi Biosciences Co., Ltd.* ("Beijing Union Biopharm"), Suzhou Junshi Biotechnology Co., Ltd.* ("Suzhou Junshi") and TopAlliance Biosciences Inc. ("TopAlliance").

  In order to facilitate the presentation and reading, for the purpose of this report, each of "Junshi Biosciences", the "Company" and "we" refers to "Shanghai Junshi Biosciences Co., Ltd. and its entities within the scope of listing", while "Shanghai headquarters" refers to the headquarters of "Shanghai Junshi Biosciences Co., Ltd." located in Shanghai.

- Basis of Preparation

  The Report is prepared in compliance with the ESG Reporting Guide and its major amendments as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Junshi Biosciences has been in compliance with the "Comply or Explain" requirement as set out in the ESG Reporting Guide.

- Index Selection

  This report takes into consideration the quantitative, materiality, balance and consistency of all specific indices related to performance disclosure of key issues. We will continue to adjust and optimize the disclosure indices in future reports.

- Source of Data

  The qualitative and quantitative data of this report came from publicly available sources, internal sources and the related statistics of Shanghai Junshi Biosciences Co., Ltd.* and its entities within the scope of listing.

- Form of Publication

  This report is published online. The online version can be accessed and downloaded from the website of the Stock Exchange of Hong Kong (www.hkex.com.hk), the designated disclosure platform of National Equities Exchange and Quotations (www.neeq.com.cn) and the website of Shanghai Junshi Biosciences Co., Ltd. (www.junshipharma.com).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## I. ENVIRONMENT, SOCIAL AND GOVERNANCE SYSTEM OF THE COMPANY

### 1. Corporate Profile

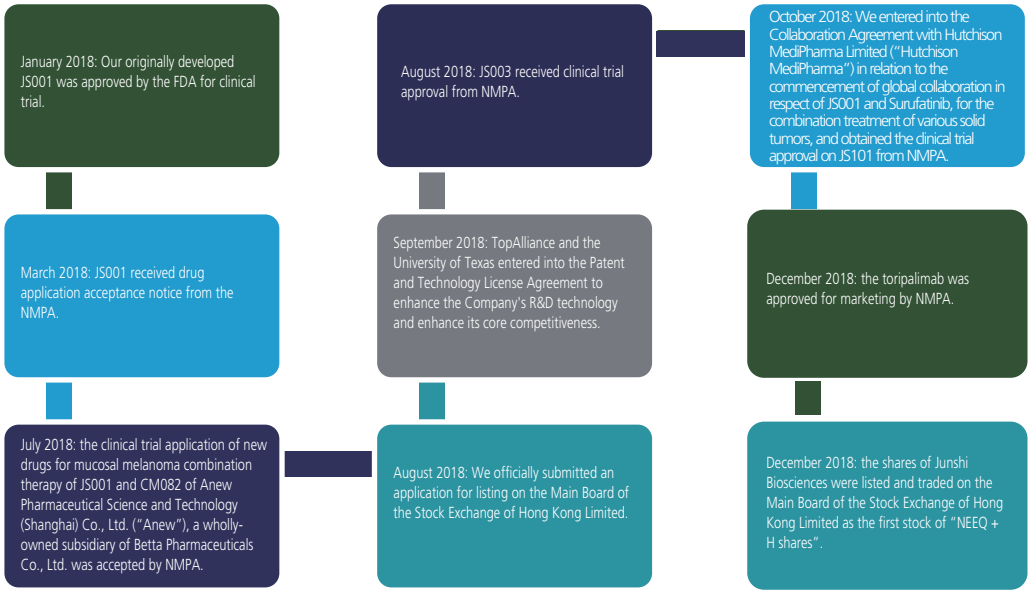
Established in 2012, Junshi Biosciences is an innovation-driven biopharmaceutical company dedicated to the discovery and development of innovative drugs and their clinical research and commercialization on a global scale. Our mission is to provide patients with treatment options that work better and cost less. Equipped with our core platform technology of protein engineering, we stand at the frontier of R&D of macromolecular drugs. In December 2018, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited. With our distinguished capability of innovative drug discovery, advanced biotechnological R&D, large-scale production capacity on the full industry chain and rapidly expanding drug candidate portfolio of tremendous market potential, we have a leading edge in the PRC in the emerging field of immuno-oncology and for the treatment of autoimmune and metabolic diseases. Currently, there are 17 drug candidates. Our aim is to develop first-in-class and best-in-class drugs through original innovation and become a pioneer in the area of translational medicine. We have the full capability from R&D to industrialization. The Company leverages the early development in the Bay Area of the United States to achieve international cooperation on one hand and relies on the process development and pilot production centre in Suzhou to facilitate industrialization on the other hand.

- Our major businesses include the follows:
    - Shanghai headquarters: responsible for the R&D and evaluation of drug candidates, clinical trial and commercialization;
    - Suzhou Union Biopharm: responsible for the operation of Wujiang Production Base;
    - Junshi Biotechnology: responsible for the R&D and operation of Lingang Production Base. It will be the major production base for our drug candidates which received regulatory approvals;
    - Suzhou Junmeng: responsible for the R&D of biopharmaceuticals. It carries out R&D of drugs and animal experiment with TopAlliance;
    - Jiangsu Union Biopharm: mainly responsible for the application for clinical research of our drug candidates;
    - TopAlliance: a wholly-owned subsidiary established in the United States, mainly responsible for the early R&D of drugs and the selection of functional antibodies by automatic high throughput antibody screening for target exploration.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- As a young and innovative biopharmaceutical company, our mission is to address unmet clinical needs and achieve medical care. Our core corporate culture also highlights humanistic sentiments and social responsibility, including:


- Our milestones in 2018:




Notes:
JS001: Recombinant humanized anti-PD-1 monoclonal antibody for injection
FDA: The Food and Drug Administration of the United States
NMPA: National Medical Products Administration of the PRC ("NMPA")

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. Corporate Governance

During the reporting period, the Company complied with the Company Law of the PRC, the Securities Law of the PRC, the Code on Corporate Governance Practices of Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and other laws and regulations and normative documents and the requirements set out in the Articles of Association for corporate governance. The Company's general meeting is the highest decision-making body. The Board of Directors have the power to execute the directions made at the general meeting. The general manager executes the directions made by the Board and is responsible for corporate management. The Board has established four committees, namely Audit Committee, Nomination Committee, Strategy Committee and Remuneration Committee, and has formulated the four corresponding terms of reference including the Terms of Reference of the Audit Committee of the Board, the Terms of Reference of the Nomination Committee of the Board, the Terms of Reference of the Strategy Committee of the Board and the Terms of Reference of the Remuneration Committee of the Board, which actively play an important role in risk prevention and control as well as corporate decision-making in the decision-making process of the Board. The Company always maintains a responsible way to improve operational efficiency and corporate competitiveness, in order to protect shareholders' right and enhance company value.

During the reporting period, we attached great importance to the commitment of corporate social responsibility and are committed to creating sustainable values with the stakeholders at the environmental, social and economic levels. We actively promoted the Company's fulfillment of corporate social responsibility. We set up the Environmental, Social and Governance Working Group comprising the key personnel of the Securities Department, the Environmental, Health and Safety Department and the Quality Department, which carries out environmental, social and governance work, and other functional departments cooperated with the working group to implement the issues of corporate social responsibility.

We fully consider the social responsibility strategy when formulating the Company's development strategy plan, and pay attention to environmental, social and governance-related risks when assessing the internal and external risks faced in the R&D and production process and formulate corresponding response strategies. We also pay attention to the cultivation of the sense of social responsibility of all employees, strives to promote the participation in social responsibility activities, and integrates social responsibility work into our daily business activities.

The reporting and disclosure of social responsibility work information is an important channel for us to continuously improve the performance of corporate social responsibility and communicate with the stakeholders. We have clearly defined the social responsibility work reporting path, which is reported by the head of the Environmental, Social and Governance Working Group to the Board on the annual social responsibility work. We also disclose the performance of our social responsibility to the Company's stakeholders through the Environmental, Social and Governance Report prepared in accordance with the "ESG Reporting Guide" as set out in Appendix 27 of the Listing Rules.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. Operation Compliance

- *Anti-fraud and Compliance*

We always adhere to the highest standards of business ethics, comply with medical, ethical guidelines and international laws and regulations, focus on the establishment of compliance systems and the building of compliance culture, and maintain a zero-tolerance attitude towards corrupt practices and commercial briberies. We stipulated in the Article of Association that our directors, supervisors and senior management must abide by the principle of good faith and fulfill their loyalty obligations, and must not abuse their power, accept bribes and misappropriate company funds. We have drawn up the Prevention of Fraud and Encouraged Reporting System, which clarified the scope of application of reporting and the procedure for the reporting and its verification of fraud cases and have listed the remedies and penalties after the reporting is confirmed. The purpose is to regulate the professional act of all employees and prevent the act that harms the interest of the Company and the shareholders. We encourage employees and all parties having direct or indirect economic relationship with the Company to report their complaints about actual or suspected fraud or violations of professional ethics by employees through reporting hotline, email, or mail etc. In 2018, the Company did not involve in any corruption or bribery.

For the procurement compliance management, we include supplier integrity and integrity management provisions in the Supplier Management Procedures, requiring all suppliers to sign a clean and compliant agreement, supervising their integrity. We have also hired a third-party agency as a compliance consultant to advise and guide the Company in complying with applicable laws and listing rules to ensure that the Company is in a healthy and compliant operating environment.

- *Information Compliance Disclosure*

In accordance with the Company Law of the PRC, the Securities Law of the PRC, the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited and the applicable regulations set out by National Equities Exchange and Quotations Co., Ltd. and China Securities Regulatory Commission, etc., we have formulated the Information Disclosure Management System, clarifying the basic principles and the scope of information disclosure, the responsible persons and the disclosure procedures to regulate the Company's information disclosure act and increase the transparency of the Company's information disclosure. We strictly abide by the rules and regulations for information disclosure, actively fulfilling information disclosure obligations, and effectively protecting the legitimate right and interest of the Company, the shareholders, the creditors and other stakeholders.

We have designated the Hong Kong Stock Exchange (http://www3.hkexnews.hk), the information disclosure platform designated by National Equities Exchange and Quotations (www.neeq.com.cn) and the Company's official website (www.junshipharma.com) as the media to publish the Company's announcements and other information requiring disclosure.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- *Protection of Investor Interest*

We attach great importance to the protection of investors' interests. In order to strengthen communication with the investors, safeguard the legitimate right and interest of the investors, and promote long-term and stable benign relations between the Company and our investors, we have formulated the Investor Relations Management System. Through the implementation of the system, we strive to build a trustworthy and harmonious investor relationship and improve corporate governance.

The Chairman and the management of the Company focus on the communication with investors. We have set up an investor relations page on our official website to provide a platform for investors to understand the Company and avoid the inconsistency of information received among the investors. Meanwhile, we have established the Securities Department, which is responsible for investor relations management and shareholder data management, increasing the transparency and compliance of corporate information disclosure, enhancing investors' understanding and recognition of the Company, establishing a stable and high-quality investor base, obtaining long-term market support, and building a corporate culture that serves and respects the investors.

We treat all investors fairly and avoid selective disclosure. We will proactively listen to our investors' opinions and suggestions, realize two-way communication between the Company and the investors, and form a positive interaction. During the reporting period, the Company communicated with investors mainly through regular announcements and interim reports, general meetings, the Company's website, telephone consultations and press conference, etc., timely organized analyst briefings, performance briefings and roadshow activities, and responded to the issues raised by analysts, investors and the media. In addition, we also held investor visits and telephone inquiries, actively listening to investors' demands and safeguarding their right and interest.

We are committed to establishing and maintaining sound public relations with securities regulatory authorities, National Equities Exchange and Quotations Co., Ltd., industry associations, the media and the related institutions, timely understanding and mastering the policies and regulations promulgated by the regulatory authorities and guiding the media to make objective and fair report on the Company's situation. After the occurrence of major issues such as litigation, major restructuring, changes in key personnel and major changes in the business environment, we effectively respond to the issues and actively maintain the Company's public image.

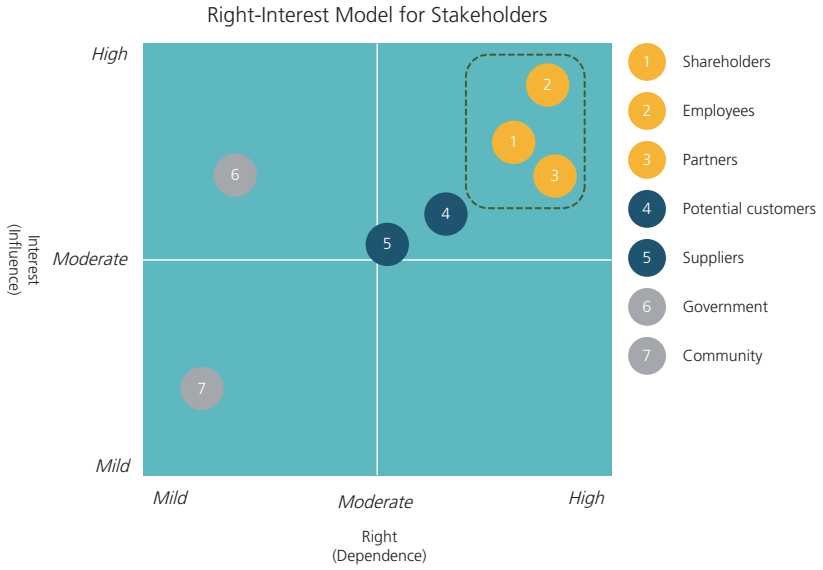
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. Substantive Issue Analysis and Selection

The focus of this report is based on the substantive issues to the stakeholders. In order to better understand the right and interest of the stakeholders, we analyzed their rights and interests, and identified the important stakeholders of the Company. On this basis, the Company analyzed and selected the interests and demands of the stakeholders, and finally recognized 16 important substantive issues.

### *(1) Identification and Analysis of Stakeholders*

In accordance with the relevant guidelines and standards such as the ESG Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, we have assessed the level of influence and dependency of different stakeholders by using the right-interest model.




Right-Interest Model for Junshi Biosciences' Stakeholders

As shown in the above diagram, the Shareholders, the employees and the partners are our most important stakeholders. The rights and interests of these three parties achieved a high score in both the evaluation of their influence and dependence on us. Therefore, while disclosing the key performance indicators required by the ESG Reporting Guide, key disclosures on the substantive issues related to these three parties will be made in this report.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*(2) Screening of Substantive Issues*

We have established different communication channels for our shareholders, employees, partners, potential customers and suppliers, as well as the government and the community, maintaining a regular and close communication. In the process of preparing the ESG Report, the expectations and demands of all stakeholders are screened out through communications with them, and the corresponding mode of communication and response are adopted, as shown in the following table:

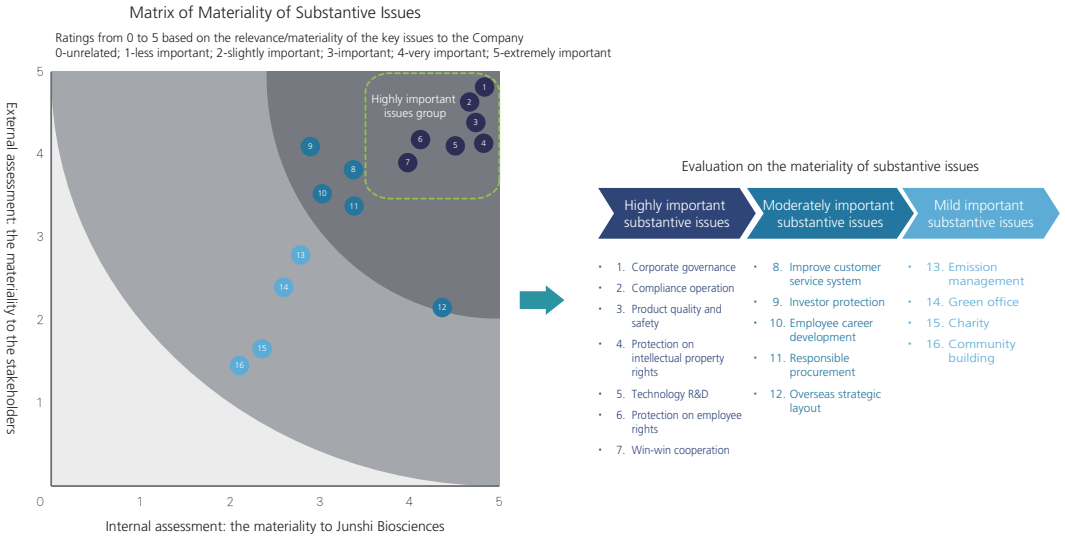
| Stakeholders | Expectations and demands | Mode of communication and response |
|---|---|---|
| Shareholders | Safeguarding shareholders' interest | General Meeting |
| | Improving corporate governance | Articles of Association |
| | Information disclosure and communication | Press conference |
| | Anti-corruption | Enhancing reporting channel |
| | Company performance | Company report |
| | Capabilities in research and development | Product release conference |
| Employees | Occupational health and safety | Labor contract |
| | Safeguarding rights | Employee benefit |
| | Career growth | Employee training |
| | Caring | Employee campaign |
| Partners | Strategic cooperation | Signing agreement |
| | Global strategic layout | Exchange and visit |
| | Industry development | Project cooperation |
| Potential clients | Product quality | Innovative product R&D |
| | Product liability | Building adverse drug reaction monitoring system |
| | Privacy protection | Formulating information confidentiality infrastructure |
| Suppliers | Supplier management | Supplier approval and evaluation |
| | Safeguarding suppliers' interest | Fair tendering process |
| Government | Operation compliance | Information disclosure |
| | Production safety | Enhancing production safety management |
| | Emission of waste | Encouraging energy saving and low-emission |
| | Use of resources | Green production |
| Community | Participating in charity event | Charity drug giveaway project |
| | Community building | Provide effective PD-1 at a lower price |

Expectations and Demands as well as Mode of Communication and Response of the Stakeholders of Junshi Biosciences

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*(3) Evaluation and Confirmation of Substantive Issues*

We conducted communications and surveys with our stakeholders, including our shareholders, employees, partners, potential customers and our suppliers, as well as the government and the community. Through internal and external materiality assessments, we developed 16 substantive issues, which were scored and ranked.




Matrix of materiality of substantive issue and other issues

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Based on the results of the assessment of the materiality of the substantive issues, we have identified the content of the issues highlighted in this report. The corresponding sections for disclosure of each substantive issue are as follows:

| | Substantive issues | Corresponding section in this report |
|---|---|---|
| Highly important substantive issues | Corporate governance | Corporate governance |
| | Compliance operation | Compliance operation |
| | Product quality and safety | Quality and safety |
| | Protection on intellectual property right | Protection on Intellectual Property Right |
| | Technology R&D | R&D and Innovation |
| | Protection on employee rights | Employee caring |
| | Win-win cooperation | Strategic cooperation |
| Moderately important substantive issues | Improve customer service system | Customer service system |
| | Investor protection | Compliance operating |
| | Employee career development | Employee caring |
| | Responsible procurement | Supplier management |
| | Overseas strategic layout | Overseas layout |
| Mildly important substantive issues | Emission management | Environmental-friendliness |
| | Green office | Environmental-friendliness |
| | Practicing charity | Community contribution |
| | Community building | Community contribution |

Substantive issues for Junshi Biosciences and their corresponding sections

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

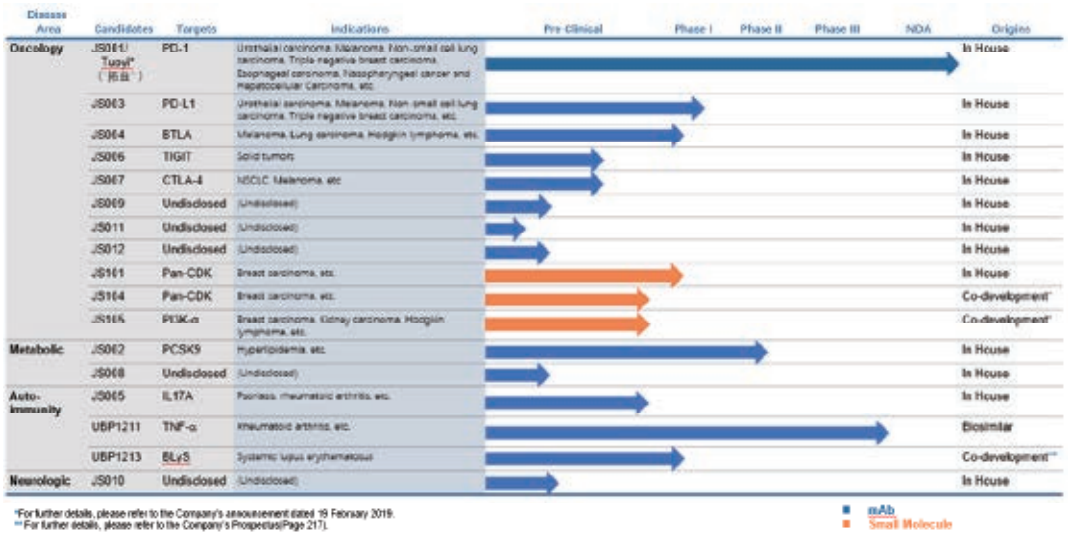
## II. CONTINUOUS INNOVATION AND EXPANDING TO GLOBAL MARKETS

Innovation is the vital power for biopharmaceutical companies. Since its establishment, the Company always strives to the R&D philosophy of "continuous innovation and daring to become industry pioneer". We have established a strong R&D team. In addition, we have entered into strategic agreement with industry leaders in order to jointly work on satisfying the unsatisfied clinic needs across the world, thus realising proper treatments for all diseases. While adhering to the "Made in China" policy, we also strive to expand its strategic layout to global markets. We have established R&D center in the United States, aiming to integrate our technologies with overseas R&D technologies, as well as to further enhance the R&D capability of the Company.

### 1. Technology Research and Development and Innovation

As a scientific research-intensive company, we are of the view that continuous innovation is the only way to drive the sustainable development of a company. Every year, the Company will increase its investment in R&D for the purpose of conducting clinical trials and recruiting R&D experts.

We focus on technology R&D innovation and commercialization, and have established R&D centers in Suzhou and San Francisco, the United States. Striving to original innovation, we have established numerous core technology platforms on different aspects, such as mAb hybridoma, screening and evaluation of antibody candidates, humanized (and de-immunogenicity) and mAb drugs, and forming and screening system for high-expression mammal cells. Through our technology platforms, we currently have some drug candidates under development, including sixteen national class I new drugs and one biosimilar, mainly covered various major diseases such as immuno-oncology, autoimmune diseases, cardiovascular diseases and osteoporosis. In addition, we have numerous products that are key types of innovative mAb drugs firstly received clinical approvals in China, including PD-1 mAb for immuno-oncology (JS001), PCSK9 mAb for hypercholesterolemia (JS002) and BLyS mAb for systemic lupus erythematosus (UBP1213).




*For further details, please refer to the Company's announcement dated 19 February 2019.
**For further details, please refer to the Company's Prospectus(Page 217).

Brief descriptions on drug candidates of Junshi Biosciences (Source: official website of Junshi Biosciences)

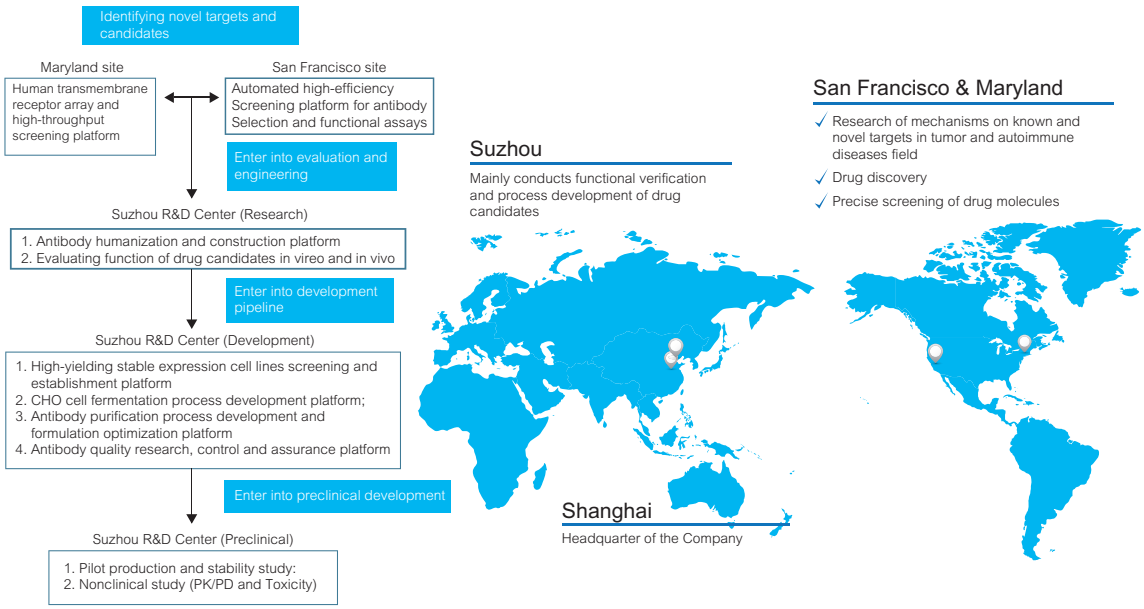
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at the end of the reporting period, the Company had five drug candidates with clinical trial approval from NMPA obtained. Among which, toripalimab has obtained drug registration approval and new drug certificate. It had also obtained clinical trial approval from U.S. Food and Drug Administration, and its phase I clinical trial has already commenced in the United States. In addition, it is scheduled that the application for the launch of UBP1211, a biosimilar of Humira used for the treatment of rheumatoid arthritis and other diseases, will be submitted to NMPA in the second half of 2019.

## 2. Overseas Layout

Adhering to build up world class quality with international standards, we have continuously improved the quality of our products, R&D works and services. We aim to achieve win-win situation with our industry peers through cooperation, thereby fulfilling the objectives for sustainable development and establishing a multi-national system that is stationed in China and expanded across the world.

The Company has commenced worldwide clinic R&D and drug commercialization. In addition to the establishment of R&D center in Suzhou, the Company has also established two oversews R&D centers in San Francisco and Maryland, the United States. Details are set out in the diagram below:




Leveraging on our global layout, we put great efforts on new drugs research and development through the greatest resources allocation, our excellent R&D capability on innovative drugs, R&D on advanced biologic technology and large-scale production capacity on the full industry chain, aiming to offer worldwide patients with treatment choices that provide better efficacy at a lower cost.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. Strategic Cooperation

While expanding our operations to global markets, we, through strategic collaboration with our industry peers, promote each other's business development in biopharmaceutical fields, thereby achieving resources sharing, complementary advantages and win-win situation, sharing industry fruitful results and contributing to the society. In 2018, we have conducted several collaboration with our strategic partners:


With the continuous development of global and the Chinese biopharmaceutical R&D markets, we will capture external opportunities, increase our investments in innovation, and optimize our R&D capability. At the same time, we will also promote and participate in the exchange between industry experts and other experts in medical-related fields, facilitate the R&D progress on combination treatment, and jointly explore the unknown and innovation.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. Intellectual Property Protection

In order to protect continuous innovation, we attach great importance to the protection of various intellectual property of the Company. The Patent Department is responsible for handling all matters in relation to intellectual property, including the formulation and implementation of the Company's intellectual property strategies and plans, the establishment of intellectual property risk management system, the prevention of intellectual property-related risk exposures, and the management over the administrative works on patent layout implementation, exploration and application. It will also provide assistance in handling litigation in relation to intellectual property when necessary.

