Hua Medicine
華領醫藥

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2552

Annual Report 2019

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CORPORATE INFORMATION

Executive directors

Li CHEN (陳力) *(Chief Executive Officer and Chief Scientific Officer)*
George Chien Cheng LIN (林潔誠) *(Executive Vice President and Chief Financial Officer)*

Non-executive directors

Robert Taylor NELSEN *(Chairman)*
Lian Yong CHEN (陳連勇)

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明)
William Robert KELLER
Junling LIU (劉峻嶺)
Yiu Wa Alec TSUI (徐耀華)

Audit committee

Walter Teh-Ming KWAUK (郭德明) *(Chairman)*
William Robert KELLER
Lian Yong CHEN (陳連勇)

Remuneration committee

William Robert KELLER *(Chairman)*
Walter Teh-Ming KWAUK (郭德明)
Lian Yong CHEN (陳連勇)

Nomination committee

Robert Taylor NELSEN *(Chairman)*
Junling LIU (劉峻嶺)
William Robert KELLER

Strategy committee

Li CHEN (陳力) *(Chairman)*
Robert Taylor NELSEN
Junling LIU (劉峻嶺)

Company secretary

Wing Yan Winnie YUEN (袁穎欣)

Authorized representatives

George Chien Cheng LIN (林潔誠)
Wing Yan Winnie YUEN (袁穎欣)

Auditor

Deloitte Touche Tohmatsu

Registered Office

PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands

Corporate headquarters

Hua Medicine, 275 Ai Di Sheng Road, Shanghai 201203, PRC

Principal place of business in Hong Kong

Suite 2202, Methodist House, 36 Hennessy Road, Wan Chai, Hong Kong

Cayman Islands share registrar

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands

Hong Kong share registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Compliance advisor

Somerley Capital Limited
20/F China Building, 29 Queen's Road Central, Hong Kong

Principal bankers

In Hong Kong:

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building, 1 Queen's Road Central, Hong Kong

Standard Chartered Bank (Hong Kong) Limited
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Kwun Tong, Hong Kong

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No. 232 Ke Yuan Road, Shanghai, China

Company's website

www.huamedicine.com

Stock code

2552

BUSINESS AND FINANCIAL HIGHLIGHTS

Business Highlights

Clinical trials:

- Achieved primary efficacy endpoint in a 24-week double blinded placebo controlled Phase III trial in drug naïve Type 2 Diabetes (T2D) patients in China (HMM0301), with very low hypoglycemia incidents and good safety profiles
- Completed enrollment in a metformin add on Phase III registration trial (HMM0302)
- Completed HMM0110, which demonstrated desirable pharmacokinetics profile in patients with end stage chronic kidney disease, indicating the potential use of dorzagliatin among T2D patients with moderate, severe and end stage chronic kidney disease (i.e. stages 3-5 of CKD)
- Completed HMM0111, investigating the pharmacokinetic (PK) and pharmacodynamic (PD) parameters of dorzagliatin either alone or in combination with sitagliptin (a DPP-4 inhibitor) in T2D patients, and demonstrated combination potential between the two drugs

IP and Others:

- Granted a formulation patent for dorzagliatin in China
- Filed six patent applications covering the IPR of fixed dose combination of dorzagliatin with six classes of oral anti-diabetic drugs
- Initiated a formal collaboration relating to the central role of glucokinase in controlling glucose homeostasis with Dr. Franz Matschinsky, Professor of Biochemistry and Biophysics, Institute for Diabetes, Obesity and Metabolism Perelman School of Medicine, Philadelphia and recipient of the 1995 Banting Medal for Scientific achievement and the 2020 Rolf Luft Award
- Presented AI-based machine learning results at the American Diabetes Association's 79th Scientific Sessions, providing a non-biased methodology to sub-classify T2D patients
- Announced that global operation headquarters and research and development center were established in Shanghai's ZhangJiang Science City
- Fully validated cGMP (current Good Manufacturing Practice) commercial manufacturing processes for active pharmaceutical ingredient (API) and drug product to support the launch of dorzagliatin in China
- Former U.S. FDA Officer Dr. Fuxing Tang joined Hua Medicine as Chief Technology Officer, VP of Formulation R&D and Product Development

Financial Highlights

- Cash position was approximately RMB1,105.6 million as of December 31, 2019.

- Total expenditures incurred by the Company for the year ended December 31, 2019 was approximately RMB468.5 million, of which approximately RMB321.9 million was research and development expenses.

- Research and development expenses increased by approximately RMB52.8 million or approximately 19.6% to approximately RMB321.9 million.

- Loss before tax decreased by approximately RMB3,178.7 million or approximately 88.2% to approximately RMB425.3 million.

- Loss and total comprehensive expense for the year decreased by approximately RMB3,178.7 million or approximately 88.2% to approximately RMB425.3 million.

- Adjusted net loss* increased by approximately RMB71.6 million or approximately 25.6% to approximately RMB350.9 million.

* Adjusted net loss is not a financial measure defined under IFRS. It is calculated by taking loss before tax for the year and adding back (a) share-based payments; and (b) loss on changes in fair value of financial liabilities at FVTPL.

CHAIRMAN AND CEO STATEMENT

Dear Shareholders,

It has been another extraordinary year for Hua Medicine. In November 2019, we announced that we achieved the primary efficacy endpoint in our monotherapy trial for our lead candidate, dorzagliatin. This marks the first time globally, any company has achieved positive results in a Phase III clinical trial for a therapy targeting the underlying cause of Type 2 diabetes (T2D) by restoring glucose homeostasis through modulation of the glucose-sensor glucokinase.

In addition to achieving this significant milestone, Hua Medicine has continued to move forward with our efforts to establish dorzagliatin as a cornerstone therapy for the treatment of T2D.

Key milestones in our Phase III registration trials:

- In November 2019 we announced that, dorzagliatin achieved its primary efficacy endpoint in a 24-week double blinded placebo controlled Phase III trial in drug naïve T2D patients in China (HMM0301), with very low hypoglycemia incidents and good safety profile

- In August 2019, we completed enrollment in a metformin add on with dorzagliatin Phase III registration trial in China (HMM0302), with 766 patients, and the last patient out completed the 24-week double blinded, placebo controlled treatment study in February 2020

- In March 2020, the last patient out for HMM0301 completed their 52-week treatment (plus one-week follow-up)

Other key milestones:

- In January 2019, we were granted a formulation patent for dorzagliatin in China

- In March 2019, we initiated a formal collaboration with Franz Matschinsky, the godfather of glucokinase, to expand our knowledge and understanding of the central role of glucokinase as a glucose sensor in glucose homeostasis

- In May 2019, we filed patents covering the IPR of fixed dose combination of dorzagliatin with 6 classes of T2D OADs

- In June 2019, we presented AI based machine learning results at the American Diabetes Association's 79th Scientific Sessions, providing a non-biased methodology to sub-classify T2D patients, bringing us a step closer to providing personalized diabetes care

- In December 2019, we announced that Hua Medicine's global operation headquarters and R&D center will be established in Shanghai's ZhangJiang Science City

- In December 2019, we completed a Phase I clinical trial that demonstrates desirable pharmacokinetics profile in late stage renal dysfunction patients, expanding its indication to T2D patients in various stages of impaired renal function

- In December 2019, we completed a Phase I trial investigating the PK and PD parameters of dorzagliatin either alone or in combination with sitagliptin in T2D patients in the United States. The results demonstrated no drug-drug interaction, and potential synergistic effect in glucose lowering and improved β-cell function

- Throughout the year, we fully validated cGMP commercial manufacturing processes for API and drug product to support the China launch of dorzagliatin

Looking forward to 2020, we expect to complete the remainder of the essential work related to our pivotal registration trials, and continuing to move ahead with delivering dorzagliatin to T2D patients globally as quickly as possible.

Other Milestones to look forward to in 2020:

- Announcement of the 52-week top-line results of our monotherapy Phase III trial (HMM0301)

- Announcement of the 24-week and 52-week top-line results of our add-on with metformin Phase III trial (HMM0302)

- Completion of HMM0112: Phase I drug-drug interaction with empagliflozin in T2D subjects to evaluate drug-drug interaction and PK/PD

Since late January 2020, operations in China have been impacted by the COVID-19 outbreak. Hua Medicine has a satellite office in Wuhan, the center of the outbreak, as well as clinical centers, investigators, and patients in the city. We quickly formed a response team to ensure the safety of our employees and all those involved in our clinical trials, as well as to ensure the continuation of our clinical trials as normally as possible. We are exceptionally grateful that no employees of Hua Medicine as of this date has contracted the novel coronavirus. As senior leaders of Hua Medicine, we pledge to continue to support the government in their efforts to contain the outbreak, as well as maintaining operations as normal as possible. However, due to the disruptions caused by the successful containment efforts in China, we would expect some delays to our timelines, and we will endeavor to provide timely disclosures at the appropriate times.