In 2018, we have optimized the intellectual property rights administrative system on intangible assets such as patents, trademarks and technical secrets in accordance with relevant laws and regulations including the Patent Law of the PRC, the Implementation Rules on the Patent Law of the PRC and the Trademark Law of the PRC. We have amended the Administrative Measures on Patents and the Administrative Measures on Intangible Assets. Through the formulation of systematic system on regulation over intellectual property of patents and trademarks, we have established the maintenance and protection system on intangible assets such as patents and trademarks, thereby actively safeguarding matters in relation to intellectual property of the Company and its partners.

All employees are required to sign confidential agreement when joining the Company. The terms under the agreement stipulate the ownership of relevant intellectual property which might be arose in the future, including processing methods and technology rights. For R&D staff who can access relevant technical secrets (such as technology information), they are required to sign additional technical confidential agreement. In respect of trademark management, while proactively applying for trademarks, we will also conduct real-time monitoring on the usage of similar trademarks in the market. Upon receiving authorization, the Patent Department will assign personnel to check whether there is any infringement of trademarks on a real-time basis, and monitor the renewal of trademarks through our system.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## III. QUALITY FIRST, STRIVE FOR EXCELLENCE

We strictly control our product quality. In the process of drug R&D and production, we adhere to the spirit of "Quality First, Strive for Excellence", and strive to create high-quality products by leveraging the Company's existing human resources and technology resources to continuously create value for the society. Procurement, as the lifeblood of a company, is not only related to the cost of the Company, but also the guarantee of product quality and safety, playing a decisive role in the operation of the whole enterprise. For this reason, we have established a scientific procurement system, paying attention to supplier responsibility management and providing a fair competition environment for suppliers. In addition, our sustainable development is inseparable from the understanding and support of our customers. While improving the quality of our products, we have also established a scientific and complete customer service system to ensure the provision of quality customer service and maintain a good relationship with our customers.

### 1. Supplier Management

Standardizing and strengthening supplier management can create a benign competitive environment for the Company, reduce procurement risks, and maximize the comprehensive benefits of procurement quality, cost, service and efficiency. In 2018, we formulated three procurement and supplier management systems, namely the Supplier Management Procedures, the Procurement Standard Management Procedures, the Outsourcing and Management of Clinical Services, regulated processes including procurement application, payment, and acceptance, and specified the evaluation and selection criteria for different types of suppliers, dynamic management and information archive management requirements. In addition, the Company has also launched the ERP system to support the scientific and efficient management of the whole process of procurement through the system while enhancing the system. During the reporting period, our procurement work was carried out smoothly, without delays in production, clinical trials and project construction. The continuous improvement of supply chain management provided guarantee for production and project R&D. For construction projects and service projects that require bidding, we strictly follow the Bidding Law of the People's Republic of China.

We adhere to the principle of "strict access, quantitative evaluation, fault elimination, and dynamic management" for supplier management to build a dynamic and closed-loop management system. When including a new supplier, we assign a person to conduct field visits and keep the complete assessment record of such supplier. When selecting suppliers, the Company will give priority to suppliers with better performance in environmental protection and social responsibility after comprehensively considering their product and service quality, price level and technical standards, and will also support local suppliers. In 2018, our local suppliers of equipment and consumables accounted for more than 60%. We conduct annual supplier performance evaluation every year. We will eliminate and blacklist suppliers with quality defects, failed environmental impact assessment or integrity issues.

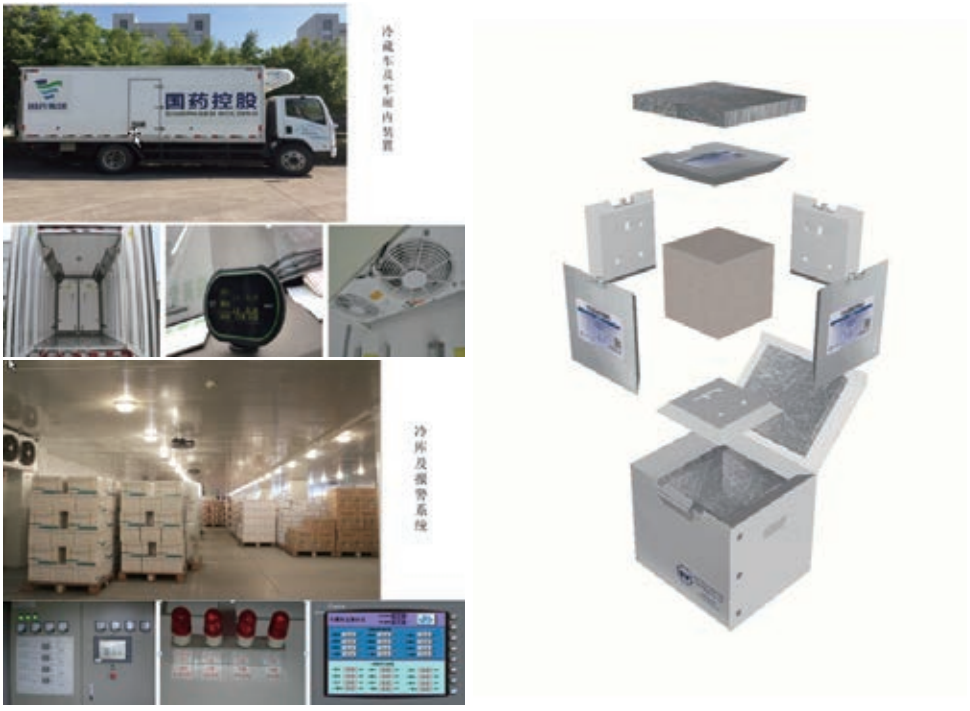
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Case: Guarantee the quality and safety of drugs during transportation and storage by selecting quality suppliers**

In order to meet the cold chain warehousing and transportation distribution requirements of our proposed marketing drugs, we conducted an evaluation of logistics and warehousing outsourcing service providers in 2018, including the safety and operation compliance of all suppliers to ensure the transportation and storage of drugs and other aspects.

In particular, Sinopharm Holding Guangzhou Co., Ltd. ("Sinopharm Guangzhou") is equipped with a low-temperature cold warehouse for drug storage in accordance with the Good Supply Practices ("GSP"), which can be used for transportation at low temperature by using refrigerator trucks and ice freezers, and implement real-time positioning and temperature monitoring in the whole transportation process with the information system, thereby realizing the controllable temperature and traceable process throughout the cold chain storage and transportation process and ensuring the quality of drugs is not affected by temperature changes during storage and transportation. In addition, Sinopharm Guangzhou can also provide warehousing services that meet GSP requirements and other special requirements for drug storage.

As Sinopharm Guangzhou follows the requirements of drug safety, supervision and traceability in the transportation and warehousing process, and is committed to providing safe and fast third-party drug warehousing and transportation, medical terminal distribution, basic drug distribution and professional pharmaceutical supply chain solutions for the pharmaceutical industry, we selected Sinopharm Guangzhou to be our supplier of the logistics and warehousing outsourcing service.




Warehousing environment and transportation equipment of Sinopharm Guangzhou

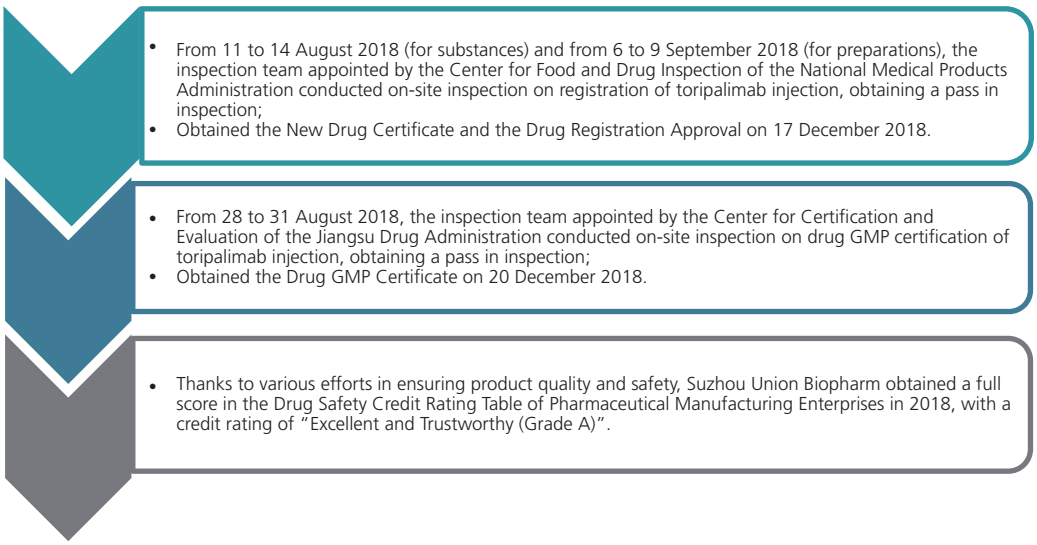
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. Quality and Safety

Following the quality direction of "Quality First, Respect Life, Continuous Innovation, Strive for Excellence", the Quality Manual of the Company is mainly prepared with reference to the current edition of the Drug Administration Law of the People's Republic of China, the current edition of the Good Manufacturing Practices for Drug Production, the Pharmaceutical Administration Regulations of the European Union, the United States Federal Regulations and the guidelines of The International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use, which detailed the requirements for quality management systems, quality control systems, production systems and other aspects, clarified the responsibilities of management personnel at all levels, and made reasonable plans for resource allocation. We have established a sound quality assurance and control management mechanism to regulate the standard operating procedures of the Quality Department, including quality assurance management and quality control management operation documents, providing guidance on supplying quality products by the Company.

We strictly follow the Quality Manual and relevant regulations to carry out quality and safety management, continuously optimize R&D and new product production processes, and employ experienced technical and management professionals in quality assurance and control to execute the Company's quality strategy. The Company is also committed to providing excellent infrastructure to ensure the safety of R&D, clinical research and production process as well as the high quality of products. In accordance with the established maintenance and repair procedures, all relevant departments maintain and manage the plant, work area, process and testing equipment and ancillary facilities.

**Case: Suzhou Union Biopharm passed various inspections of government regulatory authorities**



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Quality inspection and product recall mechanism

We monitor and inspect the quality characteristics of our products at different stages of production in accordance with quality standards, quality control procedures and inspection instructions to ensure that product quality exceeds those stipulated in the standards. At the same time, the Company has formulated the Drug Recall Management Standard Operating Procedures and the Product Returns Management Standard Operating Procedures to regulate the management procedures in relation to product returns and recalls. During the reporting period, our new products have not been officially launched for marketing, so there was no product returns and recalls due to quality issues, but we organized a product recall simulation exercise at the end of 2018.

**Case: Suzhou Union Biopharm successfully organized a product recall simulation exercise**

In order to test the effectiveness of the drug recall system under the existing conditions, Suzhou Union Biopharm began planning a recall simulation exercise on 26 December 2018, with the cooperation of Sinopharm Guangzhou, a third-party drug distribution service provider, and distributors at all levels. The sample product used in the recall was an alternative sample of the toripalimab injection with simulated packaging. In the communication and selection process of distributors at the early stage, we fully considered the coverage area, distance, transportation mode and other factors.

Suzhou Union Biopharm followed the entire recall simulation process in real time, and investigated and confirmed the feedback time and sample return time of distributors, and the number of returned samples, batches, traceability codes, transportation temperatures and others. The entire recall exercise process was as follows:


**This simulation exercise fully verified the effectiveness of our product recall mechanism:**

| | |
|---|---|
| **The overall result of this recall simulation test was satisfactory** | The quantity, batch, traceability code and transportation temperature of all samples in the simulation recall met the standards of recall simulation test; |
| | All distributors were able to complete the process from giving recall orders to returning samples within 15 days, meeting the requirements of second-level recall; |
| | All distributors who completed the first transaction and internal filing process of toripalimab monoclonal antibody injection were able to complete the recall instruction and return to the sample within 7 days, meeting the requirements of first-level recall. |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. Customer Service System

In order to promote the commercialization of drug candidates and new products, the Company established a sales department in 2018, comprising professional teams in marketing, sales and channels. We pay attention to the development trend of the therapeutic fields of various types of products to be marketed and drug candidates of the Company. By collecting and analyzing market information and data, we formulate and implement marketing strategies and sales plans for key products of the Company, striving to tap unmet needs.

At the same time, we also pay attention to the construction of the customer service system. In terms of the protection of customer privacy information, we have defined the scope of privacy and confidentiality by formulating the standard operating procedures for the Interaction with External Organizations and Personnel", and required the Company's employees to strictly protect customer privacy in accordance with the system requirements. For customer information communication and feedback, we formulated the Customer Complaint Management Standard Operating Procedures and the Drug Adverse Reaction Management Standard Operating Procedures, and established an adverse reaction monitoring system. We will closely monitor the customer's experience with the product. We have opened a third-party phone platform and set up an adverse event report page on the Company's official website, so that customers may report adverse reactions to us through various channels in the future. We also assigned personnel to carry out follow-up tracking. Our sales department will also cooperate with other relevant departments to provide product related consultations for customers through product launches, academic conferences and patient education projects, and deliver the correct product usage information to customers, in order to provide quality and considerate customer service.

**Case: Successful release conference for new product Tuoyi (拓益)**

On 30 December 2018, we convened the first session of immuno-oncology forum and Tuoyi (toripalimab injection) release conference in Guangzhou, and invited more than 600 oncology experts, scholars and peers in the biopharmaceutical industry at home and abroad to attend the event so as to discuss the current status and future of the immuno-oncology in the PRC while celebrating the marketing of the first self-developed anti-PD-1 monoclonal antibody in the PRC.

The marketing of our new product, Tuoyi (拓益), will provide an alternative option for domestic patients with immuno-oncology at the forefront of the international market. Through the forum and the release conference, potential customers will also know more about our new products with the help of media coverage.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## IV. CENTERING ON PEOPLE AND COEXISTING WITH HARMONY

Employees are important resources to maintain the sustainable operation and steady development of enterprises. We care for employees' physical and mental health, try hard to safeguard the legitimate rights and interests of each employee, improve the career development system of employees, create harmonious labor relations, and actively create a warm working environment for employees. Meanwhile, we actively devote ourselves in public welfare, benefit the public through the project of new drug charitable donation, and repay patients' families in the PRC with continuous drug R&D and innovation and favorable pricing so as to fulfill social responsibility.

We also advocate harmonious coexistence with the ecological environment, firmly implement the concept of green development in the process of drug R&D and production, strengthen the comprehensive utilization of resources, advocate the concept of green office, and implement the measures of environmental protection through building environmental management and emission monitoring system.

### 1. Employee Caring

- *Protection of employees' rights and interests*

  We have established the labor employment policy in accordance with the Labor Law of the People's Republic of China and the Special Provisions on Labor Protection for Female Workers, etc. to comprehensively fulfill our social responsibilities, safeguard and guarantee the basic rights and interests of employees, and resolutely resist the recruitment of child laborer and the behavior of forcing employees to work. During the reporting period, no violations of laws and regulations such as employing child laborer and forcing employees to work have happened in the company.

  The gender ratio among our employees is balanced and all employees no matter they are male or female get the same pay for the same job. The Company treats employees of different nationalities, races, gender, religious beliefs and cultural backgrounds equally in terms of recruitment, remuneration, promotion, dismissal and retirement. We are also committed to maintaining diversified employment opportunities, striving to attract, employ and encourage international talents, and actively promote global operations and development.

- *Guarantee of remuneration*

  The Company has formulated policies related to the protection of employees' rights and interests such as the Employee Handbook, the Measures on Recruitment Management, the Measures on Remuneration Management and the Measures on Holiday Management in strict accordance with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and the relevant employment policy and legal regulations of the state and local governments so that every employee can enjoy year-end bonuses, paid annual leave and other benefits according to the regulations. Provisions for the protection of female employees during pregnancy are specially set under the Measures on Holiday Management to reduce their workload during pregnancy.

  In 2018, 100% of employees have signed labor contract with the Company. The rights and obligations of employees are made clear in the contract. While we pay social insurance contributions for the employees, we also buy additional commercial insurance for them and fully guarantee wages and offer various welfare benefits for them. At the same time, we have formulated an equity incentive plan. Favorable employee welfare guarantees keep the employee turnover rate at a very low level. Among them, the annual turnover rate of employees in Shanghai is only 4%.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- *Safety management and employee occupational disease protection*

We always put the occupational safety of employees in the first place, take various measures to reduce the occurrence of safety accidents, effectively eliminate or reduce the factors that endanger the occupational health of employees. For this purpose, the Company has formulated a strict safety management mechanism according to the quality management standard system of pharmaceutical production, covering such aspects as safety operation management, safety inspection, identification and assessment of danger source, setting of safety monitoring account, and training of safety education, etc. We have formulated a series of policy documents and procedure specifications such as the Standard Operating Procedures for Safety Production Management, the Standard Operating Procedures for Safety Accident Management, and the Standard Operating Procedures for Occupational Disease Prevention and Control Management, etc. in accordance with the Law of the People's Republic of China on Work safety and other national and local laws and regulations to strictly implement the operating procedures and further reduce the potential safety hazards through risk management, procedure control and individual protective equipment. No accident work injury has happened during the reporting period. The Company has formulated the Emergency Plan for Production Safety Accidents and put it on record in the local safety production supervision and administration bureau. In 2018, we conducted two laboratory bio-safety emergency response drills and one fire safety drill according to different potential accidents.

**Case: Suzhou Union Biopharm conducted fire safety drill**

In order to improve employees' ability of extinguishment, evacuation, self-rescue and management team's ability of organization, coordination and command, Suzhou Union Biopharm organized an annual fire evacuation drill in November 2018. The drill content mainly included personnel's evacuation to designated places, on-site fire extinguishing with fire-fighting equipment guided by fire protection unit, and employees' use of fire-fighting equipment. The fire drill was carried out successfully with the active participation and cooperation of all employees. Employees were familiar with the emergency evacuation procedure and escape route and basically mastered the use of fire extinguisher, which improved the overall ability to cope with the fire accidents and enhanced the employees' fire safety awareness.

**Emergency evacuation**

**Counting the number of people**

**Fire drill demonstration**

**Fire fighting operation**

**Suzhou Union Biopharm Fire Safety Drill**

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We care about the occupational health of employees. As employees of a biopharmaceutical company, they are at risk of occupational diseases caused by exposure to chemicals and chemical reagents. The Company has done a good job in occupational disease prevention through measures of propaganda and explanation, conducting training, and arranging employees for occupational health examination. At the same time, we set up the Personal Occupational Disease Monitoring Files in accordance with Law of the People's Republic of China on the Prevention and Control of Occupational Diseases to test occupational disease risk factors annually, and arrange employees in the positions which are subject to infection to regularly receive occupational disease examinations before, in the middle of, and after the job. Also we pay medical insurance and accident insurance for employees in full to eliminate their worries.

- *Staff activities*

We have also advocated employees to balance their work and life, and tried hard to create a harmonious and warm working environment. The Company has organized a variety of staff activities, enhancing the communication between employees at all levels, improving the sense of identity and belonging of employees to the Company, and enhancing the cohesion of the Company.


**Case 1: Human Resource and Administrative Department in Shanghai organized staff team building activity**

In July 2018, we organized employees of all departments of Zhangjiang area in Shanghai to participate in a two-day team building activity in Anji. The team building activity included competitive and cooperative activities, which enhanced communication among employees, strengthened their sense of teamwork, and relaxed their bodies and minds.

**Case 2: We held a grand 2017 annual meeting of the Company**

At the beginning of 2018, we held a grand annual meeting in Shanghai, inviting employees of all affiliated companies at home and abroad. At the annual meeting, we listened to the speeches of the CEO, COO and other management teams, reviewed the achievements we have made in the past year, and prospected to the bright future of the Company. At this annual meeting, we also commended the excellent employees who had made outstanding contributions to the Company, and expressed our gratitude to the employees who have been in the Company for five years. The annual meeting ended successfully with employees' enthusiastic performances and laughter, and employees who participated in the annual meeting fully felt the warmth from the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Case 3: Afternoon tea session to celebrate the Company's listing and approval for product marketing**


**A corner of the celebration of the listing**


**The Company provided a variety of afternoon tea snacks to employees**

In order to celebrate the Company's successful listing on the Stock Exchange of Hong Kong Limited and the approval of toripalimab monoclonal antibody injection for marketing, we held a celebration in the office of Shanghai and offices of other cities at the end of December. We held this activity with afternoon tea. Employees carefully arranged their offices. The Company also provided delicate afternoon tea snacks, and employees' sense of pride and cohesion were enhanced through this activity.

- *Employee training and career development*

The core competitiveness of an enterprise comes from high-quality talents and teams. It is very important to improve career training system for employees. Based on the Company's development and employees' career goals, we have drawn up the promotion roadmap of various departments, and regarded the annual performance appraisal as the basis for employees' promotion. At the same time, through the provision of internal training and job re-designation for employees, we have established a set of personnel training system to provide employees with a broader career development platform.

In 2018, we have further improved the construction of training system in terms of curriculum system building and training mode innovation, and strived to improve the efficiency of training management, forming a three-level training system of company-level comprehensive training, department-level professional training and "leading apprentices with masters" job training. The training system is flexible, and the training resources are coordinated by personnel department in accordance with the specific job needs. Coupled with employees' self-learning, the knowledge level and working motivation of employees are improved and their career development is promoted.

During the reporting period, we organized and conducted various kinds of training, including laws and regulations (such as good manufacture practices of drugs, provisions for drug registration, and various guidelines), documents (such as good writing norms, and operating procedures for document preparation), technology (such as monoclonal antibody manufacturing technology), safety (environment, health and safety knowledge, and fire safety drills) and so on. We adopted a variety of training forms, including on-site training, external training, video training and so on. Through a series of training activities, employees' working ability and professional level were improved.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Case: Suzhou Union Biopharm's quality department actively conducted training activities in 2018**

Training can enhance the study of laws and regulations related to product quality and safety, consolidate employees' basic knowledge reserve, improve their professional knowledge level and post technology, and enhance employees' innovative awareness and ability on the basis of standardized operation. Therefore, our quality department attaches great importance to carry out training related to product quality and safety on employees. The training related to quality management and safety carried out in 2018 included: 52 internal training in the quality department, among them, 25 were carried out in quality assurance department and 27 were in quality control department, including regulations, post responsibilities, safety, process control, document, and instrument operation, etc. All the training were basically completed in accordance with the plan. The quality department participated in four external training projects, including the Marketing Authorization Holder – pharmacovigilance, production site and material supplier management, and gas phase use training, and completed the transfer training. Through relevant training, employees' professional knowledge in quality and safety was improved, which ensured the products produced by the Company meet the quality standards.

## 2. Community Contribution

- *Public welfare activities*

We are keen to participate in social public welfare activities. We always believe that conducting public welfare activities is not only a platform for the Company to fulfill its social responsibilities, but also an important measure to build a good image and enhance employees' sense of pride.

With the continuous development and growth of the Company, we will firmly fulfill our responsibility on social public welfare. In 2018, we planned and participated in community public welfare activities, took the initiative to assume social responsibility, and actively responded to the call of "Accompanying all the way – Bethune•Tuoyi Public Welfare Donation Project" launched by Beijing Bethune Charitable Foundation. We maintained close contact with Beijing Bethune Charitable Foundation and cooperated with the Foundation to conduct the preparatory work of the public welfare project.

- *Community construction*

In 2018, with the listing of the PD-1 toripalimab monoclonal antibody, a drug for immuno-oncology developed independently by the Company, our production and business scale continued to expand, bringing more and more employment opportunities to the community, and the Company fulfilled its social responsibility for promoting the development of the local community.

In addition, the approval of the new product Tuoyi (拓益) has brought good news to patients, enabling tumor patients in China to receive the most advanced immuno-oncology therapy at a price far lower than that of similar imported drugs. We will actively practice our mission of providing better treatment options with lower cost for patients through favorable price and accelerate the development of innovative drugs to benefit more patients and the society.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. Green and environment protection

- *Environmental Protection*

  While strengthening production and operation management and pursuing economic benefits, we are committed to building a modern biopharmaceutical manufacturing plant with the concept of environmental protection, adhering to the idea of green and environmental protection, and striving to reduce the impact of drug research and development and production and operation on the surrounding environment. We have set up a production base in Wujiang, Suzhou. We adopt international advanced one-off manufacturing technology throughout the whole process in the base, which can avoid the risk of cross-contamination to the greatest extent.

  The Company set up a dedicated environment, health and safety department in the production base and assigned dedicated personnel for environmental protection for effective control and monitoring on the emissions from R&D and production process. In accordance with the Environmental Protection Law of People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, and the Environmental Protection Regulations of Jiangsu Province, etc., we have formulated the Standard Operating Procedures for Waste Management, the Standard Operating Procedures for Biological Waste Management and the Standard Operating Procedures for the Prevention of Pollution, Cross Contamination and Errors in Production Workshops, in which the collection, stacking and disposal methods of all kinds of wastes are specified, so as to dispose of all kinds of wastes in a recycling and harmless way and thus preventing environmental pollution.

- *Emission management*

  (1) Exhaust emission

  We focus on the environmental management and protection in the process of production and operation. Natural gas is used as fuel in the production boilers. Clean fuel is preferentially used as the main energy in the plants' production and operation in production bases to reduce exhaust emissions.

  A small amount of exhaust will be produced in the laboratories through the exhaust system in the fume hood during operation. An exhaust treatment device is installed at the end of ventilation system in each laboratory to ensure that the exhaust is discharged up to the standard. In 2018, we commissioned a professional third-party institution to test the exhaust emission. The exhaust emission conforms to the national regulations, and the third-party environmental protection record is made to ensure that the exhaust emissions do not affect the environment. During the reporting period, no excessive emissions occurred.

  (2) Wastewater discharge

  We have our own sewage treatment equipment in the production base to deal with the sewage produced in the production process. The wastewater containing lactic acid produced in the production process has been disposed and discharged up to the standard, which eliminates the adverse impact on the surrounding surface water environment, and realizes "zero wastewater discharge" in the process of production.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(3) Solid waste management

In the production and R&D process, our hazardous solid wastes are mainly disposable reaction bags, disposable shake flasks, waste chromatography resins, waste filters, HEPA waste filters, crystal slag, non-conforming products, etc. General wastes mainly includes domestic garbage and office solid waste.

For dangerous wastes, we require departments that produce dangerous wastes to ensure that the wastes can be disposed harmlessly, including the pre-disposal of flammable and explosive wastes at room temperature and pressure and sticking labels with words of dangerous on containers containing dangerous wastes. And the dangerous wastes are stacked in designated places according to the types. In the process of disposal, all dangerous wastes are disposed in strict accordance with the prescribed process. Employees are protected during sorting and transferring the wastes and prevented from the infection of harmful substances. The department that produce dangerous wastes and the environmental health and safety department record the dangerous wastes on the ledger. And then the authorized third-party dangerous wastes disposal unit with qualification properly dispose the dangerous wastes according to the disposal agreement.

We pay attention to waste management in the process of experiment. We put waste barrels to be sterilized in the laboratory, set different waste barrels for experimental liquid waste with different chemical properties, and stick labels with words "dangerous" on the barrels.

For general wastes, employees are required to discard them into corresponding containers according to the types of recyclable waste and non-recyclable waste. The Company's cleaners regularly arrange the containers, and classify the recyclable waste for a second time. The government's environmental health management agency clean and dispose the non-recyclable wastes. We employ qualified suppliers to recycle the valuable recyclable wastes.

- *Use of resources*

The resources we consume mainly include natural gas, electricity and water resources. In 2018, the company adhered to the principle of cyclic development, took advantage of practical opportunities in daily office and in the process of production, advocated improving energy efficiency and the use of renewable and low-carbon energy.