We continue to dedicate our efforts to conducting clinical trials globally at the highest quality, and remain committed to our goal of focusing on innovative, first-in class medicines. As always, our successes are the combined effort of the Hua Medicine team, our partners and shareholders, and we would like to express our deep appreciation to you all.

Thank you.

Robert Nelsen	**Li Chen**
Chairman	*CEO, Founder, and CSO*

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a pre-revenue China-based drug development company currently focusing on the development of dorzagliatin, a first-in-class oral drug for the treatment of Type 2 Diabetes ("**T2D**"). We filed an Investigational New Drug ("**IND**") application with the National Medical Products Administration of the People's Republic of China (the "**NMPA**") for dorzagliatin under Category 1.1 (New Drug) in 2012 and initiated a Phase Ia clinical study of our novel glucokinase activator dorzagliatin in September 2013. We also filed an IND application with the U.S. Food and Drug Administration ("**FDA**") for dorzagliatin in March 2015. Since then, we have completed six Phase I trials in China, three Phase I trials in the United States, and one Phase II trial in China. During the year ended December 31, 2019 (the "**Reporting Period**"), we released positive 24-week results from one of our pivotal Phase III registration trial in China (HMM0301). We also presented our AI-based, machine learning results at the American Diabetes Association's 79th Scientific Sessions (the "**2019 ADA**"), which provide a non-biased methodology to sub-classify T2D patients. To further elucidate the mechanism of action for dorzagliatin, we also presented the results of an enzyme kinetics study comparing dorzagliatin and other earlier generation glucokinase activators at the 2019 ADA. We are currently conducting two Phase III trials in China and two Phase I trials in China and the United States. Our Phase III registration trials began in July 2017, with dorzagliatin both as a monotherapy (HMM0301) and in combination with metformin (HMM0302). One of our Phase I trials, HMM0109, is to study the pharmacokinetics profile of dorzagliatin in hepatic impaired patients. The other Phase I trial, HMM0112, is a drug-drug interaction trial studying the pharmacokinetics and pharmacodynamics interaction between dorzagliatin and empagliflozin (a SGLT-2 inhibitor) to investigate their combination potential.

We have initiated multiple studies on dorzagliatin plus existing anti-diabetes therapies at preclinical development and clinical settings. Six patents were filed, which cover the fixed-dose combination of dorzagliatin with six classes of oral anti-diabetic drugs. Some of these classes have already demonstrated complementary or synergistic effects to expand the clinical application across a full range of T2D patients, and those with metabolic syndrome or other diabetes complications.

In preparation for our NDA submission for dorzagliatin with the NMPA, we have fully validated cGMP commercial manufacturing processes for API and drug product to support our launch in China.

We also continue to develop mGLUR5, a potential novel drug candidate for the treatment of Parkinson's disease levodopa-induced dyskinesia, or PD-LID.

Product pipeline

Set out below are the key stages of our product candidates under development:

Trial #	Drugs	Disease indication	Study type	Pre-clinical	Phase I	Phase II	Phase III	NDA
HMM0301	Dorzagliatin	Drug naïve T2D	Registration trial					
HMM0302	Dorzagliatin & metformin	Metformin tolerated T2D	Registration trial					
HMM0311	Dorzagliatin +/vs OAD	Metformin tolerated T2D	Label expansion					
HMM0312	Dorzagliatin +/vs OAD	Metformin tolerated T2D	Label expansion					
HMM0109	Dorzagliatin	Hepatic impaired T2D	Label expansion					
HMM0110	Dorzagliatin	Renal impaired T2D	Label expansion					
HMM0111	Dorzagliatin + DPP-4	Obese T2D	PK/PD & DDI					
HMM0112	Dorzagliatin + SGLT-2	Metabolic syndrome	PK/PD & DDI					
HMM0113	Dorzagliatin + atorvastatin	Label expansion	PK/PD & DDI					
HMM0114	Dorzagliatin + valsartan	Label expansion	PK/PD & DDI					
HMM0115	Dorzagliatin + sulfonylurea	SU-tolerated T2D	PK/PD & DDI					
HMM0116	Dorzagliatin + acarbose	Acarbose tolerated T2D	PK/PD & DDI					
HMM0117	Dorzagliatin + liraglutide	GLP-1 tolerated T2D	PK/PD & DDI					
HMM0119	Dorzagliatin + pioglitazone	NASH T2D	PK/PD & DDI					
HMM1201	Dorzagliatin + insulin	Basal insulin tolerated T2D	Insulin sparing					
HMM1202	Dorzagliatin + insulin	Drug naïve severe T2D	Pre-clinical					
	mGLUR5	PD-LID	Pre-clinical					