In daily office work, we advocate working with environmental concept and encourage "paperless" office and the recycling of office supplies. The requirements and regulations of economical use of energy sources are clear stipulated in the Employee Handbook. Meanwhile, the administrative department will continue to remind employees to save resources in the office process through slogans and notifications, such as advocating double-sided printing, saving electricity, recycling waste paper and reasonable planning of the driving routes of official vehicles.

In the process of production, we maintain the production equipment and replace the parts on a regular basis to further reduce the energy consumption of production equipment while guaranteeing the efficiency and safety of production. In 2018, we replaced the packing in the cooling tower, reduced the water consumption of cooling tower, and increased the use of circulating water. In terms of electricity, we replaced a new frequency conversion equipment in 2018, which saved the consumption of power resources in the process of production.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## APPENDIX

## (I) ESG GUIDE KPIS

| A1.1 The types of emissions and respective emissions data (in tonnes) | |
|---|---|
| Total NOX emissions | 1.42 |
| Total SOX emissions | 0.30 |
| Total PM (Particle Matter) emissions | – |
| Total air emissions | 1.72 |

| A1.2 Greenhouse gas emissions in total (in tonnes) | |
|---|---|
| Direct emissions (Scope 1) | 1,643 |
| Indirect emissions (Scope 2) | 5,219 |
| Total GHG emissions (Scope 1 & 2) | 6,862 |

| A1.3 Total hazardous waste produced (in tonnes) | |
|---|---|
| Disposable reaction bag | 1.41 |
| Disposable shake flask | 1.18 |
| Used chromatography resin | 1.20 |
| Used filter | 1.23 |
| HEPA used filter element | 1.13 |
| Crystal residue | 12.72 |
| Non-conforming products | 0.64 |
| Total hazardous waste emissions | 19.51 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| A1.4 Total non-hazardous waste produced (in tonnes) | |
|---|---|
| Construction waste | 13.00 |
| Household waste (disposable goods, food waste, office waste paper, etc.) | 35.60 |
| Total non-hazardous waste emissions | 48.60 |

| A2.1 Total energy consumption by type (kWh in '000s) | |
|---|---|
| Electricity | 7,418.83 |
| Natural gas | 8,039.00 |
| Total energy consumption | 15,457.83 |

| A2.2 Water consumption (in cubic metres) | |
|---|---|
| Running water | 61,399 |
| Total consumption of water resource | 61,399 |

| A2.5 Packaging material used (in tonnes) | |
|---|---|
| Inner package material (coated rubber stoppers, penicillin bottles, etc.) | 1.48 |
| External package material (product packaging, bottom support, etc.) | 0.49 |
| Total consumption of packaging material | 1.97 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## (II) ESG GUIDE CONTENT INDEX

| Aspects | Guide No. | Page |
|---|---|---|
| **A Environmental** | A1 Emissions<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste | P72 |
| | A1.1<br><br>Types of emissions and respective emissions data | Appendix (I) |
| | A1.2<br><br>Total GHG emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) | Appendix (I) |
| | A1.3<br><br>Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) | Appendix (I) |
| | A1.4<br><br>Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) | Appendix (I) |
| | A1.5<br><br>Description of measures to mitigate emissions and results achieved | P72 |
| | A1.6<br><br>Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved | P73 |
| | A2 Use of Resources<br><br>Policies on efficient use of resources including energy, water and other raw materials | P73 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects | Guide No. | Page |
|---|---|---|
| | A2.1<br><br>Direct and/or indirect energy consumption (e.g. electricity, gas and oil) by type in total and intensity (kWh in '000s) and intensity (e.g. per unit of production volume, per facility) | Appendix (I) |
| | A2.2<br><br>Total water consumption and intensity (e.g. per unit of production volume, per facility) | Appendix (I) |
| | A2.3<br><br>Description of energy use efficiency initiatives and results achieved | P73 |
| | A2.4<br><br>Description of whether there is any issue in sourcing water, water efficiency initiatives and results achieved | P73 |
| | A2.5<br><br>Total packaging material used for finished products (in tonnes) and, where appropriate, with reference to per unit produced | Appendix (I) |
| | A3 Environment and Natural Resources<br><br>Policies on minimising the issuer's significant impact on the environment and natural resources | P72 |
| | A3.1<br><br>Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them | P72 |
| **B Social** | B1 Employment<br><br>Information relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer | P67 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects | Guide No. | Page |
|---|---|---|
| | B2 Health and Safety | P68 |
| | Information on: | |
| | (a) the policies; and | |
| | (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards | |
| | B2.1 | P68 |
| | Number and rate of work-related fatalities | |
| | B2.3 | P68 |
| | Description of occupational health and safety measures adopted, how they are implemented and monitored | |
| | B3 Development and Training | P70 |
| | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities | |
| | B4 Labour Standards | P67 |
| | Information on: | |
| | (a) the policies; and | |
| | (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour | |
| | B4.1 | P67 |
| | Description of measures to review employment practices to avoid child and forced labour | |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects | Guide No. | Page |
|---|---|---|
| | B4.2<br><br>Description of steps taken to eliminate the situation when discovered | P67 |
| | B5 Supply Chain Management | P62 |
| | Policies on managing environmental and social risks of the supply chain | |
| | B5.2<br><br>Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored | P62 |
| | B6 Product Responsibility | P64 |
| | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress | |
| | B6.1<br><br>Percentage of total products sold or shipped subject to recalls for safety and health reasons | P65 |
| | B6.2<br><br>Number of products and service related complaints received and how they are dealt with | P65 |
| | B6.3<br><br>Description of practices relating to observing and protecting intellectual property rights | P61 |
| | B6.4<br><br>Description of quality assurance process and recall procedures | P65 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects | Guide No. | Page |
|---|---|---|
| | B6.5<br><br>Description of consumer data protection and privacy policies, how they are implemented and monitored | P66 |
| | B7 Anti-corruption<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering | P52 |
| | B7.1<br><br>Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases | P52 |
| | B7.2<br><br>Description of preventive measures and whistleblowing procedures, how they are implemented and monitored | P52 |
| | B8 Community<br><br>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration communities' interests | P71 |
| | B8.1<br><br>Focus areas of contribution (e.g. education, environment, labour needs, health, culture and sports) | P71 |

# REPORT OF THE DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

## PRINCIPAL ACTIVITIES

The Company is an innovation-driven biopharmaceutical company dedicated to the discovery and development of innovative drugs and their clinical research and commercialisation on a global scale.

The Group has developed a product pipeline comprising seventeen drug candidates covering a wide variety of indications associated with high levels of unmet medical needs. They include eleven oncology drug candidates, two drug candidates for metabolic diseases, three targeting inflammation or autoimmune diseases and one for the treatment of neurologic diseases.

Details of the principal activities of the principal subsidiaries are set out in note 37 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

## BUSINESS REVIEW AND RESULTS

A review of the business of the Group during the Reporting Period is provided in "Management Discussion and Analysis" of this annual report. An analysis of the Group's performance during the Reporting Period is provided in the Financial Review on pages 11 to 20 of this annual report.

The results of the Group for the Reporting Period are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on pages 109 to 110 of this annual report.

## FINAL DIVIDENDS

The Directors do not recommend a final dividend for the Reporting Period.

## SUBSEQUENT EVENTS

On 4 January 2019, the over-allotment option (as described in the Prospectus) was fully exercised and 23,836,500 H Shares were allotted at the offer price of HK$19.38 per H Share. The number of H Shares increased from 158,910,000 to 182,746,500 afterwards. Further details are set out in the Prospectus and the announcement of the Company dated 4 January 2019.

The clinical trial application for the Company's toripalimab (JS001) in combination with the new drug, vorolanib (CM082) of Anew Pharmaceutical Science and Technology (Shanghai) Co., Ltd. ("Anew"), a wholly-owned subsidiary of Betta Pharmaceuticals Co., Ltd. was accepted by the NMPA on 18 July 2018. In January 2019, Anew and the Company received the Clinical Trial Notices issued by NMPA regarding the above application. For details, please refer to announcement of the Company dated 18 January 2019.

# REPORT OF THE DIRECTORS

In February 2019, toripalimab (JS001) of the Company and donafenib tosylate (CM4307) of 蘇州澤璟生物製藥有限公司 (Suzhou Zelgen Biopharmaceuticals Co., Ltd.) were proposed to be used in combination in the clinical study on the treatment of advanced hepatocellular carcinoma. For details, please refer to announcement of the Company dated 14 February 2019.

On 19 February 2019, the Company entered into a discloseable transaction in relation to the Technology Transfer and Cooperation Agreement with 潤佳（蘇州）醫藥科技有限公司 (Rizen (Suzhou) Biosciences Co., Ltd.*) ("Rizen") pursuant to which the Company agreed to purchase from Rizen 50% interest of two drug projects (CDK inhibitor and PI3K inhibitor) at a cash consideration of RMB150 million per drug project. For details, please refer to announcement of the Company dated 19 February 2019.

The other material subsequent events are disclosed in note 42 to the consolidated financial statements in this annual report.

## USE OF PROCEEDS FROM LISTING

On 24 December 2018, the Company issued 158,910,000 new H Shares at HK$19.38 (equivalent to approximately RMB17.07) per H share for total gross proceeds of HK$3,079.7 million (equivalent to approximately RMB2,713.2 million) by way of initial public offering of the Company on the Stock Exchange.

On 4 January 2019, the over-allotment option was fully exercised and the Company issued an aggregate of 23,836,500 H Shares for total net proceeds of HK$462.0 million.

The intended use of net proceeds from the Global Offering for the purposes and in the amounts as disclosed in the Prospectus as below:

- Approximately 65% of the net proceeds will be allocated to the R&D and commercialisation of our drug candidates as follows:
    - Approximately 40% of the net proceeds will be used for the R&D and commercialisation of our Core Product, JS001, to fund clinical trials for JS001 including (i) ongoing clinical trials in the PRC; (ii) post-launch Phase III clinical trials in the PRC; (iii) additional clinical trials to be initiated in the PRC for additional indications and combination therapies; and (iv) Phase I clinical trial in the United States and to fund the commercial launch of JS001;
    - Approximately 16% of the net proceeds will be used for the R&D of our other drug candidates to fund clinical trials, including head-to-head clinical trials and post-approval studies. Specifically, it will be used to fund (i) Phase I and III clinical trials for UBP1211 in the PRC; (ii) Phase I, II and III clinical trials for JS002 in the PRC; (iii) Phase I, II and III clinical trials for UBP1213 in the PRC; and (iv) preclinical studies and clinical trials for our other drug candidates in the PRC;
    - Approximately 9% of the net proceeds will be used for the construction of our Lingang Production Base and our Wujiang Production Base;

# REPORT OF THE DIRECTORS

- Approximately 25% of the net proceeds will be used for our investment in and acquisition of companies in the pharmaceutical sector, in particular companies with strong R&D and/or commercialisation capabilities that are complementary to our Company. As of the date of this report, we have not identified any specific targets, or adopted a concrete timetable or expected capital expenditure plan to implement any acquisition, and we have not entered into any letter of intent or agreement in relation to any acquisition; and

- Approximately 10% of the net proceeds will be used for our working capital and other general corporate purposes.

As of 31 December 2018, due to the proximity in time between completion of the initial public offering and the year-end date, the net proceeds from the Global Offering had not been used. The proceeds are intended to be used in line with those discussed in the Prospectus.

## RESEARCH AND DEVELOPMENT ACTIVITIES OF CORE PRODUCT

JS001 (toripalimab, anti-PD-1 mAb)

The Group's Core Product, JS001, or toripalimab, is a recombinant humanized anti-PD-1 monoclonal antibody for injection addressing various malignant tumors. The Group optimized JS001 through various R&D steps, in particular the discovery and efficient identification of new molecular entities, the humanization of mouse antibodies, functional evaluation of antibody leads in vivo and the construction of productive and stable cell lines, all of which made JS001 an innovative drug with distinctive treatment advantages.

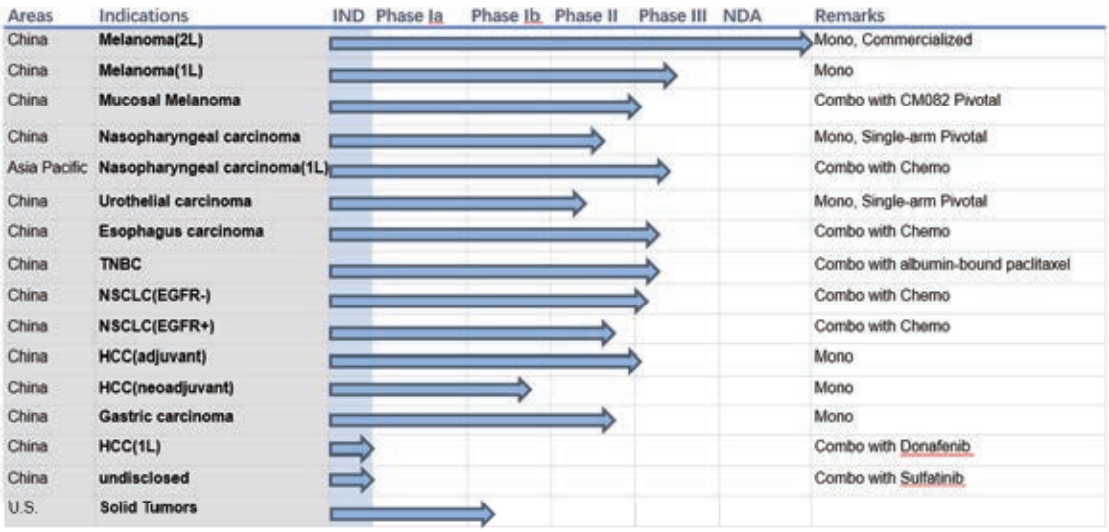
JS001 is the first anti-PD-1 monoclonal antibody developed by a PRC company to file Investigational New Drug ("IND") application and New Drug Application ("NDA") with the National Medical Products Administration of China ("NMPA"). The Group has commenced various clinical trials of JS001 for advanced oncological indications including, among others, malignant melanoma, urothelial cancer, gastric cancer, esophageal cancer, nasopharyngeal cancer, nonsmall cell lung cancer, breast cancer, neuroendocrine tumor, lymphoma and sarcoma. Some of these clinical trials had been completed as of the date of this annual report. In particular, the Group had completed the pivotal clinical trial for second-line metastatic melanoma for JS001, based on which the Group had filed NDA with the NMPA in March 2018. Such NDA has completed Center for Drug Evaluation under the NMPA technical review on 1 December 2018. On 17 December 2018, the NMPA conditionally granted approval for the NDA in respect of JS001. On 17 December 2018, the Group received the approval for drug registration ("Approval") and the new drug certificate in relation to Toripalimab Injection (brand name: 拓益(Tuoyi*)). Based on the Approval, according to Drug Administration Law of the PRC and relevant regulations, upon reviewed, JS001 fulfils the relevant requirements of drug registration. Approval for registration is accordingly granted, and JS001 is conditionally approved for market launch for second line treatment of unresectable local progression or metastatic melanoma. Phase III clinical trial shall be carried out subsequently. On 20 December 2018, the Group received the GMP certificate for JS001 from Jiangsu Drug Administration, which is valid through 19 December 2023.

JS001 has also received IND approval from the U.S. Food and Drug Administration and the Group started Phase I clinical trial in the United States for JS001 in March 2018.

# REPORT OF THE DIRECTORS

JS001 is the Group's most advanced product candidate and is currently in the commercial stage. The Group is cooperating with Key Opinion Leaders (KOLs) and Principal investigators (PIs) in a number of clinical trial centers in the PRC to conduct Phase II and Phase III clinical trials of JS001 for oncological indications including malignant melanoma, urothelial cancer, gastric cancer, esophageal cancer and nasopharyngeal cancer. As of the date of this annual report, JS001 was in the commercialization stage only for the second-line treatment of metastatic melanoma in the PRC, while the majority of JS001 clinical trials for other indications were in Phase I or Phase II stages.

The following charts sets out the R&D progress of the Group's Core Product as of the date of this annual report:




Further details of JS001 are also set out in "Management Discussion and Analysis" of this annual report.

**JS001 may not ultimately be successfully marketed**
During the Reporting Period, the Group incurred approximately RMB209.04 million on the R&D activities of JS001.

## PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The following are parts of the key risks and uncertainties identified by the Group:

### 1. Quality control risk of drugs

The quality and safety of drugs do not only concern the well-being of drug users, but also the overall attention of the general public. Under the influence of various factors, drugs are subject to quality control risks in all stages, including R&D, manufacturing, distribution and use. Therefore, risk controls are taken place throughout the entire process of drug development, manufacturing, distribution, and use. The Company will secure necessary resources, strengthen training in risk management, and improve various rules and regulations, so as to ensure strict compliance with the GMP standards and effective control over the quality risk of drugs.

# REPORT OF THE DIRECTORS

### 2. Risk of not making a profit in short run

One of the most prominent characteristics of the biopharmaceutical industry is a long profit cycle. Generally, a biopharmaceutical enterprise in R&D stage takes a longer time to make a profit. As an early-stage biopharmaceutical enterprise, the Company is under a period of making significant R&D investments. With the further supplement of product pipelines, as well as rapid advancement in domestic and international clinical trials for drug candidates, the Company will continue to make significant R&D investments. Our future profit will be dependent on the marketing progress of drug candidates, and the sales of marketed drugs. In addition, significant R&D investment, business promotion cost and operation cost create more uncertainties in making profits. Therefore, the Company is subject to the risk of not making a profit in short run.

The Company's first drug candidate, namely "Toripalimab", was officially granted the marketing approval by NMPA on 17 December 2018. The official launch of the first drug product will promptly improve the Company's financial position and enable the Company to turn losses into profits as soon as possible.

### 3. Risk of industry regulation and policies

In view of the further reform in the medical and health system and the establishment of the new National Medical Security Administration, as well as the implementation of a series of policies such as control in medical insurance fees, publication of the revised Essential Medicine List, consistency evaluation, reform in drug approval, compliance regulations, the commencement of centralized procurement of "4+7" drugs on a trial basis and "zero tariff" on imported drugs, encouragement of innovation and reduction in drug prices by pharmaceutical enterprises have become an inevitable trend, and the industry landscape is facing renovation. The Company will adapt to changes in external policies, and strive to increase R&D, in order to respond to challenges through innovation. The Company will also adhere to legal compliance by adapting its business activities to changes in regulatory policies, thereby preventing policy risks.

Since its establishment, the Company has embraced "innovation" as its core competence. Apart from a biosimilar product, our pipeline products are all new drugs. In the face of the aforesaid industry and policy risks, the Company will adapt to changes in external policies by continuous improvement in capabilities of innovation and sustainable development, increased R&D investments and accelerated clinical trials and launching of innovative drugs, in order to respond to challenges through innovation. On this basis, the Company will further expand its production capacity and reduce the unit cost of its products, so as to address the price reduction of drugs; meanwhile, the Company will also adhere to legal compliance by adapting its business activities to changes in regulatory policies, thereby preventing policy risks.

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period,

(i) the Group's largest supplier accounted for 11.48% (2017: 12.6%) of its total purchases, and the five largest suppliers accounted for 30.60% of its total purchases (2017: 37.6%); and

(ii) the Group's largest customer accounted for 33.08% (2017: 23.3%) of its total revenue and the Group's five largest customers accounted for 73.88% (2017: 62.3%) of its total revenue.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements.

## SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2018 are set out in note 37 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 30 to the consolidated financial statements.

As of 31 December 2018, 760,310,000 Shares were in issue (comprising 601,400,000 Domestic Shares and 158,910,000 H Shares). After the Relevant Period and as a result of the exercise of Over-allotment Option in respect of the Global Offering, as of 9 January 2019, 784,146,500 Shares were in issue (comprising 601,400,000 Domestic Shares and 182,746,500 H Shares). See also "- Subsequent Events" above, and the Prospectus for details of the Over-allotment Option.

The Company has issued the 2018 Convertible Bonds and has granted certain Pre-IPO Options (which may be satisfied by issue of new Domestic Shares or acquisition of existing Domestic Shares). See also "- 2018 Convertible Bonds" and "- Share Incentive" below.

## RESERVES

Details of movements in the reserves of the Group during the Reporting Period are set out in consolidated statement of changes in equity to the consolidated financial statement.

## DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company did not have any distributable reserves.

# REPORT OF THE DIRECTORS

## BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Group as at 31 December 2018 are set out in note 26 to the consolidated financial statements.

## 2018 CONVERTIBLE BONDS

On 23 February 2018, the Company issued the 2018 Convertible Bonds in a principal amount of RMB200 million to qualified investors at the issue price representing 100% of its face value (i.e. RMB200 million). The term of the 2018 Convertible Bonds is 6 years commencing from the issue date. The annual interest rate of the 2018 Convertible Bonds is 10.35%. The 2018 Convertible Bonds have been listed on the Shanghai Stock Exchange (code: 145951.SH). The 2018 Convertible Bonds may be converted into Domestic Shares after the end of six months from the issue date.

The initial conversion price of the 2018 Convertible Bonds was RMB25 per Domestic Share. The conversion price of the 2018 Convertible Bonds shall be adjusted upon occurrence of certain events, including distributions to shareholders, issue or placing of shares etc., which result in a change in the Company's share capital. As of 31 December 2018, RMB200 million of these 2018 Convertible Bonds were outstanding and convertible into 8,624,407 Domestic Shares at the conversion price of RMB23.19 per Domestic Share and were held by Shanghai Tanying Investment Partnership (LP)* (上海檀英投資合夥企業(有限合夥)). As of the date of this annual report, the conversion price of the 2018 Convertible Bonds is RMB23.00 per Share.

Please refer to the Prospectus for further details of the 2018 Convertible Bonds.

## SHARE INCENTIVES

The Company has established its share incentive scheme and entered into share incentive agreements to provide incentive to its management and employees. Set out below are details of the share incentive scheme and the share inventive agreements.

### Share Incentive Scheme

The Company's Share Incentive Scheme was adopted by the Shareholders on 14 May 2018. The purpose of the Share Incentive Scheme is to attract, retain and motivate the Group's employees, to align the interest of the Directors, the Supervisors, the senior management, the employees and the Shareholders of the Company and to strive for long-term mutual development of the Company. The following is a summary of the principal terms of the Share Incentive Scheme:

(a) The Directors, Supervisors, senior management and other employees of the Group are eligible to participate in the Share Incentive Scheme. Save and except for the Directors and the Shareholder representative Supervisors, all other grantees shall assume a position at, and have executed an employment contract with, a member of the Group. A person will cease to be eligible under the Share Incentive Scheme if he/she, among others, has materially breached the Company's management system, has caused substantial economic losses or material negative impact to the Company, was reprimanded publicly as an unsuitable person by the NEEQ in the recent three years, was subject to administrative penalties or other regulatory measures by the CSRC, the NEEQ and/or any other securities regulatory authorities in the recent three years, is unsuitable to be a director, supervisor or senior management pursuant to the PRC Company Law, has his/her employment contract terminated by reason of breach of the relevant laws or regulations or has resigned and other situation that are not appropriate to be encouraged by the relevant laws and regulations ("Events of Cessation of Eligibility");

# REPORT OF THE DIRECTORS

(b) the Share Incentive Scheme may be implemented, altered or terminated by resolution passed by the Shareholders in a general meeting. Subject to the approval of the Shareholders, the Board shall be responsible for administering and implementing the Share Incentive Scheme and the relevant matters;

(c) the effective period of the Share Incentive Scheme shall be determined by the Board;

(d) the Company may use any the following means to settle the Pre-IPO Options:

  (i) issuing Shares to the Grantee;

  (ii) issuing Shares to asset management plan, private equity fund and other qualified financial products, as may be subscribed by the Grantee;

  (iii) repurchasing the Shares; or

  (iv) other means as permitted by the relevant laws, rules and regulations; and

(e) details of the grant, including the number of Pre-IPO Options, the subscription price and the exercise price, shall be governed by share incentive agreements between the Company and the relevant Grantee.

Following the Listing, no further Pre-IPO Options will be granted by the Company under the Share Incentive Scheme.

**Share Incentive Agreements**

On 12 March 2018, the Company entered into Share Incentive Agreements with 268 Grantees pursuant to which the Company agreed to grant, in aggregate, 6,023,000 Pre-IPO Options to the Grantees. The Pre-IPO Options are subject to the Share Incentive Scheme. The following is a summary of the principal terms of the Share Incentive Agreements:

(a) the exercise price of the Pre-IPO Options shall be RMB9.2 per Share;

(b) the Pre-IPO Options shall be valid for three years from 12 March 2018, the Grantee may exercise its Pre-IPO Options in accordance with the following schedule: 25% of the total number of Pre-IPO Options granted shall be vested on the trading day following the end of the 12 months from 12 March 2018, 35% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 24 months from 12 March 2018 and 40% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 36 months from the 12 March 2018;

(c) the Grantee undertakes to remain in his/her position in the Group from the date of grant up to the date of exercise of the Pre-IPO Options. The Grantee further undertakes not to allow the Events of Cessation of Eligibility to occur.

# REPORT OF THE DIRECTORS

## Movement of Pre-IPO Options during the Relevant Period

As at 31 December 2018, 5,798,000 Pre-IPO Options were outstanding, entitling 255 Grantees to subscribe for an aggregate of 5,798,000 Domestic Shares (representing approximately 0.76% of the Company's issued share capital as at that date). Pre-IPO Options in respect of 225,000 Domestic Shares were granted to 13 Grantees who had already left the Group, thus a total of 225,000 Pre-IPO Options had lapsed following cessation of their employment.

Details of the movements of the Pre-IPO Options during the Reporting Period are as follows:

| | Number of Pre-IPO Options | | | | | | |
|---|---|---|---|---|---|---|---|
| Grantee | On 12 March 2018 [3] | Granted | Exercised | Cancelled | Lapsed | On 31 December 2018 | Exercised Period [1] |
| Liu Hongchuan (Supervisor, vice supervisor of quality research of Suzhou Junmeng) | 120,000 | – | – | – | – | 120,000 | 12 March 2019 – 11 March 2021 |
| Gao Yucai (Supervisor, senior researcher and deputy manager at Suzhou Junmeng) | 100,000 | – | – | – | – | 100,000 | 12 March 2019 – 11 March 2021 |
| Chen Yingge (Secretary of the Board and member of senior management of the Company) | 10,000 | – | – | – | – | 10,000 | 12 March 2019 – 11 March 2021 |
| Wang Shixu (Pre-clinical trial manager of Suzhou Junmeng)[2] | 50,000 | – | – | – | – | 50,000 | 12 March 2019 – 11 March 2021 |
| Other employees | 5,743,000 | – | – | – | 225,000 | 5,518,000 | 12 March 2019 – 11 March 2021 |
| **Total** | 6,023,000 | – | – | – | 225,000 | 5,798,000 | |

*Notes:*

1. 25% of the total number of Pre-IPO Options granted shall be vested on the trading day following the end of the 12 months from 12 March 2018, 35% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 24 months from 12 March 2018 and 40% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 36 months from 12 March 2018.

2. Wang Shixu is an associate of Mr. Wu Hai, an executive Director.

3. The consideration paid by each grantee for the Pre-IPO Options was nil.

# REPORT OF THE DIRECTORS

### Potential Dilution Effect

For the following financial year ending 31 December 2019, in the event that the Grantees exercise the Pre-IPO Options in full on the vesting date in the year ending 31 December 2019 and the Company elects to satisfy the Pre-IPO Options by issuing new Domestic Shares, the potential dilution effect on the Company's share capital will be as follows:

| As at | Number of Pre-IPO Options may be exercised by 31 December 2019 | Number of new Domestic Shares may be issued upon exercise of these Pre-IPO Options | Approximate percentage of issued share capital of the Company enlarged by issuing Domestic Shares upon exercise of such Pre-IPO Options |
|---|---|---|---|
| 31 December 2019 | 1,449,500 | 1,449,500 | 0.18% |

*Note:* Assuming that the registered capital of the Company remains unchanged, the Company does not issue any new Share (other than for the satisfaction of Pre-IPO Options and without taking into account the 2018 Convertible Bonds) or securities or right to subscribe for Shares, all Pre-IPO Options are satisfied by the Company by way of allotment of new Shares, none of the Grantees cease to be eligible under the Share Incentive Scheme and Share Incentive Agreements, and the terms of the Share Incentive Scheme and Share Incentive Agreements remain unchanged.

Further details of the Share Incentive Scheme and the Share Incentive Agreements are set out in the Prospectus.

## EQUITY-LINKED AGREEMENTS

Other than the Share Incentive Agreements and the 2018 Convertible Bonds, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

## DIRECTORS' AND SUPERVISORS' BIOGRAPHICAL DETAILS

The Directors and Supervisors of the Company during the Reporting Period and up to the date of this annual report were:

*Executive Directors*
Mr. Xiong Jun *(Chairman and Legal Representative)*
Dr. Li Ning *(Chief Executive Officer and General Manager) (appointed on 24 June 2018)*
Dr. Feng Hui
Mr. Zhang Zhuobing
Dr. Wu Hai
Dr. Yao Sheng

# REPORT OF THE DIRECTORS

*Non-executive Directors*
Mr. Tang Yi
Mr. Li Cong
Mr. Yi Qingqing
Mr. Lin Lijun *(appointed on 24 June 2018)*
Dr. Chen Bo *(resigned on 24 June 2018)*

*Independent Non-executive Directors*
Dr. Chen Lieping *(appointed on 24 June 2018)*
Dr. He Jia *(appointed on 24 June 2018)*
Mr. Chen Xinjun *(appointed on 24 June 2018)*
Mr. Qian Zhi *(appointed on 24 June 2018)*
Dr. Roy Steven Herbst *(appointed on 24 June 2018)*

*Supervisors*
Mr. Gao Yucai
Mr. Liu Hongchuan
Mr. Wu Yu *(appointed on 24 June 2018)*
Ms. Wang Pingping *(appointed on 24 June 2018)*
Mr. Yan Jiawei *(appointed on 24 June 2018 and resigned on 9 April 2019)*
Mr. Wang Miaoxin *(resigned on 26 April 2018)*

See "Directors, Supervisors and senior management" of this annual report for biographical details of Directors, Supervisors and Senior Management of the Company. Save as disclosed in that section, up to the date of this report, there were no changes to information which are required to be disclosed by Directors and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

## Service Agreement

Each of the Directors and Supervisors has entered into a service agreement with the Company on 3 December 2018 for a term of three years, which may be terminated by not less than three months' notice in writing served by either party to the other.

None of the Directors or the supervisors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Directors' and Supervisors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, none of the Directors, Supervisors or any of their respective associates was granted by the Company or its subsidiaries any right to acquire shares in, or debentures of, the Company or its subsidiary, or had exercised any such right during the Reporting Period.

# REPORT OF THE DIRECTORS

### Competing Interest and Other Interest

None of the Directors or the Supervisors or any entity connected with them has any material interest, either directly or indirectly, in any contract, transaction or arrangement of significance to the Group's business to which the Company, any of its holding companies, any of its subsidiaries, fellow subsidiaries was a party subsisted at the end of the year or at any time during the Reporting Period.

Except as disclosed in this annual report, during the Reporting Period, none of the Directors and their respective associates had an interest in a business which causes or may cause any significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

### Independence of Independent Non-executive Directors

The Company has received a confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent in accordance with rule 3.13 of the Listing Rules.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

## REMUNERATION POLICY

The remuneration committee of the Company (the "Remuneration Committee") was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

## REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in note 12 to the consolidated financial statements.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code were as follows:

# REPORT OF THE DIRECTORS

## Interests in the Company

| Name of Director/ Supervisor/chief executive | Nature of interests | Class of Shares | Number of Shares/ Underlying Shares [1] | Approximate percentage in relevant class of Shares (%) [1] | Approximate percentage in total share capital (%) [1] |
|---|---|---|---|---|---|
| Xiong Jun | Beneficial owner | Domestic Shares | 50,339,968 (L) | 8.37% | 6.62% |
| | Parties acting in concert/ Interest in controlled corporations[2] | Domestic Shares | 132,710,768 (L) | 22.07% | 17.45% |
| Feng Hui | Beneficial owner | Domestic Shares | 17,520,000 (L) | 2.91% | 2.30% |
| Li Cong | Beneficial owner | Domestic Shares | 3,657,600 (L) | 0.61% | 0.48% |
| Tang Yi | Beneficial owner | Domestic Shares | 10,366,000 (L) | 1.72% | 1.36% |
| | Interest in controlled corporations[3] | Domestic Shares | 176,137,736 (L) | 29.29% | 23.16% |
| Zhang Zhuobing | Interest of spouse/Interest in controlled corporation[4] | Domestic Shares | 17,537,376 (L) | 2.92% | 2.30% |
| Lin Lijun | Interest in controlled corporations[5] | Domestic Shares | 59,396,274 (L) | 9.87% | 7.81% |
| | Interest in controlled corporations[5] | H Shares | 37,189,000 (L) | 23.40% | 4.89% |
| Liu Hongchuan | Beneficial owner[6] | Domestic Shares | 120,000 (L) | 0.02% | 0.01% |
| Gao Yucai | Beneficial owner[6] | Domestic Shares | 100,000 (L) | 0.02% | 0.01% |

*Notes:*

1. As at 31 December 2018, the Company had 760,310,000 issued Shares, comprising 601,400,000 Domestic Shares and 158,910,000 H Shares.

2. Pursuant to (i) a concert party agreement dated 25 December 2017 entered into among Mr. Xiong Jun, Mr. Xiong Fengxiang, Suzhou Ruiyuan Shengben Biological Medicine Management Partnership (LP) ("Suzhou Ruiyuan"), Suzhou Benyu Tianyuan Biological Technology Partnership (LP)* ("Suzhou Benyu"), Shanghai Baoying Asset Management Co., Ltd.* ("Shanghai Baoying"), Meng Xiaojun, Gao Shufang, Zhuhai Huapu Investment Management Co., Ltd.* and Zhao Yun (the "2017 Concert Party Agreement"), Mr. Xiong Jun was deemed to be interested in an aggregate of 125,797,768 Domestic Shares held by the other parties to the 2017 Concert Party Agreement as at 31 December 2018 under the SFO (including the 58,560,000 Domestic Shares directly held by Mr. Xiong Fengxiang, the father of Mr. Xiong Jun); and (ii) a concert party agreement dated 26 February 2018 entered into between Mr. Xiong Jun and Gongqingcheng Juntuo Investment Management Partnership (LP)* (the "2018 Concert Party Agreement"), Mr. Xiong Jun was further deemed to be interested in 6,913,000 Domestic Shares held by the other party to the 2018 Concert Party Agreement as at 31 December 2018 under the SFO.

# REPORT OF THE DIRECTORS

As at 31 December 2018, Mr. Xiong Jun (i) was an executive director and was directly interested in 20% of the equity share capital of Shanghai Baoying, which directly held 4,372,144 Domestic Shares; Shanghai Baoying was also a party to the 2017 Concert Party Agreement; (ii) was the chairman of the board of directors and was directly interested in 40% of the equity share capital of Shenzhen Qianhai Yuanben Equity Investment Fund Management Co., Ltd.* ("Shenzhen Yuanben"), which was the general partner of each of Suzhou Benyu and Suzhou Ruiyuan, which in turn directly held 4,600,000 and 43,584,000 Domestic Shares, respectively, and were each a party to the 2017 Concert Party Agreement. Shenzhen Yuanben also held a limited partner interest of approximately 86.28% of Suzhou Benyu. Mr. Xiong Jun was deemed to be interested in an aggregate of such 52,556,144 Domestic Shares under the SFO.

3. As at 31 December 2018, Mr. Tang Yi directly held 10,366,000 Domestic Shares. Mr. Tang Yi was a director of and directly interested in 60% of the equity share capital of Shenzhen Yuanben, which was the general partner of each of Suzhou Benyu and Suzhou Ruiyuan. Shenzhen Yuanben also held a limited partner interest of approximately 86.28% of Suzhou Benyu. Therefore, he was deemed to be interested in Shares in which Suzhou Benyu and Suzhou Ruiyuan were interested (including Shares they are deemed to be interested in pursuant to the 2017 Concert Party Agreement) under the SFO.

4. As at 31 December 2018, Mr. Zhang Zhuobing's spouse, Ms. Liu Xiaoling, directly held 8,608,000 Domestic Shares. Also, he was directly interested in 50% of the equity share capital of Yongzhuo Boji (Shanghai) Biosciences Technology Co., Ltd. 永卓博濟(上海)生物醫藥技術有限公司, which directly held 8,929,376 Domestic Shares. Therefore, Mr. Zhang Zhuobing was deemed to be interested in an aggregate of 17,537,376 Domestic Shares under the SFO.

5. As at 31 December 2018, Shanghai Tanying Investment Partnership ("Shanghai Tanying") was directly interested in 59,396,274 Domestic Shares, including the 2018 Convertible Bonds which may be converted into 8,613,274 Domestic Shares based on the exercise price of RMB23.22 per Share at the relevant time. Mr. Lin Lijun was a director and wholly interested in Shanghai Shengge Asset Management Co., Ltd. ("Shanghai Shengge"), which was the general partner of Shanghai Tanying. Mr. Lin Lijun was also the general partner of Shanghai Shengdao Investment Partnership, which was the general partner of Shanghai Lejin Investment Partnership, which in turn held 99.99% interest in Shanghai Tanying. Therefore, Mr. Lin Lijun was deemed to be interested in the Shares in which Shanghai Tanying is interested under the SFO.

   Loyal Valley Capital Advantage Fund LP ("LVC Fund I"), Loyal Valley Capital Advantage Fund II LP ("LVC Fund II") and LVC Renaissance Fund LP ("LVC Renaissance Fund", together with LVC Fund I and LVC Fund II, the "LVC Funds")) directly held 10,106,000 H Shares, 12,127,000 H Shares and 14,956,000 H Shares, respectively. Loyal Valley Capital Advantage Fund GP Limited ("LVC Fund I GP") was the general partner of LVC Fund I, Loyal Valley Capital Advantage Fund II Limited ("LVC Fund II GP") was the general partner of LVC Fund II and LVC Renaissance Limited ("LVC Renaissance GP") was the general partner of LVC Renaissance Fund. Each of LVC Fund I GP, LVC Fund II GP and LVC Renaissance GP was wholly-owned by LVC Holdings Limited, which was wholly-owned by LVC Bytes Limited, which was in turn wholly-owned by Mr. Lin Lijun. Also, LVC Renaissance Fund was owned as to 25.33% by Golden Valley Global Limited, which was wholly-owned by Shanghai Lehong Investment Partnership ("Shanghai Lehong"). Shanghai Tanying (a controlled corporation of Mr. Lin Lijun) held 99.99% in and Shanghai Shengge (a corporation wholly-owned by Mr. Lin Lijun) was the general partner of Shanghai Lehong. Therefore, Mr. Lin Lijun was deemed to be interested in an aggregate of 37,189,000 H Shares held by the LVC Funds under the SFO.

6. Mr. Liu Hongchuan and Mr. Gao Yucai, Supervisors of the Company, were granted Pre-IPO Options under the Share Incentive Scheme and Share Incentive Agreements. As of 31 December 2018, none of their Pre-IPO Options have been exercised.

Save as disclosed above, as at 31 December 2018, none of the Directors, Supervisors and the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code.

# REPORT OF THE DIRECTORS

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

As at 31 December 2018, to the best knowledge of the Directors, the following persons/entities (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company and Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name of Shareholder | Nature of interests | Class of Shares | Number of Underlying Shares[1] | Approximate percentage in relevant class of Shares (%) [2] | Approximate percentage in total share capital (%)[2] |
|---|---|---|---|---|---|
| Xiong Fengxiang[3] | Beneficial owner | Domestic Shares | 58,560,000 (L) | 9.74% | 7.70% |
| | Parties acting in Concert | Domestic Shares | 117,577,736 (L) | 19.55% | 15.46% |
| Suzhou Ruiyuan Shengben Biological Medicine Management Partnership (LP)* | Beneficial owner | Domestic Shares | 43,584,000 (L) | 7.25% | 5.73% |
| 蘇州瑞源盛本生物醫藥管理合夥企業(有限合夥)[4] | Parties acting in Concert | Domestic Shares | 132,553,736 (L) | 22.04% | 17.43% |
| Suzhou Benyu Tianyuan Biological Technology Partnership (LP)* | Beneficial owner | Domestic Shares | 4,600,000 (L) | 0.76% | 0.60% |
| 蘇州本裕天源生物科技合夥企業(有限合夥)[4] | Parties acting in Concert | Domestic Shares | 171,537,736 (L) | 28.52% | 22.56% |
| Shanghai Baoying Asset Management Co., Ltd.* | Beneficial owner | Domestic Shares | 4,372,144 (L) | 0.73% | 0.57% |
| 上海寶盈資產管理有限公司[4] | Parties acting in Concert | Domestic Shares | 171,765,592 (L) | 28.56% | 22.59% |
| Meng Xiaojun | Beneficial owner | Domestic Shares | 4,288,400 (L) | 0.71% | 0.56% |
| 孟曉君[4] | Parties acting in Concert | Domestic Shares | 171,849,336 (L) | 28.57% | 22.60% |
| Gao Shufang | Beneficial owner | Domestic Shares | 3,789,720 (L) | 0.63% | 0.49% |
| 高淑芳[4] | Parties acting in Concert | Domestic Shares | 172,348,016 (L) | 28.66% | 22.66% |
| Zhuhai Huapu Investment Management Co., Ltd.* | Beneficial owner | Domestic Shares | 3,719,504 (L) | 0.62% | 0.49% |
| 珠海華樸投資管理有限公司[4] | Parties acting in Concert | Domestic Shares | 172,418,232 (L) | 28.67% | 22.67% |
| Zhao Yun | Beneficial owner | Domestic Shares | 2,884,000 (L) | 0.48% | 0.37% |
| 趙雲[4] | Parties acting in Concert | Domestic Shares | 173,253,736 (L) | 28.81% | 22.78% |
| Gongqingcheng Juntuo Investment Management Partnership (LP)* | Beneficial owner | Domestic Shares | 6,913,000 (L) | 1.15% | 0.90% |
| 共青城君拓投資管理合夥企業(有限合夥)[4] | Parties acting in Concert | Domestic Shares | 50,339,968 (L) | 8.37% | 6.62% |
| Zhuhai Gaoling Equity Investment Management Ltd.* | Investment manager | Domestic Shares | 30,750,000 (L) | 5.11% | 4.04% |
| 珠海高瓴股權投資管理有限公司 | | | | | |
| Shanghai Tanying Investment Partnership[5] | Beneficial owner | Domestic Shares | 59,396,274 (L) | 9.88% | 7.81% |

# REPORT OF THE DIRECTORS

| Name of Shareholder | Nature of interests | Class of Shares | Number of Underlying Shares[1] | Approximate percentage in relevant class of Shares (%) [2] | Approximate percentage in total share capital (%)[2] |
|---|---|---|---|---|---|
| Shanghai Shengge Asset Management Co., Ltd.[5] | Interest of controlled corporation | Domestic Shares | 59,396,274 (L) | 9.88% | 7.81% |
| Shanghai Lejin Investment Partnership[5] | Interest of controlled corporation | Domestic Shares | 59,396,274 (L) | 9.88% | 7.81% |
| Shanghai Shengdao Investment Partnership[5] | Interest of controlled corporation | Domestic Shares | 59,396,274 (L) | 9.88% | 7.81% |
| Gong Ruilin 龔瑞琳 | Interest of controlled corporation[5][7] | Domestic Shares | 59,396,274 (L) | 9.88% | 7.81% |
| | Interest of spouse[6][7] | H Shares | 37,189,000 (L) | 23.40% | 4.89% |
| Loyal Valley Capital Advantage Fund LP[6] | Beneficial owner | H Shares | 10,106,000 (L) | 6.36% | 1.32% |
| Loyal Valley Capital Advantage Fund GP Limited[6] | Interest of controlled corporation | H Shares | 10,106,000 (L) | 6.36% | 1.32% |
| Loyal Valley Capital Advantage Fund II LP[6][9] | Beneficial owner | H Shares | 12,127,000 (L) | 7.63% | 1.59% |
| Loyal Valley Capital Advantage Fund II Limited[6] | Interest of controlled corporation | H Shares | 12,127,000 (L) | 7.63% | 1.59% |
| LVC Renaissance Fund LP[6] | Beneficial owner | H Shares | 14,956,000 (L) | 9.41% | 1.96% |
| LVC Renaissance Limited[6] | Interest of controlled corporation | H Shares | 14,956,000 (L) | 9.41% | 1.96% |
| LVC Holdings Limited[6] | Interest of controlled corporation | H Shares | 37,189,000 (L) | 23.40% | 4.89% |
| LVC Bytes Limited[6] | Interest of controlled corporation | H Shares | 37,189,000 (L) | 23.40% | 4.89% |
| Sun Yongjian 孫勇堅[8] | Interest of controlled corporation | H Shares | 10,106,000 (L) | 6.36% | 1.32% |
| Eminent Azure Limited[8] | Interest of controlled corporation | H Shares | 10,106,000 (L) | 6.36% | 1.32% |
| Prosperous Wealth Global Limited[8] | Interest of controlled corporation | H Shares | 10,106,000 (L) | 6.36% | 1.32% |
| Highbury Investment Pte Ltd[9] | Beneficial owner | H Shares | 18,190,000 (L) | 11.45% | 2.39% |
| | Interest of controlled corporation | H Shares | 12,127,000 (L) | 7.63% | 1.59% |
| GIC (Ventures) Pte. Ltd.[9] | Interest of controlled corporation | H Shares | 30,317,000 (L) | 19.08% | 3.98% |

# REPORT OF THE DIRECTORS

| Name of Shareholder | Nature of interests | Class of Shares | Number of Underlying Shares[1] | Approximate percentage in relevant class of Shares (%) [2] | Approximate percentage in total share capital (%)[2] |
|---|---|---|---|---|---|
| GIC Special Investments Private Limited[9] | Interest of controlled corporation | H Shares | 30,317,000 (L) | 19.08% | 3.98% |
| GIC Private Limited[9] | Interest of controlled corporation | H Shares | 30,317,000 (L) | 19.08% | 3.98% |
| Beijing Dinglianxin Technology Development Co., Ltd.* 北京鼎聯鑫科技發展有限公司[10] | Beneficial owner | H Shares | 8,489,000 (L) | 5.34% | 1.11% |
| Zheng Huiqing 鄭慧卿[10] | Interest of controlled corporation | H Shares | 8,489,000 (L) | 5.34% | 1.11% |
| Zhang Yan 張研[10] | Interest of controlled corporation | H Shares | 8,489,000 (L) | 5.34% | 1.11% |
| Zhang Chen 張忱[10] | Interest of controlled corporation | H Shares | 8,489,000 (L) | 5.34% | 1.11% |
| Wang Shujun 王樹君 | Beneficial owner | H Shares | 13,339,000 (L) | 8.39% | 1.75% |
| Yu Jianwu 俞建午 | Beneficial owner | H Shares | 13,339,000 (L) | 8.39% | 1.75% |
| Gaoling Fund, L.P.[11] | Beneficial owner | H Shares | 10,715,000 (L) | 6.74% | 1.40% |
| Hillhouse Capital Advisors, Ltd.[11] | Investment manager | H Shares | 11,400,000 (L) | 7.17% | 1.49% |
| Oppenheimer Developing Markets Fund | Beneficial owner | H Shares | 15,407,000 (L) | 9.70% | 2.02% |
| JPMorgan Chase & Co. | Interest of controlled corporation | H Shares | 4,000 (L) | 0.0025% | 0.0005% |
| | Person having a security interest in shares | H Shares | 1,406,620 (L) | 0.89% | 0.18% |
| | Approved lending agent | H Shares | 15,456,444 (P) | 9.72% | 2.03% |
| China International Capital Corporation Hong Kong Securities Limited[12] | Underwriter | H Shares | 18,830,835 (L) | 11.85% | 2.47% |
| | | | 23,836,500 (S) | 15.00% | 3.13% |
| China International Capital Corporation (Hong Kong) Limited[12] | Interest of controlled corporation | H Shares | 18,998,835 (L) | 11.96% | 2.49% |
| | | | 24,004,500 (S) | 15.11% | 3.15% |
| China International Capital Corporation Limited[12] | Interest of controlled corporation | H Shares | 19,222,835 (L) | 12.10% | 2.52% |
| | | | 24,228,500 (S) | 15.25% | 3.18% |

# REPORT OF THE DIRECTORS

*Notes:*

1. The letter "L" denotes the long position in the Shares, the letter "S" denotes short position in the Shares and the letter "P" denotes lending pool.

2. As at 31 December 2018, the Company had an issued share capital of 760,310,000 Shares, comprising 601,400,000 Domestic Shares and 158,910,000 H Shares.

3. As at 31 December 2018, Mr. Xiong Fengxiang directly held 58,560,000 Domestic Shares. Pursuant to the 2017 Concert Party Agreement, Mr. Xiong Fengxiang was deemed to be interested in an aggregate of 117,577,736 Domestic Shares held by the other parties to the 2017 Concert Party Agreement under the SFO (including the 50,339,968 Domestic Shares directly held by Mr. Xiong Jun, son of Mr. Xiong Fengxiang).

4. Each of them is a party to the 2017 Concert Party Agreement or the 2018 Concert Party Agreement, and was therefore deemed to be interested in the Domestic Shares held by the other parties to the respective Concert Party Agreements under the SFO.

5. As at 31 December 2018, Shanghai Tanying Investment Partnership ("Shanghai Tanying") was directly interested in 59,396,274 Domestic Shares, including the 2018 Convertible Bonds which may be converted into 8,613,274 Domestic Shares based on the exercise price of RMB23.22 per Share. Shanghai Shengge Asset Management Co., Ltd. ("Shanghai Shengge") was the general partner of Shanghai Tanying. Shanghai Shengdao Investment Partnership ("Shanghai Shengdao") was the general partner of Shanghai Lejin Investment Partnership ("Shanghai Lejin"), which in turn held 99.99% interest in Shanghai Tanying. Therefore, each of Shanghai Shengge, Shanghai Shengdao and Shanghai Lejin was deemed to be interested in the 59,396,274 Domestic Shares held by Shanghai Tanying under the SFO.

6. As at 31 December 2018, Loyal Valley Capital Advantage Fund LP ("LVC Fund I"), Loyal Valley Capital Advantage Fund II LP ("LVC Fund II") and LVC Renaissance Fund LP ("LVC Renaissance Fund", together with LVC Fund I and LVC Fund II, the "LVC Funds")) directly held 10,106,000 H Shares, 12,127,000 H Shares and 14,956,000 H Shares, respectively. Loyal Valley Capital Advantage Fund GP Limited ("LVC Fund I GP") was the general partner of LVC Fund I and was deemed to be interested in the H Shares held by it. Loyal Valley Capital Advantage Fund II Limited ("LVC Fund II GP") was the general partner of LVC Fund II and was deemed to be interested in the H Shares held by it. LVC Renaissance Limited ("LVC Renaissance GP") was the general partner of LVC Renaissance Fund and was deemed to be interested in the H Shares held by it. Each of LVC Fund I GP, LVC Fund II GP and LVC Renaissance GP was wholly-owned by LVC Holdings Limited, which was wholly-owned by LVC Bytes Limited. Therefore, each of LVC Holdings Limited and LVC Bytes Limited was deemed to be interested in the aggregate Shares held by the LVC Funds under the SFO.

7. Ms. Gong Ruilin is the spouse of Mr. Lin Lijun and was therefore deemed to be interested in the Shares in which he was interested under the SFO.

8. As at 31 December 2018, Sun Yongjian wholly-owned Eminent Azure Limited, which wholly-owned Prosperous Wealth Global Limited, which held 33.34% interest in LVC Fund I. Each of them was therefore deemed to be interested in the 10,106,000 H Shares held by LVC Fund I under the SFO.

9. As at 31 December 2018, Highbury Investment Pte Ltd ("Highbury") directly held 18,190,000 H Shares. Highbury also held 90.90% interest in LVC Fund II and was deemed to be interested in the 12,127,000 H Shares held by LVC Fund II. Highbury was wholly-owned by GIC (Ventures) Pte. Ltd. ("GIC Ventures"), which was wholly-owned by GIC Special Investments Private Limited ("GIC SIPL"), which was in turn wholly-owned by GIC Private Limited ("GIC Private"). Therefore, each of GIC Ventures, GIC SIPL and GIC Private was interested in the Shares in which Highbury was interested under the SFO.

# REPORT OF THE DIRECTORS

10. As at 31 December 2018, Zheng Huiqing, Zhang Yan and Zhang Chen each held one-third of the interest in Beijing Dinglianxin Technology Development Co., Ltd.* ("Beijing Dinglianxin") and was therefore deemed to be interested in the 8,489,000 H Shares held by Beijing Dinglianxin under the SFO.

11. As at 31 December 2018, Hillhouse Capital Advisors, Ltd. controlled Gaoling Fund, L.P. and YHG Investment, L.P. and iwas therefore deemed to be interested in the 10,715,000 H Shares and 685,000 H Shares held by Gaoling Fund, L.P. and YHG Investment, L.P., respectively under the SFO.