Currently Ongoing

Planned

HMM0301 is a dorzagliatin monotherapy Phase III trial in drug-naive T2D patients in China. We completed enrollment with over 450 patients as of February 28, 2019, and we announced positive 24-week top-line results on November 12, 2019. The trial achieved its primary efficacy endpoint by demonstrating a statistically significant reduction in HbA1c levels over placebo. Patients treated with dorzagliatin achieved 1.07 percent HbA1c reduction from baseline of 8.35 percent at 24 weeks compared to a reduction of 0.50 percent from a baseline of 8.37 percent in patients who received placebo (least square mean, p-value less than 0.0001). The American Diabetes Association (ADA) treatment target of HbA1c below 7.0 percent was achieved by 45.4 percent of subjects on dorzagliatin (PPS data, p-value less than 0.0001), compared to 21.5 percent of subjects who received placebo. The homeostatic control rate, measured by the percentage of Type 2 diabetes patients who achieved an HbA1c level of below 7.0 percent without hypoglycaemia, reached 45.0 percent in subjects on dorzagliatin (PPS data, p-value less than 0.0001), and 21.5 percent in subjects on placebo. We completed the 52-week trial (plus one-week follow-up) on March 2, 2020.

HMM0302 is a dorzagliatin combination with metformin Phase III trial in metformin tolerant T2D patients in China. We completed patient enrollment with over 750 patients as of August 30, 2019, and we completed the double blinded placebo controlled 24-week portion of the trial in February 2020, and expect to complete the full 52-week trial (plus one-week follow-up) in the second half of 2020.

As part of our strategy to establish dorzagliatin as a cornerstone therapy for the treatment of T2D globally, we are also investigating the combination of dorzagliatin with various approved classes of oral anti-diabetic medicines as well as other popular medicines commonly taken by diabetes patients to address patients' personal needs.

HMM0109 is a Phase I trial studying the impact on pharmacokinetics for patients with hepatic impairment in China.

HMM0112 is a dorzagliatin combination with empagliflozin (SGLT-2 inhibitor) Phase I trial in T2D patients in the United States. We announced the first patient was dosed in April 2019 and expect to complete and announce results by first half 2020.

We continue to work closely with and supervise our contract research organizations (CROs), clinical site management operators (SMOs), and contract manufacturing organizations (CMOs), who provide us with a range of services at a consistently high level of quality.

To date, we have not yet generated any revenue from the sale of goods or from the rendering of services, recognizing only limited income in the form of government grants and investment income. As of December 31, 2019, we expect to incur significant losses for the foreseeable future with no product revenues prior to obtaining marketing approval for dorzagliatin from the NMPA and commercializing dorzagliatin.

Cautionary Statement required under Rule 18A.08(3) of the Listing Rules: We may not be able to ultimately develop and market our dorzagliatin successfully.

Business outlook

We plan to announce top-line 52-week Phase III trial results for our monotherapy trial (HMM0301) by no later than third quarter 2020, announce top-line 24-week Phase III results for our combination with metformin trial (HMM0302) by no later than third quarter 2020, and top-line 52 week results by year end 2020. We plan to file for NDA approval with the NMPA after the completion of both 52-week trials. Our plan is to partner with either China-based or international pharmaceutical companies to make dorzagliatin available to patients, in both China and regions outside of China. In order to continue expansion of dorzagliatin's indications for the treatment of T2D, we plan to initiate trials with several other available medicines to expand our dorzagliatin-driven portfolio. As part of the strategy to establish dorzagliatin as a cornerstone therapy for the treatment of T2D globally, we would expect to collaborate with global experts in T2D to further understand the potential of dorzagliatin.

Key events after the Reporting Period

On January 6, 2020, we announced positive results for our HMM0110 and HMM0111 trials.