12. As at 31 December 2018, China International Capital Corporation Limited ("CICC") wholly-owned China International Capital Corporation (Hong Kong) Limited ("CICC (HK)"), which wholly-owned China International Capital Corporation Hong Kong Securities Limited ("CICC Securities"). CICC (HK) also wholly-owned CICC Financial Holdings Limited, which in turn wholly-owned CICC Financial Trading Limited ("CICC Financial Trading"). Therefore, CICC and CICC (HK) were deemed to be interested in the Shares in which CICC Securities and CICC Financial Trading are interested under the SFO.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in this annual report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## CONTINUING CONNECTED TRANSACTION

### Technical Development Services from Beijing Zhengdan and Its Associates

| | |
|---|---|
| Party and connected relationship | Beijing Zhengdan held 40% of the equity interest in Beijing Junkejingde, a 60%-owned subsidiary of the Company. Beijing Zhengdan is a substantial shareholder of Beijing Junkejingde and thus a connected person of the Company at the subsidiary level. |
| The framework agreement | Pursuant to a technical development engagement framework agreement (the "Framework Agreement") dated 4 December 2018 between the Company and Beijing Zhengdan, the Company (together with its subsidiaries) may engage Beijing Zhengdan and/or its associates to provide pharmaceutical research and technical development services, including conducting analysis for biological samples from clinical trials, and from non-clinical trials (including formation of methodology, verification, filter, tests, preparation of reports, sample treatment and related tasks), conducting stability tests, keeping of samples and files, and other services relating to drug studies and technical services. The Framework Agreement commenced from 24 December 2018 (the listing date) and expires on 31 December 2020. |

# REPORT OF THE DIRECTORS

| | |
|---|---|
| Pricing policy | The fee to be paid by the Group under the Framework Agreement is determined based on parties arm's length negotiations. Factors taken into account include the scope, complexity and nature of research and services sought by the Group, sampling and number of researches and tests to be performed, and the fee is determined with reference to pricing terms determined after due consideration of prevailing market rates from independent third parties for comparable pharmaceutical research and technical development services. The fee for certain frequently adopted services have been agreed in the Framework Agreement. If there is any deviation or additional services demanded by the Group which is not listed in the price list, its price and terms shall be determined with reference to the quotation for identical or similar services contemporaneously from at least two other service providers who are independent third parties so as to confirm that such price and terms to be determined shall be fair and reasonable, and comparable to (or better than) those offered by independent third parties.<br><br>The Group enters into separate individual agreements with Beijing Zhengdan and/or its associates with respect to its individual service request. |
| Annual cap for 2018 | RMB16 million |
| Actual transaction amount for 2018 | Approximately RMB10.34 million |
| Listing Rules implications and Hong Kong Stock Exchange waiver | Beijing Zhengdan is a connected person of the Group at the subsidiary level. The Board has approved the Framework Agreement with all independent non-executive Directors confirmed its terms are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. Pursuant to Rule 14A.101 of the Listing Rules, the transaction under the Framework Agreement is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.<br><br>Pursuant to Rule 14A.105 of the Listing Rules, the Company has applied for, and Hong Kong Stock Exchange has granted to the Company, a waiver from strict compliance with the announcement requirement in respect of the above non-exempt continuing connected transaction. Such waiver will expire on 31 December 2020. |

# REPORT OF THE DIRECTORS

Pursuant to Rule 14A.55 of the Listing Rules, the Company's independent non-executive Directors have reviewed the above continuing connected transaction and confirmed that such transaction has been entered into (i) in the Group's ordinary and usual course of business; (ii) on normal commercial terms or better; and (iii) according to the agreement governing the transaction on terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's auditor was engaged to report on the above continuing connected transaction. For the purpose of Rule 14A.56 of the Listing Rules, the Company's auditor has provided a letter to the Board confirming that nothing has come to their attention to cause them to believe that the continuing connected transaction:

(i) has not been approved by the Board;

(ii) was not entered into, in all materiel respects, in accordance with the agreement governing the transaction; and

(iii) has exceeded the relevant annual cap as set by the Company.

A copy of the auditor's letter has been submitted by the Company to Hong Kong Stock Exchange.

Further details of the above transaction are set out in note 36 to the consolidated financial statements of this annual report and in the Prospectus.

## RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with "related parties" as defined under applicable accounting standards. Related party transactions are disclosed in note 36 to the Consolidated Financial Statements. They include the following connected transactions under the Listing Rules:

| | |
|---|---|
| Our transactions with Beijing Zhengdan and/or its associates, as described in note 36 to the Consolidated Financial Statements | See also "– Continuing Connected Transaction" above |
| Compensation to the Group's directors and supervisors in note 36 to the Consolidated Financial Statements | They are exempted under Rule 14A.76 or 14A.95 of the Listing Rules |

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (if applicable) in respect of the above related party transactions.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the PRC that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

# REPORT OF THE DIRECTORS

## TAX RELIEF AND EXEMPTION (H SHAREHOLDERS)

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得税法》) and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For an individual who has no domicile in the PRC and is not resident in the territory of the PRC or who has no domicile in the PRC and has been resident in the territory of the PRC for less than 183 days cumulatively within a tax year, his/her receipt of dividends from a PRC company is normally subject to a PRC withholding tax of 20% unless specifically exempted or reduced by an applicable tax treaty and other tax laws and regulations.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Holders of H Shares who are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函[2008]897號)), a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards to holders of H Shares who are overseas non-resident enterprises, shall withhold the enterprise income tax at a flat rate of 10%.

The Company did not have any distributable profit in 2018. The Company did not pay any dividend. Accordingly, the shareholders of the Company (including the holders of H Shares) are not subject to income tax.

## COMPANY'S COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group is able to comply with relevant requirements of laws, regulations, rules and provisions of the Companies Ordinance, the Listing Rules and SFO in Hong Kong, the PRC Company Law in the PRC, the Drug Administration Law (《藥品管理法》), the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》), the Measures for the Supervision over and Administration of Pharmaceutical Production (《藥品生產監督管理辦法》) etc., including information disclosure, corporate governance and standard industry operation, etc.

## NEEQ NON-COMPETITION UNDERTAKING

Mr. Xiong Jun and Mr. Xiong Fengxiang entered into the NEEQ Non-Competition Undertaking, pursuant to which they undertook that they would not, and would procure that their controlled corporations would not, directly or indirectly, engage in any business which are or may potentially be in competition with the business carried on or contemplated to be carried on by the Company or any members of the Group.

The Company has received confirmations from Mr. Xiong Jun and Mr. Xiong Fengxiang confirming their compliance with the NEEQ Non-Competition Undertaking during the Reporting Period.

## PERMITTED INDEMNITY PROVISION

As at the date of this report, all Directors of the Company were covered under the liability insurance purchased by the Company for its Directors.

# REPORT OF THE DIRECTORS

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry with each of the Directors, all the Directors confirmed that they had complied with such code of conduct throughout the Reporting Period.

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. As at the date of this report, the Board comprises six executive Directors, four non-executive Directors and five independent non-executive Directors. The Board has adopted the Code Provisions as its corporate governance code. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 34 to 47 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has applied for, and Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules that the minimum public float be reduced and the minimum percentage of the H Shares from time to time held by the public to be the highest of:

(a) 16%;

(b) such percentage of H Shares to be held by the public immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised); or

(c) such percentage of H Shares to be held by the public after the exercise of the Over-allotment Option,

but the percentage of minimum public float so decided above shall be reduced as a result of any increase in the Company's issued share capital following any issue of Domestic Shares by the Company upon exercise of any Pre-IPO Options and/or the 2018 Convertible Bonds, provided that (i) the market capitalization of the portion of the total number of the Company's issued shares held by the public shall exceed HK$375 million at the time of Listing pursuant to Rule 18A.07 of the Listing Rules and (ii) the minimum percentage of public float from time to time shall not be lower than 15.71% of the Company's issued share capital.

Further details of the waiver are set out in the Prospectus.

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors confirmed that the Company has maintained the required public float under the above public float waiver granted by Hong Kong Stock Exchange.

# REPORT OF THE DIRECTORS

## FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last three financial years (prepared in accordance with IFRS) are set out on page 2 of this annual report. This summary does not form part of the audited consolidated financial statements.

## AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") consists of two independent non-executive Directors being Mr. Chen Xinjun (Chairman) and Mr. Qian Zhi and one non-executive Director being Mr. Li Cong. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group and overseeing the audit process.

The Audit Committee has reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2018.

## AUDITOR

The financial statements for the year ended 31 December 2018 has been audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu shall retire in the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company and to authorise the Directors to fix its remuneration will be proposed at the forthcoming AGM.

## CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES

The register of members of H shares of the Company will be closed from Monday, 15 April 2019 to Wednesday, 15 May 2019, both days inclusive, during which period no transfer of H shares will be registered, in order to determine the holders of the H Shares of the Company who are entitled to attend and vote at the forthcoming AGM to be held on Wednesday, 15 May 2019. In order to be eligible to attend and vote at AGM, all transfers of the H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's H Share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 12 April 2019 (Hong Kong time, being the last share registration date).

All references above to other sections, reports or notes in this annual report form part of this report.

By order of the Board of
**Shanghai Junshi Biosciences Co., Ltd.***
**Mr. Xiong Jun**
*Chairman*

29 March 2019

* *For identification purpose only*

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE SHAREHOLDERS OF SHANGHAI JUNSHI BIOSCIENCES CO., LTD.***
**上海君實生物醫藥科技股份有限公司**
*(incorporated in the People's Republic of China with limited liability)*

## OPINION

We have audited the consolidated financial statements of 上海君實生物醫藥科技股份有限公司 Shanghai Junshi Biosciences Co., Ltd.* (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 109 to 194, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

* *For identification purpose only*

# INDEPENDENT AUDITOR'S REPORT

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Cut-off of research and development expenses**<br><br>The Group incurred significant research and development ("R&D") expenses of RMB538,183,000 as disclosed in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2018. In addition, R&D expenses of RMB81,049,000 were accrued as at December 31, 2018 as set out in note 24 to the consolidated financial statements. A large portion of these R&D expenses were service fees paid to outsourced service providers including contract research organisations and clinical trial sites (collectively referred to as the "Outsourced Service Providers").<br><br>We identified the cut-off of R&D expenses as a key audit matter due to its significant amount and risk of not accruing R&D costs incurred for services provided by the Outsourced Service Providers in the appropriate reporting period. | Our procedures in relation to the cut-off of R&D expenses included:<br><br>• Obtaining an understanding of key controls, management's basis and assessment in relation to the accrual process of the R&D expenses including service fees paid to Outsourced Service Providers;<br><br>• For the service fees paid to contract research organisations, reading the key terms set out in research agreements and evaluating the completion status with reference to the progress reported by the representatives of the relevant contract research organisations, on a sample basis, to determine whether the service fees were recorded based on the respective contract sums, progress and/or the milestones achieved; and<br><br>• For the service fees paid to clinical trial centres, testing the accrual of the clinical trial related costs, on a sample basis, against to the clinical trial data and terms of services. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

# INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Sze On Tat.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
March 29, 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

| | Notes | Year ended December 31, 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | **934** | 1,148 |
| Cost of services | | **(267)** | (446) |
| Gross profit | | **667** | 702 |
| Other income | 6 | **8,387** | 52,342 |
| Other gains and losses | 7 | **(32,641)** | (24,599) |
| Impairment loss, net of reversal in respect of trade and other receivables | | **(638)** | (165) |
| Research and development expenses | | **(538,183)** | (275,303) |
| Selling and distribution expenses | | **(20,304)** | – |
| Administrative expenses | | **(124,837)** | (73,752) |
| Share of (loss) profit of a joint venture | | **(4)** | 31 |
| Other operating expenses | | **(6,097)** | – |
| Finance costs | 8 | **(4,063)** | – |
| Loss before tax | 9 | **(717,713)** | (320,744) |
| Income tax credit (expense) | 10 | **1,213** | (58) |
| Loss for the year from continuing operations | | **(716,500)** | (320,802) |
| **Discontinued operations** | | | |
| Profit (loss) for the year from discontinued operations | 31 | **147** | (269) |
| Loss for the year | | **(716,353)** | (321,071) |
| **Other comprehensive income (expense) for the year** | | | |
| *Item that will not be reclassified to profit or loss:* | | | |
| Fair value loss on financial liability designated at fair value through profit or loss ("FVTPL") attributable to change in credit risk | | **(9,367)** | – |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange difference arising on translation of foreign operations | | **10,638** | (5,480) |
| Fair value gain (loss) on investments in debt instrument measured at fair value through other comprehensive income ("FVTOCI") | | **227** | (364) |
| Reclassification to profit or loss upon disposal of investments measured at FVTOCI | | **262** | – |
| Other comprehensive income (expense) for the year | | **1,760** | (5,844) |
| Total comprehensive expense for the year | | **(714,593)** | (326,915) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

| | Note | Year ended December 31, 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **(Loss) profit for the year attributable to owners of the company:** | | | |
| – from continuing operations | | **(716,503)** | (320,683) |
| – from discontinued operations | | **89** | (161) |
| Loss for the year attributable to owners of the Company | | **(716,414)** | (320,844) |
| **Profit (loss) for the year attributable to non-controlling interests:** | | | |
| – from continuing operations | | **3** | (119) |
| – from discontinued operations | | **58** | (108) |
| Profit (loss) for the year attributable to non-controlling interests | | **61** | (227) |
| | | **(716,353)** | (321,071) |
| **Total comprehensive expense for the year attributable to:** | | | |
| Owners of the Company | | **(714,654)** | (326,688) |
| Non-controlling interests | | **61** | (227) |
| | | **(714,593)** | (326,915) |
| **Loss per share** | *11* | | |
| From continuing and discontinued operations | | | |
| Basic (RMB yuan) | | **(1.19)** | (0.55) |
| Diluted (RMB yuan) | | **(1.19)** | N/A |
| From continuing operations | | | |
| Basic (RMB yuan) | | **(1.19)** | (0.55) |
| Diluted (RMB yuan) | | **(1.19)** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

| | Notes | At December 31, 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **939,341** | 359,626 |
| Prepaid lease payments | 15 | **74,408** | 69,553 |
| Goodwill | 16 | **–** | 1,519 |
| Other intangible assets | 17 | **1,455** | 266 |
| Interest in a joint venture | 18 | **1,027** | 1,031 |
| Deferred tax assets | 29 | **1,288** | 139 |
| Other assets, prepayments and other receivables | 21 | **311,607** | 272,246 |
| Other financial assets | 22 | **18,000** | – |
| Debt instrument measured at FVTOCI | 22 | **–** | 4,323 |
| | | **1,347,126** | 708,703 |
| **Current assets** | | | |
| Inventories | 19 | **48,468** | 30,603 |
| Trade receivables | 20 | **–** | 220 |
| Other assets, prepayments and other receivables | 21 | **92,630** | 39,490 |
| Other financial assets | 22 | **5,516** | 147,434 |
| Pledged bank deposits | 23 | **–** | 26,961 |
| Bank balances and cash | 23 | **2,763,570** | 266,298 |
| | | **2,910,184** | 511,006 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **291,322** | 41,499 |
| Contract liabilities | 25 | **1,111** | 646 |
| Borrowings | 26 | **178,632** | – |
| Tax payables | | **–** | 381 |
| Other financial liabilities | 22 | **–** | 16,034 |
| | | **471,065** | 58,560 |
| **Net current assets** | | **2,439,119** | 452,446 |
| **Total assets less current liabilities** | | **3,786,245** | 1,161,149 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

| | | At December 31, | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | **RMB'000** | RMB'000 |
| **Non-current liabilities** | | | |
| Borrowings | *26* | **150,000** | – |
| Contract liabilities | *25* | **28,302** | – |
| Convertible loan notes | *27* | **241,763** | – |
| Deferred income | *28* | **45,047** | 41,815 |
| | | **465,112** | 41,815 |
| **Net assets** | | **3,321,133** | 1,119,334 |
| **Capital and reserves** | | | |
| Share capital | *30* | **760,310** | 584,750 |
| Reserves | | **2,561,936** | 535,758 |
| Equity attributable to owners of the Company | | **3,322,246** | 1,120,508 |
| Non-controlling interests | | **(1,113)** | (1,174) |
| **Total equity** | | **3,321,133** | 1,119,334 |

The consolidated financial statements on pages 109 to 194 were approved and authorised for issue by the Board of Directors on March 29, 2019 and are signed on its behalf by:

**Xiong Jun**
*Director*

**Li Ning**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Share option reserve RMB'000 | Financial liability designated at FVTPL credit risk reserve RMB'000 *(Note)* | Investment revaluation reserve RMB'000 | Translation reserve RMB'000 | Accumulated losses RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At January 1, 2017 | 550,000 | 771,523 | – | – | (125) | 4,199 | (198,035) | 1,127,562 | (947) | 1,126,615 |
| Loss for the year | – | – | – | – | – | – | (320,844) | (320,844) | (227) | (321,071) |
| Exchange difference on translating foreign operations | – | – | – | – | – | (5,480) | – | (5,480) | – | (5,480) |
| Fair value loss on investments in debt instrument measured at FVTOCI | – | – | – | – | (364) | – | – | (364) | – | (364) |
| Total comprehensive expense for the year | – | – | – | – | (364) | (5,480) | (320,844) | (326,688) | (227) | (326,915) |
| Ordinary shares issued | 34,750 | 284,950 | – | – | – | – | – | 319,700 | – | 319,700 |
| Transaction costs attributable to issue of new domestic ordinary shares | – | (66) | – | – | – | – | – | (66) | – | (66) |
| At December 31, 2017 | 584,750 | 1,056,407 | – | – | (489) | (1,281) | (518,879) | 1,120,508 | (1,174) | 1,119,334 |
| Loss for the year | – | – | – | – | – | – | (716,414) | (716,414) | 61 | (716,353) |
| Exchange difference on translating foreign operations | – | – | – | – | – | 10,638 | – | 10,638 | – | 10,638 |
| Fair value loss on financial liability designated at FVTPL attributable to changes in credit risk | – | – | – | (9,367) | – | – | – | (9,367) | – | (9,367) |
| Fair value gain on investments in debt instrument measured at FVTOCI | – | – | – | – | 227 | – | – | 227 | – | 227 |
| Reclassification to profit or loss upon disposal of investments measured at FVTOCI | – | – | – | – | 262 | – | – | 262 | – | 262 |
| Total comprehensive income (expense) for the year | – | – | – | (9,367) | 489 | 10,638 | (716,414) | (714,654) | 61 | (714,593) |
| Ordinary shares issued | **16,650** | **283,050** | **–** | **–** | **–** | **–** | **–** | **299,700** | **–** | **299,700** |
| Transaction costs attributable to issue of new domestic ordinary shares | **–** | **(1,745)** | **–** | **–** | **–** | **–** | **–** | **(1,745)** | **–** | **(1,745)** |
| Recognition of equity settled share-based payment expenses | **–** | **–** | **21,700** | **–** | **–** | **–** | **–** | **21,700** | **–** | **21,700** |
| H shares issued upon initial public offering | **158,910** | **2,554,284** | **–** | **–** | **–** | **–** | **–** | **2,713,194** | **–** | **2,713,194** |
| Transaction costs attributable to issue of H shares | **–** | **(116,457)** | **–** | **–** | **–** | **–** | **–** | **(116,457)** | **–** | **(116,457)** |
| At December 31, 2018 | **760,310** | **3,775,539** | **21,700** | **(9,367)** | **–** | **9,357** | **(1,235,293)** | **3,322,246** | **(1,113)** | **3,321,133** |

*Note:* Financial liability designated at FVTPL credit risk reserve represents the amount of change in fair value of convertible loan notes issued by the Company which is classified as financial liability designated at FVTPL under IFRS 9, which is attributable to changes in credit risk of the Company.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| OPERATING ACTIVITIES | | |
| Loss before tax | | |
| – continuing operations | **(717,713)** | (320,744) |
| – discontinued operations | **147** | (269) |
| | **(717,566)** | (321,013) |
| Adjustments for: | | |
| Bank and time deposit interest income | **(3,756)** | (2,308) |
| Income received from a partner of a joint operation | **–** | (36,571) |
| Finance costs | **4,063** | – |
| Government grants income | **(4,631)** | (2,597) |
| Net exchange losses | **14,275** | – |
| Net losses from changes in fair value of financial instruments designated as at FVTPL and investment income from debt investment | **2,085** | 24,599 |
| Net losses from changes in fair value of convertible loan notes | **15,374** | – |
| Depreciation of property, plant and equipment | **29,932** | 14,723 |
| Amortisation of prepaid lease payments | **130** | 3,563 |
| Amortisation of other intangible assets | **144** | 33 |
| Impairment loss recognised on trade and other receivables | **654** | 165 |
| Impairment loss reversal on trade receivables | – | (14) |
| Loss on disposal of property, plant and equipment | **907** | – |
| Gains on disposal of a subsidiary | **(441)** | – |
| Share-based payment expenses | **21,700** | – |
| Share of loss (profit) of a joint venture | **4** | (31) |
| Operating cash flows before movements in working capital | **(637,126)** | (319,451) |
| Increase in inventories | **(18,963)** | (23,517) |
| Increase in trade and other receivables | **(45,550)** | (36,679) |
| Increase in trade and other payables | **153,781** | 17,606 |
| Increase in contract liabilities | **29,554** | 80 |
| Increase in deferred income | **7,863** | 14,942 |
| Cash used in operations | **(510,441)** | (347,019) |
| Income tax paid | **(317)** | (57) |
| NET CASH USED IN OPERATING ACTIVITIES | **(510,758)** | (347,076) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

| | Note | Year ended December 31, 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Interest received | | **3,756** | 2,308 |
| Payments for property, plant and equipment | | **(546,196)** | (263,721) |
| Payments for prepaid lease payments | | **(8,480)** | (69,906) |
| Payments for other intangible assets | | **(2,695)** | (299) |
| Deposits refunded for leasehold interest in land | | **–** | 8,159 |
| Placement of pledged deposits | | **(9,739)** | (29,986) |
| Withdraw of pledged deposits | | **36,700** | 44,285 |
| Net cash inflow on disposal a subsidiary | *31* | **1,254** | – |
| Acquisition of other financial assets | | **(403,500)** | (1,176,000) |
| Disposal of other financial assets | | **509,220** | 1,610,346 |
| Interest income from debt instrument measured at FVTOCI | | **341** | 341 |
| Disposal of debt instrument measured at FVTOCI | | **4,550** | – |
| Repayment from a partner of a joint operation | | **10,953** | – |
| Advance to a partner of a joint operation | | **(17,145)** | (794) |
| Reimbursement from a partner of a joint operation for shared research and development expenses | | **–** | 36,571 |
| Receipt of government grants | | **–** | 26,408 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | **(420,981)** | 187,712 |
| FINANCING ACTIVITIES | | | |
| Proceeds on issue of convertible loan notes | | **200,000** | – |
| Payments for transaction costs for the issue of convertible loan notes | | **(1,981)** | – |
| Proceeds on issue of domestic ordinary shares | | **299,700** | 319,700 |
| Proceeds on issue of new H Shares | | **2,713,194** | – |
| Payments for transaction costs for the issue of new domestic ordinary shares | | **(1,745)** | (66) |
| Payments for transaction costs for the issue of new H Shares | | **(102,042)** | – |
| New borrowings raised | | **434,132** | – |
| Repayments of borrowings | | **(106,000)** | – |
| Interest paid | | **(2,656)** | – |
| NET CASH FROM FINANCING ACTIVITIES | | **3,432,602** | 319,634 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **2,500,863** | 160,270 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **266,298** | 111,387 |
| Effect of foreign exchange rate changes | | **(3,591)** | (5,359) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | **2,763,570** | 266,298 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 1. GENERAL

Shanghai Junshi Biosciences Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") on December 27, 2012 and converted into a joint stock company with limited liability in May 2015. In August 2015, the Company was listed on the National Equities Exchange and Quotations ("NEEQ") (stock code 833330). On December 24, 2018, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate controlling party is Mr. Jun XIONG, who is also the chairman and executive director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Company and its subsidiaries (the "Group") are mainly discovery, development and commercialisation of innovative drugs. During the year ended December 31, 2018, the Group disposed of its sale of biological reagent segment as disclosed in Note 31.

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has consistently applied all the new and revised IFRSs issued by the International Accounting Standards Board (the "IASB") that are effective for the Group's accounting period beginning on January 1, 2018 for the years ended December 31, 2018 and 2017.

The Group has also applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, January 1, 2019, for the years ended December 31, 2018 and 2017.

### New and amendments to IFRSs in issue but not effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but not yet effective:

| | |
|---|---|
| IFRS 16 | Leases[1] |
| IFRS 17 | Insurance Contracts[3] |
| IFRIC - Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to IFRS 3 | Definition of a Business[4] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to IAS 1 and IAS 8 | Definition of Material[5] |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to IAS 28 | Long-term Interests in Associates Joint Ventures[1] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015 – 2017 Cycle[1] |

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January, 1 2020
5 Effective for annual periods beginning on or after January 1, 2020

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS") (Continued)

**New and amendments to IFRSs in issue but not effective** (Continued)

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Upon application of the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will both be presented as financing cash flows by the Group, while upfront prepaid lease payments will continue to be presented as investing cash flows.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Furthermore, extensive disclosures are required by IFRS 16.

At December 31, 2018, the Group has non-cancellable operating lease commitments of RMB51,273,000 as disclosed in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS") (Continued)

**IFRS 16 Leases** (Continued)

In addition, the Group currently considers refundable rental deposits paid of RMB5,184,000 as at December 31, 2018 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC – Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC – Int 4. Therefore, the Group did not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

The directors of the Company assessed that such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not result in a significant impact on the financial performance of the Group upon adoption of IFRS 16.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of consolidation** (Continued)

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer 's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Business combinations** (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on acquisition of a joint venture is described below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. In case that the joint venture uses accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the joint venture's accounting policies to those of the Group. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with a joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

### Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Interests in joint operations** (Continued)

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

**Revenue from contracts with customers**

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue from contracts with customers** (Continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

**Revenue Recognition**

The Group recognises revenue from the following major sources:

*(a) Sales of goods*

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration from the customer.

*(b) Consultancy service fee income*

The Group primarily earns revenues by providing consulting and researching services to its customers through fee-for-service contracts. Contracts duration ranges from a few weeks to months. A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. Upfront payments received by the Group is initially recognised as a contract liability.

Revenue is recognised at a point of time when performance obligation is completed and has a present right to payment for the services performed.

The Group incurs costs to fulfil a contract in its consulting services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expenses on a straight-line basis over the lease term.

*Leasehold land and building*

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) is allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss for the period in which they are incurred.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefits costs

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. Payments to such retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS standards requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment arrangements

*Equity-settled share-based payment transactions*

***Share options granted to employees***

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Taxation** (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income as directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes and equipment under installation are carried less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction or equipment and capitalised borrowing costs on related borrowed funds during the period of construction of properties. Properties under construction or equipment under installation are reclassified to the appropriate category of property, plant and equipment when completed and ready for use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are in the location and condition necessary for them to be capable of operating in the manner intended by management.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property, plant and equipment** (Continued)

Depreciation is recognised so as to write off the cost of assets other than properties under construction and equipment under installation less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

*Buildings under development for future owner-occupied purpose*

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

**Intangible assets**

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

*Internally-generated intangible assets – research and development ("R&D") expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognised if, and only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible assets;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Intangible assets** (Continued)

*Internally-generated intangible assets – research and development ("R&D") expenditure* (Continued)

- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

**Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)** (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Inventories**

Inventories (including raw materials acquired for usage in development activities and finished goods acquired for resell) are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents estimated selling price for inventories less estimated costs necessary to make the sale. Trial batches manufactured prior to regulatory approval (including raw materials cost) is charged to development expenses when they are produced.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial assets*

***Classification and subsequent measurement of financial assets***

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial assets* (Continued)

***Classification and subsequent measurement of financial assets*** (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the "other income" line item.

(ii) Debt instruments classified as at FVTOCI

Corporate bond held by the Group is classified as at FVTOCI. The listed corporate bond is initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of the corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these corporate bonds had been measured at amortised cost. All other changes in the carrying amount of these corporate bonds are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When these corporate bond are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with changes in fair value arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial assets* (Continued)

***Foreign exchange gains and losses***

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;

- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognised in other comprehensive income in the investment revaluation reserve; and

- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item.

***Impairment of financial assets***

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and other receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial assets* (Continued)

***Impairment of financial assets*** (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor 's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial assets* (Continued)

***Impairment of financial assets*** (Continued)

(ii) Definition of default

The Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower 's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade and other receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial assets* (Continued)

***Impairment of financial assets (Continued)***

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability – weighted amount that is determined with respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial assets.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with exception of contact assets where the corresponding adjustment is recognised through a loss allowance account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial assets* (Continued)

***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

*Financial liabilities and equity instruments*

***Classification as debt or equity***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

***Financial liabilities of amortised cost***

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL. A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial liabilities and equity instruments* (Continued)

***Financial liabilities at FVTPL (Continued)***

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible loan notes, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

***Convertible loan notes***

A conversion option that will be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. The Group designated the convertible loan notes as at FVTPL upon initial recognition because the convertible loan notes contract contains one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL (see the accounting policy above).

Transaction costs relating to the issue of the convertible loan notes are recognised immediately in profit or loss. The Group issued the convertible loan notes for specific purpose for construction of a new biologics manufacturing facility. Therefore, the effective interest relating to the debt component of the convertible loan notes is eligible for capitalisation and is deducted from the fair value changes of convertible loan notes designated at FVTPL.

***Financial liabilities at amortised cost***

Financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost using the effective interest method.

***Foreign exchange gains and losses***

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss in the 'other gains and losses' line item for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

*Financial liabilities and equity instruments* (Continued)

***Derivative financial instruments***

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks. Further details of derivative instruments are disclosed in Note 22.

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgement in applying accounting policies**

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Research and development expenses*

Development expenses incurred on the Group's drug product pipelines are capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development expenses which do not meet these criteria are expensed when incurred. Management of the Group will assess the progress of each of the research and development projects and determine the criteria met for capitalisation. All development expenses were expensed when incurred during the current and prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty

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

*Useful lives and estimated impairment on property, plant and equipment*

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is reference to useful lives of property, plant and equipment of similar nature and functions in the industry. Management of the Group will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete assets that have been abandoned or sold.

At December 31, 2018 the carrying amount of property, plant and equipment of the Group amounted to RMB939,341,000 (2017: RMB359,626,000).

*Fair value of convertible loan notes designated at FVTPL*

The Group has issued convertible loan notes to an investor during the year ended December 31, 2018 as set out in Note 27. The Group designated the financial instrument as financial liabilities at FVTPL in which no quoted prices in an active market exist. The fair value of the financial instrument is established by using binomial options pricing model. Valuation techniques are certified by an independent and recognised international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on the Group's specific data. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the financial liabilities at FVTPL. The fair value of the financial liabilities at FVTPL as at December 31, 2018 is RMB241,763,000 (2017: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 5. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year is as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Consultancy service fee income | | |
| – at a point in time | **934** | 1,148 |

For continuing operations, the Group has been operating in one reporting segment, being the discovery, development and commercialisation of drugs. On April 25, 2018, the Group has entered into a contract to sell the equity interest in the subsidiary engaged in the sales of biologic reagent, details of which are set out in Note 31 and accordingly such operating segment has been presented as discontinued operations.

For the purpose of resources allocation and performance assessment, the Group's chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

### Transaction price allocated to the remaining performance obligation for contracts with customers

Consultancy services are typically provided for a period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

### Geographical information

Substantially all of the Group's revenue from external customers are located in the PRC. The Group's operations are located in the PRC and the United States of America (the "United States").

Information about the Group's non-current assets, excluded those relating to discontinued operations located in the PRC, and excluded non-current financial assets and deferred tax assets, is presented based on the geographical location of the assets as below:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| The PRC | **1,311,972** | 698,475 |
| The United States | **4,846** | 4,173 |
| | **1,316,818** | 702,648 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Customer A | **–** | 1,101 |
| Customer B | **472** | – |
| Customer C | **462** | – |

## 6. OTHER INCOME

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Interest income from bank and time deposit | **3,756** | 2,308 |
| Government grants *(Note a)* | **4,631** | 2,614 |
| Income received from collaboration agreements *(Note b)* | **–** | 47,420 |
| | **8,387** | 52,342 |

*Notes:*

(a) Government grants include subsidies from the PRC government which are specifically for (i) the capital expenditure incurred for plant and machinery, which is recognised as income over the useful life of the related assets; (ii) the incentives and other subsidies for research and development activities, which are recognised as income upon meeting specific conditions; and (iii) the incentives which have no specific conditions attached to the grants.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 6. OTHER INCOME (Continued)

*Notes: (Continued)*

(b) On February 28, 2017, the Group entered into an agreement with Jiangsu T-mab Biopharma Co., Ltd (江蘇泰康生物醫藥有限公司) ("T-mab"), pursuant to which the Group provided T-mab with know-how and consulting services to build up a certificate of Good Manufacturing Practice ("cGMP") compliant facility. All performance obligations were completed in 2017 and therefore the Group recognised RMB10,849,000 as service income in 2017.

On August 28, 2017, the Group and T-mab entered into a co-development and commercialisation agreement (the "Collaboration Agreement") for UBP1211, a biosimilar the Group originally had sole ownership of patents and know-how. Under the terms of the Collaboration Agreement, the patents and know-how from the research and development of UBP1211 will be registered under the name of both parties while all future research and development costs and net profit from sales of UBP1211 upon successful commercialisation will be evenly shared between the Group and T-mab. The Group has joint control over the arrangement that unanimous consent is required from all parties to the agreement for relevant activities including clinical studies, manufacturing and marketing. As such, the Group accounted for the arrangement as joint operation. A non-refundable consideration of RMB36,571,000 received upon the signing of the Collaboration Agreement from T-mab on passing T-mab the right to access the know-how of UBP1211 was recognised in other income during the year ended December 31, 2017.

As part of the Collaboration Agreement, T-mab also granted the Group a loan commitment of RMB60,000,000 at the benchmark borrowing rate of the People's Bank of China plus 30% premium with expiration date of August 27, 2019. As at December 31, 2018, RMB20,000,000 of the loan commitment was utilised by the Group as set out in Note 26.

## 7. OTHER GAINS AND LOSSES

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Interest income from debt investment | **119** | 341 |
| Net losses on disposal of debt investment | **(262)** | – |
| Net gains from fair value changes of other financial assets measured at FVTPL | **4,480** | 6,158 |
| Net losses on fair value changes of foreign exchange forward contracts | **(6,422)** | (31,098) |
| Loss on disposal of property, plant and equipment | **(907)** | – |
| Exchange loss, net | **(14,275)** | – |
| Loss on fair value changes of convertible loan notes measured at FVTPL | **(32,396)** | – |
| Less: amounts included in the cost of properties under construction *(Note)* | **17,022** | – |
| | **(32,641)** | (24,599) |

*Note*: The Group designated the convertible loan notes as a single financial liability which included debt instrument portion. As such, the fair value changes incorporated the effective interest of the convertible loan notes and the portion directly attributable to the construction of qualifying assets are eligible for capitalisation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 8. FINANCE COSTS

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Interest on bank and other borrowings | **3,156** | – |
| Less: amounts included in the costs of properties under construction | **(1,074)** | – |
| | **2,082** | – |
| Transaction costs on issuance of convertible loan notes | **1,981** | – |
| | **4,063** | – |

## 9. LOSS BEFORE TAX

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Loss before tax from continuing operations has been arrived at after charging: | | |
| Auditor's remuneration | **1,800** | 358 |
| Amortisation for other intangible assets | **144** | 33 |
| Amortisation for prepaid lease payments | **3,625** | 3,563 |
| Less: amounts included in the cost of properties under construction | **(3,495)** | – |
| Depreciation for property, plant and equipment | **29,923** | 14,697 |
| Minimum operating lease payment in respect of rented premises | **10,759** | 5,747 |
| Staff costs (including directors' emoluments): | | |
| – Salaries and other benefits | **131,423** | 64,159 |
| – Retirement benefit scheme contributions | **14,175** | 5,676 |
| – Share-based payment expenses | **21,700** | – |
| Less: amounts included in the cost of properties under construction | **(17,369)** | (6,017) |
| | **149,929** | 63,818 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 10. INCOME TAX (CREDIT) EXPENSE

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **–** | 418 |
| Overprovision in prior years in respect of PRC EIT | **(64)** | – |
| | **(64)** | 418 |
| Deferred tax *(Note 29)* | **(1,149)** | (360) |
| Total income tax (credit) expense recognised in the current year | **(1,213)** | 58 |

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

During the year ended December 31, 2017, the United States federal imposed progressive corporate income tax rates ranging from 15% to 35%. The US Tax Cuts and Jobs Act ("Act") was enacted into law on December 22, 2017. The Act includes significant changes to the US corporate income tax system that have become effective on January 1, 2018, including a reduction of the US corporate income tax rate to a flat rate of 21%.

TopAlliance Biosciences Inc., a wholly-owned subsidiary of the Company, is subject to the US State corporate income tax rate of 8.84% for the year ended December 31, 2018 (2017: 8.84%). No provision for taxation in the United States has been made as TopAlliance Biosciences Inc. has no assessable profit for both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 10. INCOME TAX (CREDIT) EXPENSE (Continued)

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

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Continuing operations** | | |
| Loss before tax | **(717,713)** | (320,744) |
| Tax charge at the PRC EIT rate of 25% | **(179,428)** | (80,186) |
| Tax effect of share of (loss) profit of a joint venture | **(1)** | 8 |
| Tax effect of expenses not deductible for tax purpose | **8,074** | 2,776 |
| Tax effect of research and development expenses that are additionally deducted *(Note)* | **(45,332)** | (20,953) |
| Utilisation of deductible temporary differences previously not recognised | **(3,176)** | (650) |
| Overprovision in prior years | **(64)** | – |
| Tax effect of tax losses not recognised | **215,350** | 88,630 |
| Tax effect on other deductible temporary differences not recognised | **3,364** | 10,433 |
| Income tax (credit) expense recognised in profit or loss | **(1,213)** | 58 |

*Note:* Pursuant to Caishui [2018] circular No. 99 (2017: Caishui [2015] circular No. 119), the Company and three subsidiaries Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd., Suzhou Junmeng Bioscience Co. Ltd. and Shanghai Junshi Biotechnology Co., Ltd. enjoy super deduction of 175% (2017: 150%) on qualifying research and development expenditures for the year ended December 31, 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 11. LOSS PER SHARE

### (a) Basic

*For continuing and discontinued operations*

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

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Loss for the year attributable to owners of the Company for the purpose of basic loss per share | **(716,414)** | (320,844) |

**Number of shares:**

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **601,917,890** | 579,608,904 |

*For continuing operations*

The calculation of the basic loss per share from continuing operations attributable to the owners of the Company is based on the following data:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Loss for the year attributable to owners of the Company | **(716,414)** | (320,844) |
| Less: Profit (loss) for the year from discontinued operations attributable to owners of the Company | **89** | (161) |
| Loss for the year for the purpose of basic loss per share from continuing operations | **(716,503)** | (320,683) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 11. LOSS PER SHARE (Continued)

### (a) Basic (Continued)

*From discontinued operations*

Basic earnings per share for the discontinued operations is RMB0.01 cent per share for the year ended December 31, 2018 (2017: basic loss of RMB0.03 cent per share), based on the profit for the year from the discontinued operations of RMB89,000 for the year ended December 31, 2018 (2017: loss of RMB161,000), and the denominators detailed above for the basic loss per share from continuing and discontinued operations.

### (b) Diluted

The Company issued the convertible loan notes during the year as set out in Note 27. For the purpose of calculation of diluted loss per share, it did not assume the conversion of the convertible loan notes since their assumed conversion would result in a decrease in loss per share. The Group granted share options on May 14, 2018 as set out in Note 34 and over-allotment option (the "Over-allotment Option") as per underwriting agreement entered on December 16, 2018. The computation of diluted loss per share for the year ended December 31, 2018 does not assume the exercise of the Company's outstanding share options and over-allotment share options since their assumed exercise would result in a decrease in loss per share.

The Company does not have any dilutive potential ordinary shares outstanding during the year ended December 31, 2017 and thus no diluted loss per share for the year ended December 31, 2017 are presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

### Directors and supervisors

Details of the emoluments paid or payable to the directors and the chief executive and supervisors of the Company for the services provided to the Group during both years are as follows:

| | Fees RMB'000 | Salaries and other benefits RMB'000 | Performance bonus RMB'000 *(Note h)* | Retirement benefit scheme contributions RMB'000 | Share-based payment expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| For the year ended December 31, 2018 | | | | | | |
| **Chief executive and executive director** | | | | | | |
| Dr. Ning LI *(Note b)* | – | 3,981 | – | – | – | 3,981 |
| **Executive directors** | | | | | | |
| Mr. Jun XIONG *(Note a)* | – | 1,515 | 432 | 51 | – | 1,998 |
| Dr. Hui FENG | – | 1,426 | 672 | 12 | – | 2,110 |
| Mr. Zhuobing ZHANG | – | 889 | 360 | 51 | – | 1,300 |
| Dr. Hai WU | – | 1,344 | 672 | – | – | 2,016 |
| Dr. Sheng YAO | – | 1,344 | 672 | – | – | 2,016 |
| **Non-executive directors** | | | | | | |
| Mr. Bo CHEN *(Note f)* | – | – | – | – | – | – |
| Mr. Yi TANG | – | – | – | – | – | – |
| Mr. Cong LI | – | – | – | – | – | – |
| Mr. Qingqing YI | – | – | – | – | – | – |
| Mr. Lijun LIN *(Note g)* | – | – | – | – | – | – |
| **Supervisors** | | | | | | |
| Mr. Miaoxin WANG *(Note c)* | – | 274 | – | 2 | – | 276 |
| Mr. Yucai GAO | – | 372 | 160 | 26 | 375 | 933 |
| Mr. Hongchuan LIU | – | 328 | 268 | 26 | 450 | 1,072 |
| Ms. Pingping WANG *(Note d)* | – | – | – | – | – | – |
| Mr. Jiawei YAN *(Note d)* | – | – | – | – | – | – |
| Mr. Yu WU *(Note d)* | – | – | – | – | – | – |
| **Independent non-executive directors** | | | | | | |
| Dr. Lieping CHEN *(Note e)* | – | – | – | – | – | – |
| Dr. Jia HE *(Note e)* | – | – | – | – | – | – |
| Mr. Xinjun CHEN *(Note e)* | – | – | – | – | – | – |
| Mr. Zhi QIAN *(Note e)* | – | – | – | – | – | – |
| Dr. Roy Steven Herbst *(Note e)* | – | – | – | – | – | – |
| | – | 11,473 | 3,236 | 168 | 825 | 15,702 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

**Directors and supervisors** (Continued)

| | Fees RMB'000 | Salaries and other benefits RMB'000 | Performance bonus RMB'000 *(Note h)* | Retirement benefit scheme contributions RMB'000 | Share-based payment expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| For the year ended December 31, 2017 | | | | | | |
| **Executive directors** | | | | | | |
| Mr. Jun XIONG *(Note a)* | – | 1,202 | – | 53 | – | 1,255 |
| Dr. Hui FENG | – | 1,276 | 674 | 91 | – | 2,041 |
| Mr. Zhuobing ZHANG | – | 1,002 | – | 53 | – | 1,055 |
| Dr. Hai WU | – | 1,228 | 674 | 81 | – | 1,983 |
| Dr. Sheng YAO | – | 1,228 | 674 | 81 | – | 1,983 |
| **Non-executive directors** | | | | | | |
| Mr. Bo CHEN *(Note f)* | – | – | – | 11 | – | 11 |
| Mr. Yi TANG | – | – | – | – | – | – |
| Mr. Cong LI | – | – | – | – | – | – |
| Mr. Qingqing YI | – | – | – | – | – | – |
| **Supervisors** | | | | | | |
| Mr. Miaoxin WANG *(Note c)* | – | 652 | 159 | 5 | – | 816 |
| Mr. Yucai GAO | – | 329 | 95 | 5 | – | 429 |
| Mr. Hang Chuan LIU | – | 262 | 102 | 5 | – | 369 |
| | – | 7,179 | 2,378 | 385 | – | 9,942 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

**Directors and supervisors** (Continued)

*Notes:*

(a) Mr. Jun XIONG resigned as general manager (the role is equivalent to chief executive) in January 2018 but continued to serve as the chairman of the board of directors.

(b) Dr. Ning LI was appointed as chief executive of the Company in January 2018 and was appointed as a director of the Company in June 2018. His emoluments disclosed above included those services rendered by him as the chief executive.

(c) Mr. Miaoxin WANG was resigned as a supervisor in April 2018.

(d) Ms. Pingping WANG, Mr. Jiawei YAN and Mr. Yu WU were appointed as supervisors on June 24, 2018.

(e) Dr. Lieping CHEN, Dr. Jia HE, Mr. Xinjun CHEN, Mr. Zhi QIAN and Dr. Roy Steven Herbst were appointed as independent non-executive directors of the Company on June 24, 2018.

(f) Mr. Bo CHEN resigned as general manager of the Company in January 2016 but continued to serve as a director of the Company until June 24, 2018.

(g) Mr. Lijun LIN was appointed as non-executive director on June 24, 2018.

(h) The performance bonus are determined by the board of directors based on the Group's performance for the year ended December 31, 2018.

The executive directors' and supervisors' emoluments shown above were for their services in connection with the management or supervision of the affairs of the Company and the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or chief executive waived or agreed to waive any remunerations during both years.

During the year ended December 31, 2018, certain supervisors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 34.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### Employees

The five highest paid individuals of the Group included four (2017: five) directors, chief executive and supervisors of the Company during the year. Details of their emoluments are set out above. The emoluments of the remaining one (2017: Nil) highest paid employee who is neither a director nor chief executive nor supervisor of the Company are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Salaries and other benefits | **1,669** | – |
| Performance bonus | **535** | – |
| Retirement benefit scheme contributions | **51** | – |
| | **2,255** | – |

Emoluments of the five highest paid individuals were fell within the following bands:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| HK$1,000,001 to HK$1,500,000 | **–** | 2 |
| HK$2,000,001 to HK$2,500,000 | **3** | 3 |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **1** | – |

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office for both years.

## 13. DIVIDENDS

No dividend was paid or declared by the Company during the years ended December 31, 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery | Furniture, fixtures and equipment | Transportation equipment | Leasehold improvement | Properties under construction | Equipment under installation | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | | | | | |
| At January 1, 2017 | 2,670 | 42,608 | 29,291 | 7,775 | 1,100 | 51,680 | 53,135 | 188,259 |
| Additions | – | 14,054 | 10,021 | 6,494 | 258 | 60,948 | 114,276 | 206,051 |
| Transfer | 54,197 | 102,771 | – | – | – | (54,197) | (102,771) | – |
| Exchange realignment | – | – | (454) | – | – | – | – | (454) |
| At December 31, 2017 | 56,867 | 159,433 | 38,858 | 14,269 | 1,358 | 58,431 | 64,640 | 393,856 |
| Additions | – | 9,380 | 12,458 | 6,272 | 3,215 | 426,828 | 152,736 | 610,889 |
| Transfer | 8,681 | 14,576 | 2,518 | – | – | (8,681) | (17,094) | – |
| Disposal of a subsidiary *(Note 31)* | – | – | (16) | (120) | – | – | – | (136) |
| Disposal | – | (103) | (2,072) | – | – | – | – | (2,175) |
| Exchange realignment | – | – | 441 | – | – | – | – | 441 |
| At December 31, 2018 | **65,548** | **183,286** | **52,187** | **20,421** | **4,573** | **476,578** | **200,282** | **1,002,875** |
| DEPRECIATION | | | | | | | | |
| At January 1, 2017 | – | 4,127 | 13,658 | 1,721 | 204 | – | – | 19,710 |
| Provided for the year | 738 | 5,795 | 5,606 | 2,023 | 561 | – | – | 14,723 |
| Exchange realignment | – | – | (203) | – | – | – | – | (203) |
| At December 31, 2017 | 738 | 9,922 | 19,061 | 3,744 | 765 | – | – | 34,230 |
| Provided for the year | 2,740 | 18,261 | 5,059 | 3,385 | 982 | – | – | 30,427 |
| Disposal of a subsidiary *(Note 31)* | – | – | (3) | (59) | – | – | – | (62) |
| Disposal | – | (22) | (1,246) | – | – | – | – | (1,268) |
| Exchange realignment | – | – | 207 | – | – | – | – | 207 |
| At December 31, 2018 | **3,478** | **28,161** | **23,078** | **7,070** | **1,747** | **–** | **–** | **63,534** |
| CARRYING VALUES | | | | | | | | |
| At December 31, 2018 | **62,070** | **155,125** | **29,109** | **13,351** | **2,826** | **476,578** | **200,282** | **939,341** |
| At December 31, 2017 | 56,129 | 149,511 | 19,797 | 10,525 | 593 | 58,431 | 64,640 | 359,626 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment except for properties under construction and equipment under installation are depreciated on a straight-line basis after taking into account of the residual value as follows:

| | |
|---|---|
| Buildings situated on leasehold land in the PRC | 4.75% per annum |
| Machinery | 9.50% – 31.67% per annum |
| Furniture, fixtures and equipment | 19.00% – 31.67% per annum |
| Transportation equipment | 19.00% – 31.67% per annum |
| Leasehold improvement | 33.33% – 50.00% per annum |

As at December 31, 2018, certain of the Group's property, plant and equipment with an aggregate carrying amount of RMB775,938,000 (2017: Nil) have been pledged to secure bank borrowings (Note 26) granted to the Group.

## 15. PREPAID LEASE PAYMENTS

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| COST | | |
| At the beginning of the year | **73,321** | 3,415 |
| Additions | **8,480** | 69,906 |
| At the end of the year | **81,801** | 73,321 |
| AMORTISATION | | |
| At the beginning of the year | **3,768** | 205 |
| Provided for the year | **3,625** | 3,563 |
| At the end of the year | **7,393** | 3,768 |
| CARRYING VALUES | | |
| At the end of the year | **74,408** | 69,553 |

The Group's prepaid lease payments comprise leasehold interest in land situated in the PRC on medium term leases.

As at December 31, 2018, certain of the Group's prepaid lease payments with an aggregate carrying amount of RMB62,915,000 (2017: Nil) have been pledged to secure bank borrowings (Note 26) granted to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 16. GOODWILL

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| At the beginning of the year | **1,519** | 1,519 |
| Disposal of a subsidiary *(Note 31)* | **(1,519)** | – |
| At the end of the year | **–** | 1,519 |

Goodwill was arisen from the Group's acquisition of Beijing Xinjingke Biotechnology Co., Ltd. ("Xinjingke") in 2016, whose principal activity is trading of biological product and equipment. For the purpose of impairment testing, goodwill has been allocated to one cash-generating unit. During the year ended December 31, 2017, management of the Group determines that there is no impairment to the cash-generating unit containing goodwill. The recoverable amount of the cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and pre-tax discount rate of 20% at December 31, 2017. The cash flows beyond the 5-year period are extrapolated at a steady growth rate of 3% at December 31, 2017. The management of the Group believes such growth rate does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows, which include budgeted revenue, such estimation is based on its past performance and management's expectation for the market development. The management of the Group determines that any reasonably possible change in any of these assumptions would not cause the carrying amount of the cash-generating unit containing such goodwill exceeds its recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 17. OTHER INTANGIBLE ASSETS

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| COST | | |
| At the beginning of the year | **299** | – |
| Additions | **1,333** | 299 |
| At the end of the year | **1,632** | 299 |
| AMORTISATION | | |
| At the beginning of the year | **33** | – |
| Provided during the year | **144** | 33 |
| At the end of the year | **177** | 33 |
| CARRYING VALUES | | |
| At the end of the year | **1,455** | 266 |

Other intangible assets represent computer software acquired from third parties.

The above intangible assets have finite useful lives and are amortised on a straight-line basis as follows:

| | |
|---|---|
| Computer software | 20% – 50% per annum |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 18. INTEREST IN A JOINT VENTURE

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Cost of investment in a joint venture | **1,000** | 1,000 |
| Share of post-acquisition profits and other comprehensive income | **27** | 31 |
| | **1,027** | 1,031 |

Details of the Group's interest in a joint venture are as follows:

| Name of entity | Form of entity | Country of incorporation | Principal place of business | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|---|
| | | | | **As at December 31 2018** | As at December 31 2017 | **As at December 31 2018** | As at December 31 2017 | |
| Beijing Tianshi Pharmaceutical Technology Co., Ltd. (北京天實醫藥科技有限公司) | Limited company | The PRC | The PRC | **50%** | 50% | **50%** | 50% | Inactive |

The joint venture is accounted for using the equity method in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 18. INTEREST IN A JOINT VENTURE (Continued)

### Summarised financial information of joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with accounting policies conform to IFRSs.

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Current assets | **2,054** | 2,062 |

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| (Loss) profit for the year | **(8)** | 62 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Net assets of the joint venture | **2,054** | 2,062 |
| Proportion of the Group's ownership interest in the joint venture | **50%** | 50% |
| Carrying amount of the Group's interest in the joint venture | **1,027** | 1,031 |

## 19. INVENTORIES

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Raw materials | **48,468** | 28,893 |
| Finished goods | **–** | 1,710 |
| | **48,468** | 30,603 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 20. TRADE RECEIVABLES

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **–** | 233 |
| Less: loss allowance | **–** | (13) |
| | **–** | 220 |

As at December 31, 2018, January 1, 2018 and January 1, 2017, trade receivables from contracts with customers were amounted to nil, RMB220,000 and RMB514,000, respectively

The average credit period on sales of goods/services is 30 to 45 days. No interest is charged on outstanding trade receivables. The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL.

There has been no change in the estimation techniques or significant assumptions made during both years.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The aged analysis of the Group's trade receivables, based on invoice date at the end of each reporting period are as follows:

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **–** | 106 |
| 31 – 90 days | **–** | 31 |
| 91 – 180 days | **–** | 33 |
| 181 days – 1 year | **–** | 24 |
| 1 – 2 years | **–** | 26 |
| | **–** | 220 |

Details of impairment assessment of trade receivables for the years ended December 31, 2018 and 2017 are set out in Note 39.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 21. OTHER ASSETS, PREPAYMENTS AND OTHER RECEIVABLES

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Deposits | | |
| – current *(Note a)* | | |
| – related parties *(Note b)* | **–** | 200 |
| – third parties | **4,079** | 4,490 |
| – non-current | **8,305** | – |
| Prepayments | | |
| – current *(Note c)* | | |
| – third parties | **48,747** | 29,675 |
| – non-current *(Note d)* | **245,249** | 203,679 |
| Amount due from a partner of a joint operation *(Note e)* (current) | **6,986** | 794 |
| Deposits for leasehold interest in land *(Note f)* | | |
| – current | **2,715** | 5,415 |
| – non-current | **2,715** | – |
| Value added tax recoverable *(Note g)* | | |
| – current | **31,004** | – |
| – non-current | **56,152** | 68,567 |
| | **405,952** | 312,820 |
| Less: loss allowance | **(1,715)** | (1,084) |
| | **404,237** | 311,736 |
| Analysis as | | |
| – current | **92,630** | 39,490 |
| – non-current | **311,607** | 272,246 |
| | **404,237** | 311,736 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 21. OTHER ASSETS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

*Notes:*

(a) Deposits mainly include rental and utility deposits.

(b) As at December 31, 2017, amount represents rental deposits to Beijing Zhengdan International Technology Co., Ltd ("BJZD"), which is a non-controlling shareholder of one of the subsidiary of the Company.

(c) Prepayments mainly include upfront fee paid for research and development services for the clinical and non-clinical study of the drugs. Prepayments also include other prepaid operating expenses.

(d) Amount represents prepayments for construction in progress and acquisition of property, plant and equipment.

(e) The amount is unsecured, non-interest bearing and repayable on demand.

(f) In December 2016, the Group paid a refundable and interest-bearing deposit amounting to RMB13,574,000 to Development and Construction Management Committee of Shanghai Lingang industrial area for acquiring the use right of a land located in Shanghai Lingang Industrial Area ("Shanghai Lingang") in order to construct its industrialisation facility to produce future drug pipelines. 60% of the deposit of RMB8,144,000 with interest income of RMB15,000, of total amount of RMB8,159,000 was refunded upon the commencement of the construction in August 2017, 20% of the deposit will be refunded upon the completion of the construction and the remaining 20% of the deposit will be refunded upon the commencement of production.

The Group accrued RMB15,000 interest income for the year ended December 31, 2018. RMB2,715,000 (2017: RMB5,415,000) is expected to be recovered within the next twelve month from the end of the year end date and therefore presented as current assets as at December 31, 2018 and the remaining balance as non-current assets.

(g) Included in value added tax recoverable are RMB31,004,000 (2017: Nil) value added tax recoverable presented as current assets as at December 31, 2018 since they are expected to be deducted from future value added tax payable arising on the Group's revenue which are expected to be generated within the next twelve months from the end of December 31, 2018. The remaining value added tax recoverable of RMB56,152,000 (2017: RMB68,567,000) are expected to be recoverable after the December 31, 2019 and therefore presented as non-current assets as at December 31, 2018.

Details of impairment assessment of other receivables for the years ended December 31, 2018 and 2017 are set out in Note 39.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 22. OTHER FINANCIAL ASSETS/LIABILITIES

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Current assets** | | |
| Financial assets measured at FVTPL | | |
| – Financial Products *(Note a)* | **5,500** | 45,000 |
| – Fund *(Note b)* | **16** | 102,434 |
| | **5,516** | 147,434 |
| **Non-current assets** | | |
| Financial assets measured at FVTPL | | |
| – Unlisted equity investment *(Note c)* | **18,000** | – |
| Investments in debt instrument measured at FVTOCI | | |
| – Corporate bond *(Note d)* | **–** | 4,323 |
| **Current liabilities** | | |
| Financial liabilities measured at FVTPL | | |
| – Foreign exchange forward contracts *(Note e)* | **–** | 16,034 |

*Notes:*

(a) The Group entered into contracts in respect of financial products (the "Financial Products") with financial institutions, with contractual terms from 7 days to 21 days. The principal is not guaranteed by the relevant financial institutions and the expected return rate is 3.95% per annum for the year ended December 31, 2018 (2017: 2.74% to 3.13% per annum).

(b) The Group entered into several contracts of funds (the "Fund") with financial institutions. The principals are not guaranteed and the return of the Fund are determined by reference to the performance of the underlying instruments including equity and debt securities. The Fund was substantially disposed during the year ended December 31, 2018.

(c) The Group invested in Hebei Boke Biotechnology Co., Ltd. (河北博科生物技術有限公司) ("Boke") at the fair value of RMB15,000,000 in April 2018, representing 5% of the registered capital of Boke. Boke is mainly engaged in drug discovery and development consulting services. The Group also invested in Beijing Zhenzhi Medical Technology Co., Ltd. (北京臻知醫學科技有限責任公司) ("Zhenzhi") at the fair value of RMB3,000,000 in September 2018, representing 15% of the registered capital of Zhenzhi. Zhenzhi is mainly engaged in technology services and medical research and development.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 22. OTHER FINANCIAL ASSETS/LIABILITIES (Continued)

*Notes: (Continued)*

(d) In August 2013, the Group invested in a listed corporate bond which was traded publicly in the Shanghai Stock Exchange and was subsequently disposed in March 2018.

(e) The Group entered into several foreign exchange forward contracts with banks in order to manage the Group's foreign currency exposure in relation to United States Dollar ("USD") against RMB for its planned operating funding transfer to a subsidiary in the United States. The major terms of these contracts are as follows:

At December 31, 2017

| Notional amount | Maturity | Exchange rate |
|---|---|---|
| Buy USD15,000,000 | May 15, 2018 | USD1/RMB7.0092 |
| Buy USD2,000,000 | May 15, 2018 | USD1/RMB7.0092 |
| Buy USD18,000,000 | May 16, 2018 | USD1/RMB7.0213 |

There was no outstanding foreign exchange forward contracts as at December 31, 2018.

## 23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits of the Group are pledged to banks for securing forward contracts (Note 22) with interest rate of 1.10% to 1.75%. The pledged bank deposits are classified as current assets as at December 31, 2017 as the expected settlement date of the forward contracts were settled within twelve months from the end of the reporting period. All pledged bank deposits were released as the corresponding forward contracts were matured during the year ended December 31, 2018.

Bank balances and cash of the Group comprised of cash and short-term bank deposits with an original maturity of three months or less. Bank balances carrying interest at market rates which ranged from 0.125% to 1.00% per annum at December 31, 2018 (December 31, 2017: from 0.10% to 1.00% per annum).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 24. TRADE AND OTHER PAYABLES

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Trade payables | | |
| – related parties *(Note a)* | **3,620** | 3,685 |
| – third parties | **36,558** | 12,621 |
| Accrued expenses in respect of: | | |
| – construction costs of properties under construction | **80,025** | 777 |
| – research and development expenses *(Note b)* | **81,049** | 4,195 |
| – selling and distribution expenses | **7,867** | – |
| – others | **13,394** | – |
| Salary and bonus payables | **50,901** | 16,160 |
| Other tax payables | **2,126** | 323 |
| Payables for issue costs | **14,415** | – |
| Other payables | | |
| – related parties *(Note c)* | **–** | 32 |
| – third parties | **1,367** | 3,706 |
| | **291,322** | 41,499 |

Payment terms with suppliers are mainly with credit term of 15 to 60 days from the time when the goods and services are received from the suppliers. The following is an aging analysis of trade payables presented based on invoice date at the end of the reporting period:

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **33,372** | 15,289 |
| 31 – 60 days | **198** | 207 |
| 61 – 180 days | **81** | 209 |
| Over 180 days | **6,527** | 601 |
| | **40,178** | 16,306 |

*Notes:*

(a) Amount represents trade payable to United-Power Pharma Tech Co., Ltd. ("UPPT"), an associate of BJZD.

(b) Amount included service fees paid to outsourced service providers including contract research organisations and clinical trial sites.

(c) Included in the amount is other payables to BJZD, which is unsecured, interest free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 25. CONTRACT LIABILITIES

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Amounts received in advance of delivery for biological reagent | **–** | 646 |
| Upfront fee received for collaboration agreement *(Note a)* | **28,302** | – |
| Other receipt in advance in respect of research and development services *(Note b)* | **1,111** | – |
| | **29,413** | 646 |
| Analysis as | | |
| – current | **1,111** | 646 |
| – non-current | **28,302** | – |
| | **29,413** | 646 |

As at January 1, 2017, the balance of contract liabilities was RMB566,000 and fully recognised as revenue in 2017. During the year ended December 31, 2018, no revenue was recognised that was included in the contract liabilities balance at the beginning of the year, which was transferred upon disposal of a subsidiary as set out in Note 31.

*Notes:*

(a) In June 2018, the Group entered into a co-development and strategic collaboration agreement (the "Agreement") with CSPC Pharmaceutical Group Limited ("CSPC"), under which the Group and CSPC will co-develop PD-1 (the anti-PD-1 monoclonal antibody exclusively supplied by the Group), in combination with albumin-bonded paclitaxel (the "Product") for the treatment of breast cancer in PRC including Hong Kong, Taiwan and Macau. A joint steering committee will be established with equal representation from each party to coordinate and oversee development and commercialisation activities and decisions for the Product. CSPC at its own expense, shall be responsible for designing and executing the clinical trial for the Product, supplying albumin-bonded paclitaxel to the Group for conducting clinical trials, applying and securing approval and commercialisation of the Product. The Group shall be responsible for securing approval of PD-1 single treatment, supplying PD-1 to CSPC for conducting clinical trials and supplying PD-1 to CSPC for sale of the Product. All intellectual property rights related to the Product shall be jointly owned by the Group and CSPC. Further, CSPC was granted an exclusive royalty based license to commercialise the Product within the PRC from the receipt of the relevant regulatory approval in the PRC for 20 years ("Commercialisation Period"). On July 11, 2018, the Group received RMB30,000,000 upfront fee (including value added tax amounting to RMB1,698,000) upon execution of the Agreement. The Group is also entitled to receive an aggregate of RMB120,000,000 future milestone payments from CSPC upon the achievement of contractually specified development milestones in the Agreement. Details of the sales royalty arrangement is to be determined between both parties.

No revenue has been recognised in relation to this collaboration agreement during the year ended December 31, 2018 as the performance obligation was unsatisfied. The whole amount of upfront fee received was recorded under contract liabilities at December 31, 2018 and the total transaction price which comprise upfront payments, development milestone payments and royalty (if any) is expected to be recognised as revenue before the end of the Commercialisation Period.

(b) The Group receives payments before service is rendered and this give rise to contract liabilities until the revenue recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 26. BORROWINGS

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Bank borrowings | | |
| – secured | **150,225** | – |
| – unsecured *(Note a)* | **18,132** | – |
| | **168,357** | – |
| Other borrowings – unsecured *(Note b)* | **160,275** | – |
| Total borrowings | **328,632** | – |
| The maturity profile of bank and other borrowings is as follows: | | |
| – within one year | **178,632** | – |
| – within a period of more than one year but not exceeding five years | **150,000** | – |
| | **328,632** | – |
| Less: amount due within one year shown under current liabilities | **(178,632)** | – |
| Amount shown under non-current liabilities | **150,000** | – |
| The exposures of the Group's borrowings are as follows: | | |
| Fixed-rate borrowings | **178,407** | – |
| Variable-rate borrowings | **150,225** | – |
| Total borrowings | **328,632** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 26. BORROWINGS (Continued)

The effective interest rates (which are also equal to contracted interest rates) on the bank and other borrowings are as follows:

| | At December 31, | |
|---|---|---|
| Effective interest rate per annum: | **2018** | 2017 |
| Variable-rate bank borrowings | **6.65% per annum** | – |
| Fixed-rate bank borrowings | **4.35% per annum** | – |
| Fixed-rate other borrowings | **5.66% – 10.50% per annum** | – |

The Group's variable-rate bank borrowings carry interest at 40% above the People's Bank of China benchmark lending interest rate for one to five years borrowings.

As at December 31, 2018, the Group has pledged the following assets as securities for the Group's bank borrowings:

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **775,938** | – |
| Prepaid lease payments | **62,915** | – |
| | **838,853** | – |

All bank and other borrowings are denominated in RMB as at December 31, 2018.

*Notes:*

(a) In December 2018, the Group entered into a 1 year loan facility up to RMB200,000,000 with the China Merchants Bank and drew down RMB18,132,000 with a fixed interest rate of 4.35% under the facility. The interest rate is based on the borrowing agreement. The loan facility will mature in December 2019.

(b) As at December 31, 2018, the carrying amount of other borrowings includes 4 loans with total principal of RMB140,000,000 and interest payable of RMB275,000 borrowed from Shen Zhen Rui He Xing Ye Asset Management Co., Ltd. (深圳市瑞和興業資產管理有限公司). The loans are unsecured, unguaranteed, interest bearing from 5.66% to 10.50% per annum and have repayment periods from 1 month to 11 months. The remaining RMB20,000,000 represents loan from T-mab, which is unsecured, interest bearing at 5.66% per annum and is repayable on demand. The Group paid interest of RMB1,027,000 for the loan from T-mab during the year ended December 31, 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 27. CONVERTIBLE LOAN NOTES

On February 9, 2018, the Company obtained no objection letter from the Shanghai Stock Exchange for the issue of convertible loan notes in a principal amount of no more than RMB500,000,000. On February 23, 2018, the Company issued convertible loan notes in a principal amount of RMB200,000,000 to qualified investors. The major terms and conditions of the convertible loan notes are as follows:

### (a) Maturity

The maturity date for the convertible loans notes is February 23, 2024 ("Maturity Date") which is 6 years from the date of issue of the convertible loan notes.

### (b) Interest rate

The Company shall pay a non-compound coupon rate at 10.35% per annum. Interest due and repayable on 3rd, 4th, 5th and 6th anniversary dates of bond issuance.

### (c) Conversion price

The bond matures in six years from the date of issuance at its nominal value of RMB200,000,000, which can be converted into ordinary shares of the Company at an original conversion price of RMB25 per share, subject to adjustments for distribution of bonus shares or capital, issuance of new shares or rights issue and distribution of cash dividends. In addition, after getting approval from shareholders' meeting, the Company has the right to adjust down the conversion price, which shall not be lower than the audited net assets value per share of the Company in accordance with the latest audited financial statements. The conversion price of the convertible loan note was adjusted to RMB23.19 with effective from December 25, 2018 as a result of the issue of new H Shares, and it was adjusted further down to RMB23.00 with effective from January 10, 2019 as a result of the issuance of over-allotment share as disclosed in Note 42.

### (d) Redemption

Bondholders are entitled to an option to early redeem at 3 years before Maturity Date the whole or part of the principal outstanding amount of the convertible loan notes at principal amount, together with accrued but unpaid interest thereon.

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem the convertible loan note at 100% of its principal amount, together with accrued but unpaid interest thereon.

The Group and the Company have designated the convertible loan notes as financial liabilities measured at FVTPL as a whole. The change in fair value of the convertible loan notes is charged to profit or loss except for the portion attributable to credit risk change that shall be charged to other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 27. CONVERTIBLE LOAN NOTES (Continued)

### (d) Redemption (Continued)

The movement of the convertible loan notes for the year is set out as below:

| | Fair value of convertible loan notes RMB'000 |
|---|---|
| At February 23, 2018 (date of issuance) | 200,000 |
| Change in fair value charged to profit or loss *(Note 7)* | 32,396 |
| Change in fair value charged to other comprehensive income attributable to change in credit risk | 9,367 |
| At December 31, 2018 | 241,763 |

The Company has used the binominal option pricing model to determine the fair value of the convertible loan notes as of the date of issuance and at the end of each reporting period.

Key valuation assumptions used to determine the fair value of convertible loan notes are as follows:

| | As at February 23, 2018 | As at December 31, 2018 |
|---|---|---|
| Share price *(Note a)* | RMB18.00 | RMB19.00 |
| Discount rate | 21.06% | 18.00% |
| Time to maturity | 6 years | 5.15 years |
| Risk-free rate | 3.89% | 3.03% |
| Expected volatility *(Note b)* | 41.27% | 43.00% |
| Expected dividend yield | 0.00% | 0.00% |

*Notes:*

a. The share price was determined by reference to the price on NEEQ as of valuation date.

b. The expected volatility was determined by using the historical volatility of the share price of the comparable companies with similar business nature of the Company as of the valuation dates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 28. DEFERRED INCOME

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Government grants related to property, plant and equipment *(Note a)* | **28,835** | 29,276 |
| Other subsidies *(Note b)* | **16,212** | 12,539 |
| | **45,047** | 41,815 |
| Analysis as: | | |
| – non-current | **45,047** | 41,815 |

*Notes:*

(a) The Group received government grants for capital expenditure incurred for the acquisition of plant and machineries. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

(b) Other subsidies are generally provided in relation to the research and development activities of the Group which are recognised as income upon meeting the attached conditions.

## 29. DEFERRED TAXATION

The following is a summary of the deferred tax balances for financial reporting purposes:

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **1,288** | 139 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 29. DEFERRED TAXATION (Continued)

The following are the major deferred tax assets and liabilities recognised and movements thereon before offsetting during the current and prior years.

| | Other financial assets RMB'000 | Doubtful debts RMB'000 | Fair value change of forward contract RMB'000 | Unused tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At January 1, 2017 | (724) | 170 | (1,147) | 1,480 | (221) |
| Credited (charged) to profit or loss | 724 | (31) | 1,147 | (1,480) | 360 |
| At December 31, 2017 | – | 139 | – | – | 139 |
| Credited (charged) to profit or loss | – | (135) | – | 1,284 | 1,149 |
| At December 31, 2018 | **–** | **4** | **–** | **1,284** | **1,288** |

As at December 31, 2018, the Group had deductible temporary differences and unused tax losses of RMB46,520,000 (2017: RMB37,447,000) and RMB1,474,400,000 (2017: RMB610,268,000), respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of RMB16,000 (2017: RMB556,000) and RMB5,136,000 (2017: Nil) of such deductible temporary differences and tax losses as at December 31, 2018. Balance of deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised due to the unpredictability of future profit streams are as follows:

| | At December 31, | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Share-based payment expenses | **6,124** | – |
| Doubtful debts | **1,699** | 539 |
| Fair value change of financial instruments | **22,434** | 23,337 |
| Deferred income | **16,247** | 13,015 |
| Tax losses | **1,469,264** | 610,268 |
| | **1,515,768** | 647,159 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 29. DEFERRED TAXATION (Continued)

The unused tax losses for the PRC subsidiaries will be carried forward and expire in years as follows:

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| 2018 | **–** | 2,405 |
| 2019 | **12,880** | 12,880 |
| 2020 | **56,222** | 56,222 |
| 2021 | **111,433** | 111,433 |
| 2022 | **315,529** | 315,529 |
| 2023 | **757,215** | – |
| | **1,253,279** | 498,469 |

At the end of reporting period, the Group has net US operating loss carryforwards for federal income tax purposes of RMB215,985,000 (2017: RMB111,799,000) that are available to offset future profits. Out of the total unrecognised tax losses are losses of RMB111,799,000 (2017: RMB111,799,000) that will expire in various years between 2023 and 2037 and the remaining losses may carry forward indefinitely under the Act but subject to certain limitations.

## 30. SHARE CAPITAL

| | **Total number of shares** | **Amount** RMB'000 |
|---|---|---|
| Registered, issued and fully paid at RMB1.0 per share: | | |
| At January 31, 2017 | 550,000,000 | 550,000 |
| Issue of domestic ordinary shares by private equity placement on February 24, 2017 *(Note a)* | 34,750,000 | 34,750 |
| At December 31, 2017 | 584,750,000 | 584,750 |
| Issue of domestic ordinary shares by private equity placement on March 7, 2018 *(Note b)* | 16,650,000 | 16,650 |
| H shares issued upon initial public offering *(Note c)* | 158,910,000 | 158,910 |
| At December 31, 2018 | **760,310,000** | **760,310** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 30. SHARE CAPITAL (Continued)

*Notes:*

(a) On February 24, 2017, the Company completed an issue of 34,750,000 domestic ordinary shares. The net proceeds received from the issue amounted to RMB319,634,000, after deduction of issue expenses of RMB66,000. Part of the proceeds, amounting to RMB34,750,000, was credited as issued and fully paid share capital, and the remaining balance (after deduction of issue expenses) of RMB284,884,000 was credited to share premium.

(b) On March 7, 2018, the Company completed an issue of 16,650,000 domestic ordinary shares. The net proceeds received from the issue amounted to RMB297,955,000, after deduction of issue expenses of RMB1,745,000. Part of the proceeds, amounting to RMB16,650,000, was credited as issued and fully paid share capital, and the remaining balance (after deduction of issue expenses) of RMB281,305,000 was credited to share premium.

(c) On December 24, 2018, the Company issued 158,910,000 new H shares at HK$19.38 (equivalent to RMB17.07) per share for a total gross proceeds of HK$3,079,676,000 (equivalent to RMB2,713,194,000) by way of initial public offering of the Company on the Stock Exchange. The proceeds of RMB158,910,000 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of RMB2,554,284,000 were credited to share premium account of the Company. On the same date, the Company's H shares were listed on the Main Board of the Stock Exchange.

All the new shares rank pari passu with the existing shares in all respects.

## 31. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY

In April 2018, the shareholder of Beijing Junke Jingde Biotechnology Co., Ltd. resolved to dispose of the segment of sales of biological reagent. The Group entered into a sales and purchase agreement with an independent third party to dispose of its entire interest in Xinjingke for a cash consideration of RMB2,000,000. The disposal was completed on June 29, 2018, on which date control of Xinjingke was passed to the acquirer. The reason for the disposal was that the Group can concentrate its resources on development and documentation of drugs.

The profit (loss) for the year from the discontinued operations is set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 31. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY (Continued)

### Analysis of loss for the year from discontinued operations

The results of the discontinued operations for the period/year were as follows:

| | From January 1 to June 29, 2018 RMB'000 | Year ended at December 31, 2017 RMB'000 |
|---|---|---|
| Revenue (sales of goods – at a point in time) | 1,994 | 5,932 |
| Cost of sales | (1,686) | (4,712) |
| Gross profit | 308 | 1,220 |
| Other income | 1 | – |
| Distribution and selling expenses | (191) | (544) |
| Impairment loss, net of reversal | (16) | 14 |
| Administrative expenses | (396) | (959) |
| | (294) | (269) |
| Gain on disposal | 441 | – |
| Profit (loss) for the period/year from discontinued operations | 147 | (269) |

Profit (loss) for the period/year from discontinued operations include the following:

| | From January 1 to June 29, 2018 RMB'000 | Year ended at December 31, 2017 RMB'000 |
|---|---|---|
| Depreciation for property, plant and equipment | 9 | 26 |
| Staff costs | | |
| – Salaries and other benefits | 447 | 545 |
| – Retirement benefit scheme contributions | 55 | 76 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 31. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY (Continued)

**Analysis of loss for the year from discontinued operations** (Continued)

Cash flows from discontinued operations are summarised as follows:

| | From January 1 to June 29, 2018 RMB'000 | Year ended at December 31, 2017 RMB'000 |
|---|---|---|
| Net cash inflow from operating activities | **117** | 293 |

The major classes of assets and liabilities of Xinjingke as at June 29, 2018 are as follows:

| | RMB'000 |
|---|---|
| Goodwill | **1,519** |
| Property, plant and equipment | **74** |
| Inventories | **1,098** |
| Trade receivables | |
| – third parties | **471** |
| – related parties | **76** |
| Prepayments and other receivables | **227** |
| Bank balances and cash | **746** |
| Trade and other payables | **(1,865)** |
| Contract liabilities | **(787)** |
| | **1,559** |
| Gain on disposal of a subsidiary | **441** |
| Proceed of disposal of a subsidiary received | **2,000** |
| Less: bank balances and cash disposal of | **(746)** |
| Net cash inflow on disposal of a subsidiary | **1,254** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 32. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

### The Group as lessee

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within one year | **14,487** | 7,390 |
| In the second to fifth year inclusive | **33,362** | 9,416 |
| Over five years | **3,424** | – |
| | **51,273** | 16,806 |

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are generally negotiated for a lease term of one to six years (2017: one to three years) at fixed rentals.

## 33. CAPITAL COMMITMENTS

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **383,929** | 144,123 |

## 34. SHARE-BASED PAYMENT TRANSACTIONS

On March 12, 2018, the Company entered into share incentive agreement with eligible employees pursuant to which the Company agreed to grant up to 6,023,000 share options, with exercise price of RMB9.2 per share. The Company's share option scheme (the "Scheme") was adopted subsequently pursuant to a resolution passed on May 14, 2018, for the primary purpose of providing incentives or rewards to eligible persons for their contribution or potential contribution to the Group. Eligible persons including but not limited to the Group's shareholders, directors, supervisors, senior management and employees. The options are vested as follows:

| | |
|---|---|
| On 1st anniversary of the first trading day following the end of the 12 months from March 12, 2018 | 25% vest |
| On 2nd anniversary of the first trading day following the end of the 24 months from March 12, 2018 | further 35% vest |
| On 3rd anniversary of the first trading day following the end of the 36 months from March 12, 2018 | remaining 40% vest |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Subject to the respective terms of issue, options may be exercised at the end of the vesting period. If the employees choose not to exercise the options on the expiry date, the options will expire at the end of the date and no longer exercisable.

As at December 31, 2018, the number of options which remain outstanding under the Scheme was 5,798,000 which, if exercise in full, representing 0.76% of the enlarged capital of the Company.

The table below discloses movement of the Company's share options held by the Group's employees:

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| Date of grant | Exercise price RMB | Vesting date | Expiry date | Outstanding at January 1, 2018 | Granted during the year | Forfeited during the year | Outstanding at December 31, 2018 |
| May 14, 2018 | 9.20 | March 12, 2019 | March 12, 2019 | – | 1,505,750 | (56,250) | 1,449,500 |
| May 14, 2018 | 9.20 | March 12, 2020 | March 12, 2020 | – | 2,108,050 | (78,750) | 2,029,300 |
| May 14, 2018 | 9.20 | March 12, 2021 | March 12, 2021 | – | 2,409,200 | (90,000) | 2,319,200 |
| | | | | – | 6,023,000 | (225,000) | 5,798,000 |
| Exercisable at the end of the year | | | | | | | – |
| Weighted average exercise price (RMB) | | | | – | 9.20 | 9.20 | 9.20 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following assumptions were used to calculate the fair values of share options:

| | Tranche 1 | Tranche 2 | Tranche 3 |
|---|---|---|---|
| Share price *(Note a)* | RMB18.00 | RMB18.00 | RMB18.00 |
| Exercise price | RMB9.20 | RMB9.20 | RMB9.20 |
| Expected volatility *(Note b)* | 36.40% | 31.40% | 43.30% |
| Dividend yield | 0% | 0% | 0% |
| Risk-free rate | 2.90% | 3.10% | 3.20% |
| Fair value per option | RMB9.11 | RMB9.47 | RMB10.34 |

*Notes:*

(a) The share price represents the grant date price of the Company's shares on NEEQ.

(b) The expected volatility was determined by using the historical volatility of the share price of the comparable companies with similar business nature of the Company as of the valuation dates.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

During the year ended December 31, 2018, share-based payment expenses of RMB21,700,000 (2017: Nil) have been recognised in profit or loss.

## 35. RETIREMENT BENEFIT SCHEMES

The employees of the Group in the PRC are members of the state-managed retirement benefit schemes operated by the relevant local government. The Company's subsidiaries situated in the PRC are required to contribute a specified percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions.

A defined contributions plan in the US pursuant to which the Group matches 50 cents for every dollar contributed by each qualifying member of staff up to 4% of their salaries. The maximum match is 2% of the qualifying member of staff's gross pay.

During the year ended December 31, 2018, the total amounts contributed by the Group to the schemes and costs charged to the profit or loss represents contributions paid or payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contributions incurred by the Group for employees in the PRC amounted to RMB13,626,000 (2017: RMB5,189,000) while retirement benefits scheme contributions incurred for employees in the United States amounted to RMB604,000 (2017: RMB563,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 36. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position, the Group had also entered into the following transactions with related parties:

### (a) Sales to related parties – discontinued operations

| | Year ended December 31, | |
|---|---|---|
| **Name of related parties** | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| BJZD | **141** | 317 |
| UPPT | **105** | 793 |
| Beijing Junke Huaren Pharma Tech Co., Ltd. ("JKHR") *(Note)* | **2** | 406 |
| | **248** | 1,516 |

*Note:* JKHR is a wholly-owned subsidiary of UPPT.

### (b) Research and development expense incurred

| | Year ended December 31, | |
|---|---|---|
| **Name of related parties** | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| BJZD | **226** | 340 |
| UPPT | **10,115** | 7,611 |
| | **10,341** | 7,951 |

### (c) Compensation of directors and key management personnel

The remuneration of directors of the Company and other members of key management during both years was as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Short-term benefits | **13,922** | 7,658 |
| Performance bonus | **5,269** | 2,473 |
| Share-based payment expenses | **938** | – |
| Post-employment benefits | **299** | 418 |
| | **20,428** | 10,549 |

The remuneration of key management personnel is determined by the management of the Group having regard to the performance of individuals and market trends.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 37. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at December 31, 2018 and 2017 are set out below.

| Name of subsidiaries | Place of operation/ establishment date of incorporation and kind of legal entity | Issued and fully paid share capital/ registered capital | Shareholding/equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | As at December 31, 2018 | As at December 31, 2017 | |
| *Directly held:* | | | | | |
| Shanghai Junshi Biotechnology Co., Ltd.* (上海君實生物工程有限公司) | The PRC June 29, 2016 Limited liability company | Registered capital of RMB1,000,000,000 and paid-up capital of RMB450,000,000 | 100% | 100% | Development and commercialisation of drugs |
| Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd.* (江蘇眾合醫藥科技有限公司) | The PRC April 1, 2013 Limited liability company | Registered capital of RMB45,000,000 and paid-up capital of RMB43,000,000 | 100% | 100% | Development and commercialisation of drugs |
| Suzhou Junmeng Biosciences Co., Ltd.* (蘇州君盟生物醫藥科技有限公司) | The PRC October 12, 2013 Limited liability company | Registered capital of RMB250,000,000 and paid-up capital of RMB177,800,000 | 100% | 100% | Development and commercialisation of drugs |
| Taizhou Junshi Biosciences Co., Ltd.* (泰州君實生物醫藥科技有限公司) | The PRC May 9, 2014 Limited liability company | Registered capital of RMB5,000,000 and paid-up capital of RMB Nil | 100% | 100% | Development and commercialisation of drugs |
| Suzhou Union Biopharm Biosciences Co., Ltd.* (蘇州眾合生物醫藥科技有限公司) | The PRC October 12, 2013 Limited liability company | Registered capital of RMB700,000,000 and paid-up capital of RMB529,000,000 | 100% | 100% | Development and commercialisation of drugs |
| Suzhou Junshi Biosciences Co., Ltd.* (蘇州君實生物醫藥科技有限公司) | The PRC July 26, 2017 Limited liability company | Registered capital of RMB100,000,000 and paid-up capital of RMB44,900,000 | 100% | 100% | Development and commercialisation of drugs |
| Beijing Junke Jingde Biotechnology Co., Ltd.* (北京軍科鏡德生物科技有限責任公司) | The PRC April 3, 2015 Limited liability company | Registered capital of RMB8,000,000 and paid-up capital of RMB4,800,000 | 60% | 60% | Development and commercialisation of drugs |
| Shenzhen Qianhai Junshi Hospital Investment Management Co., Ltd* (深圳前海君實醫院投資管理有限公司) | The PRC December 11, 2015 Limited liability company | Registered capital of RMB50,000,000 and paid-up capital of RMB Nil | 51% | 51% | Development and commercialisation of drugs |
| TopAlliance Biosciences Inc. | The United States March 6, 2013 | Registered capital of USD50,000,000 (equivalent to RMB326,563,000) and paid-up capital of USD50,000,000 (equivalent to RMB326,563,000) | 100% | 100% | Development and commercialisation of drugs |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 37. PARTICULARS OF SUBSIDIARIES (Continued)

Details of the subsidiaries directly and indirectly held by the Company at December 31, 2018 and 2017 are set out below. (Continued)

| Name of subsidiaries | Place of operation/ establishment date of incorporation and kind of legal entity | Issued and fully paid share capital/ registered capital | Shareholding/equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | As at December 31, 2018 | As at December 31, 2017 | |
| *Indirectly held:* | | | | | |
| Beijing Union Biopharm Junshi Biosciences Co., Ltd.* (北京眾合君實生物醫藥科技有限公司) | The PRC June 12, 2016 Limited liability company | Registered capital of RMB5,000,000 and paid-up capital of RMB5,000,000 | 100% | 100% | Development and commercialisation of drugs |
| Xinjingke* | The PRC September 29, 1998 Limited liability company | Registered capital of RMB5,000,000 and paid-up capital of RMB2,600,000 | N/A | 60% | Consultation, sale of biological reagent |
| Beijing Xinjingke Trading Co., Ltd.* (北京欣經科貿有限公司) | The PRC November 30, 2016 Limited liability company | Registered capital of RMB1,000,000 and paid-up capital of RMB Nil | N/A | 60% | Sale of chemical products and raw materials |
| Suzhou Junao Medicine Co., Ltd.* (蘇州君奧精準醫學有限公司) | The PRC January 10, 2018 Limited liability company | Registered capital of RMB50,000,000 and paid-up capital of RMB Nil | 100% | N/A | Development and commercialisation of days |
| Wuhan Guobo Hospital Management Co., Ltd.** (武漢國博醫院管理有限公司) | The PRC January 22, 2016 Limited liability company | Registered capital of RMB50,000,000 and paid-up capital of RMB Nil | N/A | 65% | Medical technology consulting services |
| Suzhou Junshi Biotechnology Co., Ltd.* (蘇州君實生物工程有限公司) | The PRC June 19, 2018 Limited liability company | Registered capital of RMB51,050,000 and paid-up capital of RMB Nil | 51% | N/A | Development and commercialisation of drugs |

* The English names are for identification purpose only.

** The subsidiary has been deregistered during the year ended December 31, 2018.

None of the subsidiaries had issued any debt securities at the end of both years or at any time during both years.

The Group does not have any subsidiary with significant non-controlling interests and accordingly, no details are presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to its stakeholders and maintaining an adequate capital structure. The Group's overall strategy remained unchanged throughout the year.

The capital structure of the Group consists of debts, which includes convertible loan notes, borrowings, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends and new shares issues as well as the issue of new debts and redemption of existing debts.

## 39. FINANCIAL INSTRUMENTS

### 39a. Categories of financial instruments

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Financial assets** | | |
| Amortised cost (including bank balances and cash) | **2,786,655** | 303,294 |
| Financial assets at FVTPL | **23,516** | 147,434 |
| Investments in debt instrument measured at FVTOCI | **–** | 4,323 |
| **Financial liabilities** | | |
| Amortised cost | **384,592** | 20,044 |
| Financial liabilities at FVTPL | **241,763** | 16,034 |

### 39b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, other financial assets, bank balances and cash, trade and other payables, borrowings, other financial liabilities and convertible loan notes. Details of these financial instruments are disclosed in the respective notes.

The risks associated with the Group's financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 39. FINANCIAL INSTRUMENTS (Continued)

### 39b. Financial risk management objectives and policies (Continued)

*Market risk*

***(i) Currency risk***

The Group has foreign currency bank balances and trade and other payables, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of certain significant foreign currency denominated monetary assets and liabilities other than the functional currency of the entity to which they related at the end of the reporting period are as follows:

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Assets** | | |
| HKD | **2,597,617** | – |
| **Liabilities** | | |
| USD | **(8,865)** | – |
| HKD | **(68)** | – |

The Group has entered into foreign currency forward contracts during the year ended December 31, 2017 which also expose the Group to foreign currency risk. The foreign-currency forward contracts with notional amount are set out in Note 22. All foreign currency forward contracts were expired during the year ended December 31, 2018.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against USD and HKD. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation, for a change in foreign currency rates of 5% for the whole year. A positive/negative number below indicates an increase/decrease in loss where RMB strengthens 5% against USD and HKD. For a 5% weakening of RMB against USD and HKD, there would be an equal and opposite impact on loss for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 39. FINANCIAL INSTRUMENTS (Continued)

### 39b. Financial risk management objectives and policies (Continued)

*Market risk* (Continued)

***(i) Currency risk*** (Continued)

Sensitivity analysis (Continued)

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Impact on loss for the year** | | |
| USD | **443** | 14,383 |
| HKD | **(129,877)** | – |

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during both years.

***(ii) Interest rate risk***

The Group is exposed to fair value interest rate risk in related to fixed-rate bank and other borrowings (Note 26), convertible loan notes (Note 27) and debt instrument classified as FVTOCI (Note 22). The Group interest rate risk is mainly concentrated in the fluctuation of interest rates on fixed-rate bank and other borrowings and convertible loan notes.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 23) and variable-rate bank borrowings (Note 26). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on pledged bank deposits and bank balances and variable-rate bank borrowings (Note 26). The Group currently does not have interest rate risk hedging policy. However, the directors of the Company closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rate at the end of the reporting period. The analysis is prepared assuming financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 (2017: 50) basis point increase or decrease in interest rate is used which represents management's assessment of the reasonably possible change in interest rate. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate pledged bank deposits and bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

If the interest rate had been 50 basis points higher/lower as at December 31, 2018 and all other variables were held constant, the Group's loss for the year ended December 31, 2018 would decrease by RMB1,773,000 (2017: Nil) or increase by RMB1,973,000 (2017: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 39. FINANCIAL INSTRUMENTS (Continued)

### 39b. Financial risk management objectives and policies (Continued)

*Market risk* (Continued)

***(iii) Other price risk***

The Group is exposed to price risk through its debt instrument classified as FVTOCI (Note 22), unlisted equity investment including in other financial assets (Note 22) and convertible loan notes (Note 27). The management of the Group monitors the price risk and will consider hedging the risk exposure should the need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at December 31, 2018 for its convertible loan notes. The directors of the Company consider that the exposure to market price risk arising from debt instrument measured at FVTOCI and other financial assets is insignificant. Therefore no sensitivity analysis on such risk has been prepared.

If the equity price of the Company had been changed based on the 5% higher/lower:

- the loss for the year of the Group for the year ended December 31, 2018 would increase by RMB10,689,000 (2017: Nil) or decrease by RMB4,807,000 (2017: Nil), as a result of the changes in fair value of the Company's equity price.

*Credit risk and impairment assessment*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Management uses publicly available financial information and the Group's own historical repayment records to rate other debtors.

The Group determines the ECL on these items based on the financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The credit risk on liquid funds and its debt instrument classified as at FVTOCI of the Group is limited because the counterparties are banks, asset management companies and securities companies and listed company with high credit ratings assigned by international credit-rating agencies.

The Group assessed ECL for trade receivables collectively based on estimated loss rates ranging from 5% to 10% taking into account the aging of the balances and historical observed default rates and are adjusted for forward-looking information that is available without undue cost or effort. During the year ended December 31, 2018, the Group provided RMB16,000 (2017: RMB13,000) impairment allowance for trade receivables.

In addition, the Group assessed ECL for other receivables at amortised cost based on the historical default experience appropriate adjustments to reflect current conditions of counter parties based on their financial qualities. The Group measures the loss allowance equal to 12m ECL for other receivables and during the year ended December 31, 2018, the Group provided RMB638,000 (2017: RMB165,000) impairment allowance for other receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 39. FINANCIAL INSTRUMENTS (Continued)

### 39b. Financial risk management objectives and policies (Continued)

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relied on borrowings, convertible loan notes and the issuance of shares as a significant source of liquidity. Details of which are set out in Note 26, Note 27 and Note 30, respectively.

The following table details the Group remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

In addition, the following table details the Group liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. The liquidity analysis for the Group derivative financial instruments are prepared based on the contractual maturities as the management of the Group considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 39. FINANCIAL INSTRUMENTS (Continued)

### 39b. Financial risk management objectives and policies (Continued)

*Liquidity risk* (Continued)

***Liquidity table***

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 – 2 years | 2 – 5 years | Over 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At December 31, 2018 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | – | 55,960 | – | – | – | – | 55,960 | 55,960 |
| Borrowings | 7.81% | 141,085 | 39,497 | – | 189,595 | – | 370,177 | 328,632 |
| Convertible loan notes | 10.35% | – | – | – | 103,500 | 220,700 | 324,200 | 241,763 |
| | | 197,045 | 39,497 | – | 293,095 | 220,700 | 750,337 | 626,355 |
| At December 31, 2017 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | – | 20,044 | – | – | – | – | 20,044 | 20,044 |
| Derivatives – gross settlement | | | | | | | | |
| Foreign-currency forward contracts | | | | | | | | |
| – inflow | – | – | (223,737) | – | – | – | (223,737) | N/A |
| – outflow | – | – | 245,540 | – | – | – | 245,540 | N/A |
| | | – | 21,803 | – | – | – | 21,803 | 16,034 |

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 39. FINANCIAL INSTRUMENTS (Continued)

### 39b. Financial risk management objectives and policies (Continued)

*Fair value measurements of financial instruments*

***(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis***

Certain of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined in particular, the valuation techniques and inputs used.

| Financial assets/ financial liabilities | Fair value at December 31, 2018 RMB'000 | Fair value at December 31, 2017 RMB'000 | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs |
|---|---|---|---|---|---|
| Corporate bonds | – | 4,323 | Level 1 | Quoted bid prices in an active market | N/A |
| Financial Products | 5,500 | 45,000 | Level 2 | Discounted cash flow – Future cash flows are estimated based on expected return, discounted at a rate that reflects the risk of underlying investments | N/A |
| Funds | 16 | 102,434 | Level 2 | Fair value determined based on fair value of underlying debt investments using discounted cash flow method based on the return from the underlying investments and quoted market price of underlying equity investments | N/A |
| Unlisted equity investments | 18,000 | – | Level 2 | Recent transaction price | N/A |
| Foreign currency forward contracts classified as derivative financial instruments | – | (16,034) | Level 2 | Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of each reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties | N/A |
| Convertible loan notes designated at FVTPL | (241,763) | – | Level 3 | Binomial option pricing model-the key inputs are underlying share price, conversion price, discount rate, expected volatility, debt yield and risk-free rate | Expected volatility of 43%, taking into account historical of the comparable companies *(Note a)*<br><br>Discount rate of 18% *(Note b)* |

There were no transfers between Level 1 and Level 2 during both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 39. FINANCIAL INSTRUMENTS (Continued)

### 39b. Financial risk management objectives and policies (Continued)

*Fair value measurements of financial instruments* (Continued)

***(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*** (Continued)

*Notes:*

a. A slight increase in the expected volatility used in isolation would result in a slight increase in the fair value measurement of convertible loan notes, and vice versa. If the volatility was 5% higher/lower to 48%/38% while holding all other variables constant, the carrying amount of the convertible loan notes would increase by RMB6,048,000 or decrease by RMB4,985,000 as at December 31, 2018.

b. A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of convertible loan notes, and vice versa. If the discount rate was 0.5% higher/lower to 18.5%/17.5% while all other variables constant, the carrying amount of the convertible loan notes would decrease by RMB1,692,000 or increase by RMB1,892,000 as at December 31, 2018.

***(ii) Reconciliation of Level 3 fair value measurements***

| | Convertible loan notes designated at FVTPL<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|
| At January 1, 2018 | – | – |
| Issuance of convertible loan notes *(Note 27)* | **(200,000)** | **(200,000)** |
| Fair value change in profit or loss during the year *(Note 7)* | **(32,396)** | **(32,396)** |
| Fair value change in other comprehensive income attributable to change in credit risk during the year | **(9,367)** | **(9,367)** |
| At December 31, 2018 | **(241,763)** | **(241,763)** |

Fair value losses on convertible loan notes designated at FVTPL of RMB32,396,000 are included in 'other gains and losses', in which RMB17,022,000 was capitalised in construction-in-progress, and RMB9,367,000 are included in other comprehensive income during the year ended December 31, 2018.

***(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis***

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements approximate to their fair value based on the discounted cash flows analysis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | **Borrowings** RMB'000 *(Note 26)* | **Convertible loan notes** RMB'000 *(Note 27)* | **Payable for accrued issue costs** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At January 1, 2017 and December 31, 2017 | – | – | – | – |
| Financing cash flows | 325,476 | 198,019 | (103,787) | 419,708 |
| **Non-cash transactions:** | | | | |
| – Finance costs *(Note)* | 3,156 | – | – | 3,156 |
| – Issue costs | – | 1,981 | 118,202 | 120,183 |
| – Change in fair value charged to profit or loss | – | 32,396 | – | 32,396 |
| – Change in fair value attributable to change in credit risk charged to other comprehensive income | – | 9,367 | – | 9,367 |
| At December 31, 2018 | **328,632** | **241,763** | **14,415** | **584,810** |

*Note:* The finance costs include the interest expense of RMB1,074,000 capitalised as the cost of properties under construction.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 41 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Non-current assets** | | |
| Property, plant and equipment | **21,512** | 19,815 |
| Investments in subsidiaries | **1,236,885** | 533,191 |
| Other intangible assets | **334** | – |
| Interest in a joint venture | **1,027** | 1,031 |
| Amounts due from subsidiaries | **123,547** | 487,000 |
| Other assets, prepayments and other receivables | **41,248** | 15,415 |
| Other financial assets | **18,000** | – |
| Debt instrument measured at FVTOCI | **–** | 4,323 |
| | **1,442,553** | 1,060,775 |
| **Current assets** | | |
| Inventories | **15,847** | 466 |
| Other assets, prepayments and other receivables | **34,182** | 10,320 |
| Amounts due from subsidiaries | **7,342** | 3,751 |
| Other financial assets | **–** | 102,394 |
| Pledged bank deposits | **–** | 26,533 |
| Bank balances and cash | **2,630,582** | 91,124 |
| | **2,687,953** | 234,588 |
| **Current liabilities** | | |
| Trade and other payables | **133,759** | 12,619 |
| Borrowings | **178,407** | – |
| Other financial liabilities | **–** | 16,034 |
| | **312,166** | 28,653 |
| **Net current assets** | **2,375,787** | 205,935 |
| **Total assets less current liabilities** | **3,818,340** | 1,266,710 |
| **Non-current liabilities** | | |
| Contract liabilities | **28,302** | – |
| Convertible loan notes | **241,763** | – |
| Deferred income | **12,375** | 8,349 |
| | **282,440** | 8,349 |
| **Net assets** | **3,535,900** | 1,258,361 |
| **Capital and reserves** | | |
| Share capital | **760,310** | 584,750 |
| Reserve | **2,775,590** | 673,611 |
| **Total equity** | **3,535,900** | 1,258,361 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 41 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

### Movement in the Company's reserve

| | Share premium RMB'000 | Share option reserve RMB'000 | Financial liability designated at FVTPL credit risk reserve RMB'000 *(Note)* | Investment revaluation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At January 1, 2017 | 758,704 | – | – | (125) | (39,236) | 719,343 |
| Loss for the year | – | – | – | – | (330,252) | (330,252) |
| Fair value loss on investments measured at FVTOCI | – | – | – | (364) | – | (364) |
| Total comprehensive expense for the year | – | – | – | (364) | (330,252) | (330,616) |
| Ordinary shares issued | 284,950 | – | – | – | – | 284,950 |
| Transaction costs attributable to issue of new domestic ordinary shares | (66) | – | – | – | – | (66) |
| At December 31, 2017 | 1,043,588 | – | – | (489) | (369,488) | 673,611 |
| Loss for the year | – | – | – | – | (629,975) | (629,975) |
| Fair value loss on financial liability designated at FVTPL to changes in credit risk | – | – | (9,367) | – | – | (9,367) |
| Fair value gain on investments measured at FVTOCI | – | – | – | 227 | – | 227 |
| Reclassification to profit or loss upon disposal of investments measured at FVTOCI | – | – | – | 262 | – | 262 |
| Total comprehensive income (expense) for the year | – | – | (9,367) | 489 | (629,975) | (638,853) |
| Ordinary shares issued | 283,050 | – | – | – | – | 283,050 |
| Share issued upon initial public offering | 2,554,284 | – | – | – | – | 2,554,284 |
| Transaction costs attributable to issue of new domestic ordinary shares | (1,745) | – | – | – | – | (1,745) |
| Transaction costs attributable to issue of H shares | (116,457) | – | – | – | – | (116,457) |
| Recognition of equity-settled share-based payment expenses | – | 21,700 | – | – | – | 21,700 |
| At December 31, 2018 | **3,762,720** | **21,700** | **(9,367)** | **–** | **(999,463)** | **2,775,590** |

*Note:* Financial liability designated at FVTPL credit risk reserve represents the amount of change in fair value of convertible loan notes issued by the Company which is classified as financial liability designated at FVTPL under IFRS 9, which is attributable to changes in credit risk of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 42. EVENTS AFTER THE REPORTING PERIOD

On January 4, 2019, the Over-allotment Option of the Group has been fully exercised in respect of an aggregate of 23,836,500 additional H Shares, representing 15% of the total number of the offer shares initially available under the initial public offering. 23,836,500 shares were subsequently allotted and issued by the Company at HK$19.38 per offer share with total proceed of HK$461,951,000 (equivalent to RMB403,838,000) on January 9, 2019.

On January 31, 2019, the Company entered into a 1-year loan facility up to RMB100,000,000 with the Bank of Shanghai and drew down RMB100,000,000 under the facility. The loan facility bears a variable interest rate by floating upwards by 10% based on the loan prime rate published by the People's Bank of China per annum. The loan facility will mature in January 2020.

On January 11, 2019, The Group received RMB40,000,000 loan from an independent third party, Diao Jingsha (刁靜莎). The loan is unsecured, unguaranteed, and interest bearing at 9.00% per annum and has a repayment period of 60 days.

On February 19, 2019, the Group entered into a technology transfer and co-development agreement with 潤佳（蘇州）醫藥科技有限公司 (Rizen (Suzhou) Biosciences Co., Ltd.) ("Rizen"), under which the Company agreed to purchase from Rizen 50% interest of two drug projects at a cash consideration of RMB150,000,000 per drug project. The Group and Rizen will co-develop the drug projects and all future research and development costs and net profit from sales of drug projects upon successful commercialisation will be evenly shared between the Group and Rizen.

# CORPORATE INFORMATION

| | |
|---|---|
| ***Listing*** | H Shares on Hong Kong Stock Exchange (Stock code: 01877)<br>Domestic Shares on NEEQ (Stock code: 833330) |
| ***Number of Shares (as of date of this annual report)*** | 784,146,500 Shares (including 601,400,000 Domestic Shares and 182,746,500 H Shares) |
| ***Board lot*** | 1,000 H Shares |
| ***Registered address in the PRC*** | Room 602, No. 781, Cai Lun Road,<br>China (Shanghai) Pilot Free Trade Zone, the PRC |
| ***Principal place of business in the PRC*** | Room 610, No. 780, Cai Lun Road,<br>China (Shanghai) Pilot Free Trade Zone, the PRC |
| ***Principal place of business in Hong Kong under Part 16 of the Companies Ordinance*** | Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong |
| ***H share registrar*** | Tricor Investor Services Limited<br>Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong |
| ***Authorized representatives*** | Dr. Li Ning<br>Ms. Chen Yingge |
| ***Compliance adviser*** | Somerley Capital Limited |
| ***Legal advisers*** | Jones Day (as to Hong Kong law)<br>Jia Yuan Law Offices (as to PRC law) |
| ***Auditor*** | Deloitte Touche Tohmatsu<br>Certified Public Accountants |
| ***Company's website*** | www.junshipharma.com |
| ***Investor information*** | Corporate press releases, financial reports and other investor information on the, Group are available on the website of the Company |

# DEFINITIONS

| | |
|---|---|
| ***2018 Convertible Bonds*** | innovative start-ups convertible bonds 創新創業可轉換公司債券 issued by the Company and listed and traded on the Shanghai Stock Exchange |
| ***AGM*** | 2018 annual general meeting of the Company to be held on Wednesday, 15 May 2019 |
| ***Articles of Association*** | articles of association of the Company |
| ***Beijing Junkejingde*** | Beijing Junkejingde Biotechnology Co., Ltd. 北京軍科鏡德生物科技有限責任公司, a limited liability company established in the PRC and a non-wholly-owned subsidiary of the Company |
| ***Beijing Tianshi*** | Beijing Tianshi Pharmaceutical Technology Co., Ltd. 北京天實醫藥科技有限公司, a limited liability company established in the PRC, which is owned as to 50% by the Company |
| ***Beijing Union Biopharm*** | Beijing Union Biopharm Junshi Biosciences Co., Ltd. 北京眾合君實生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company |
| ***Beijing Zhengdan*** | Beijing Zhengdan International Technology Co., Ltd. 北京正旦國際科技有限責任公司, a limited liability company established in the PRC and a connected person of the Company at the subsidiary level |
| ***Board of Supervisors*** | the Company's board of Supervisors |
| ***Board or Board of Directors*** | the Company's board of Directors |
| ***CG Code*** | Corporate Governance Code in Appendix 14 of the Listing Rules |
| ***Companies Ordinance*** | the Companies Ordinance, Chapter 622 of the Laws of Hong Kong |
| ***Company*** | Shanghai Junshi Biosciences Co., Ltd. 上海君實生物醫藥科技股份有限公司 |
| ***Core Product*** | as defined in Chapter 18A of the Listing Rules; for the purpose of this annual report, the Group's Core Product is JS001 |
| ***CSRC*** | China Securities Regulatory Commission |

# DEFINITIONS

| | |
|---|---|
| ***Director(s)*** | director(s) of the Company |
| ***Domestic Share(s)*** | ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid for in Renminbi and are listed on the NEEQ |
| ***FDA*** | U.S. Food and Drug Administration |
| ***Global Offering*** | as defined in the Prospectus |
| ***GMP*** | Guidelines and regulations from time to time issued pursuant to the Drug Administration Law of the PRC《中華人民共和國藥品管理法》 |
| ***Grantee(s)*** | person(s) being granted Pre-IPO Option(s) under the Share Incentive Scheme and the Share Incentive Agreements |
| ***Group*** | the Company and its subsidiaries |
| ***H Share(s)*** | overseas-listed share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and are listed on Hong Kong Stock Exchange |
| ***HKD or HK$*** | Hong Kong dollars, the official currency of Hong Kong |
| ***Hong Kong*** | Hong Kong Special Administrative Region of the PRC |
| ***Jiangsu Union Biopharm*** | Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd. 江蘇眾合醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company |
| ***Junshi Biotechnology*** | Shanghai Junshi Biotechnology Co., Ltd. 上海君實生物工程有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company |

# DEFINITIONS

| | |
|---|---|
| ***Listing Rules*** | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| ***Model Code*** | the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules |
| ***NEEQ*** | National Equities Exchange and Quotations |
| ***Over-allotment Option*** | as defined in the Prospectus |
| ***PRC Company Law*** | the Company Law of the PRC《中華人民共和國公司法》 |
| ***PRC or China*** | the People's Republic of China |
| ***Pre-IPO Options*** | option(s) granted by the Company to certain employees as share incentive under the Share Incentive Scheme and the Share Incentive Agreements |
| ***Prospectus*** | the prospectus of the Company dated 11 December 2018 |
| ***Qianhai Junshi*** | Shenzhen Qianhai Junshi Hospital Investment Management Co., Ltd. 深圳前海君醫院投資管理有限公司, a limited liability company established in the PRC and a non-wholly-owned subsidiary of the Company |
| ***R&D*** | research and development |
| ***Reporting Period*** | the year ended 31 December 2018 |
| ***RMB*** | Renminbi |
| ***SFO*** | the Securities and Futures Ordinance, Charter 571 of the laws of Hong Kong |

# DEFINITIONS

| | |
|---|---|
| ***Shanghai Union Biopharm*** | Shanghai Union Biopharm Biosciences Co., Ltd.* 上海眾合醫藥科技股份有限公司, a limited liability company established in the PRC and merged with the Company by absorption in June 2016 |
| ***Share Incentive Agreement(s)*** | contract(s) entered into between the Company and the respective grantee(s) in March 2018 in relation to the grant of the Pre-IPO Option(s) |
| ***Share Incentive Scheme*** | Company's Share Incentive Scheme approved and adopted by its Shareholders on 14 May 2018 |
| ***Share(s)*** | ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, comprising H Shares and Domestic Shares |
| ***Shareholder(s)*** | holder(s) of the Share(s) |
| ***Stock Exchange or Hong Kong Stock Exchange*** | The Stock Exchange of Hong Kong Limited |
| ***Suzhou Junao*** | Suzhou Junao Precision Medicine Co., Ltd. 蘇州君奧精準醫學有限公司, a limited liability company established in the PRC, and a wholly-owned subsidiary of the Company |
| ***Suzhou Junmeng*** | Suzhou Junmeng Biosciences Co., Ltd. 蘇州君盟生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company |
| ***Suzhou Junshi*** | Suzhou Junshi Biosciences Co., Ltd. 蘇州君實生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company |
| ***Suzhou Union Biopharm*** | Suzhou Union Biopharm Biosciences Co., Ltd. 蘇州眾合生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company |

# DEFINITIONS

| | |
|---|---|
| ***Taizhou Junshi*** | Taizhou Junshi Biosciences Co., Ltd. 泰州君實生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company |
| ***TopAlliance*** | TopAlliance Biosciences Inc., a corporation established in the United States and a wholly-owned subsidiary of the Company |
| ***USD*** | United States dollars |
| ***U.S.*** | the United States |
| ***%*** | per cent |

In this annual report, the terms "associate", "close associate", "connected person", "connected transaction", "controlling shareholder", "core connected person", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese are translations of the Chinese names. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

* *For identification purpose only*