HMM0110 was conducted in China to evaluate whether dorzagliatin can be readily used in Type 2 diabetes (T2D) patients with impaired renal function. In subjects with end stage renal disease (ESRD, eGFR<15mL/min/1.73 m2) and are not on dialysis, as compared to healthy subjects whose renal function is normal, the ratio of dorzagliatin Cmax and AUCinf were 0.81 (90% CI: 0.64, 1.01) and 1.10 (90% CI: 0.94, 1.28) respectively, indicating no significant impact of renal impairment on subjects exposed to dorzagliatin. This result supports dorzagliatin as a promising solution and potential supplementary option for T2D patients with moderate, severe and end stage chronic kidney disease (i.e., stages 3-5 of CKD) which can provide satisfactory blood glucose control safely and without dose adjustment. Most of current oral antidiabetic drugs are not readily suitable for patients with renal impairment, especially at moderate, severe and end stages, as current oral treatments either require dose adjustment (e.g., metformin and the top-selling DPP-4 inhibitors) or are contraindicated (e.g., SGLT-2 inhibitors).

HMM0111 was a pharmacokinetic (PK) and pharmacodynamic (PD) study conducted in the United States in T2D patients with insufficiently controlled blood glucose levels with metformin, DPP-4 inhibitors or SGLT-2 inhibitors, alone or in combination therapy. Patients received dorzagliatin (75mg BID) and sitagliptin (100mg QD), alone or in combination. Co-administration orally of dorzagliatin and sitagliptin at steady state demonstrated no impact on their PK properties but, following OGTT, based on glucose AUEC, the combined effect (AUEC: 253h*mg/dL) is superior to sitagliptin alone (AUEC: 378h*mg/dL) and dorzagliatin alone (AUEC: 339h*mg/dL) with $p\text{-value}<0.05$. It is also demonstrated that dorzagliatin add-on to sitagliptin increases C-peptide secretion over dorzagliatin and sitagliptin alone, suggesting a synergistic effect of improved beta cell function. This result supports the development of a combination therapy of dorzagliatin with sitagliptin in the treatment of T2D patients.

As of the date of this annual report, business operations in China have been impacted by the outbreak of the novel coronavirus (COVID-19) since the latter half of January 2020. Due to the extenuating circumstances of the COVID-19 outbreak, many businesses in China halted operations as a result of the quarantine measures imposed by the government. Following guidelines issued by the Chinese government, our Company requested all employees work remotely beginning February 3, 2020. On March 2, 2020, our employees started returning to our offices in China in accordance with government guidelines, and as of the date of this annual report, most of our employees, as well as those of our partners (e.g., CROs, SMOs and CMOs), have resumed normal operations. Despite these challenging circumstances, we have been able to achieve our major clinical trial milestones during this period without any delay. As of February 16, 2020, we completed the last patient out, 24-week patient visit for HMM0302. As of March 2, 2020, we completed the last patient out, 52-week (plus one-week follow-up) visit for HMM0301. Throughout this period, we have operated in strict adherence with national guidelines in conducting clinical trials, and also enforced additional trial management guidelines in pharmacovigilance and quality control to ensure our clinical trials remain on track and conducted in high quality. However, we do expect potential delays in the release of top-line results and also potential delays with some NDA-enabling work due to the COVID-19 outbreak, which could lead to a delay in the filing of the NDA with the NMPA.

Financial review

Other income

Our other income consisted primarily of bank interest income and government grants. Our other income increased by RMB19.2 million to RMB29.6 million for the year ended December 31, 2019 from RMB10.4 million for the year ended December 31, 2018, which was mainly attributable to an increase of RMB13.1 million in government grants for the year ended December 31, 2019, and an increase of RMB6.1 million in bank interest income from short-term time deposits. We received RMB27.7 million government grants from the local governments for research and development activities for the year ended December 31, 2019, among which we recorded RMB20.7 million in other income and RMB7.0 in deferred income.

Other gains and losses

Our other gains and losses consisted primarily of gains or losses due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between the Renminbi and the HK dollar. Our other gains and losses decreased by RMB47.5 million to a gain of RMB16.3 million in the year ended December 31, 2019 from a gain of RMB63.8 million in the year ended December 31, 2018, which was mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in U.S. dollars and HK dollars and the smaller appreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2019, compared to the larger appreciation of the U.S. dollar against the Renminbi in the year ended December 31, 2018.

Our business mainly operates in the PRC, and most of our transactions are settled in Renminbi. Since inception, we have financed our business solely through equity financings, with related proceeds denominated in U.S. dollars, HK dollars and Renminbi. We converted a portion of those U.S. dollar proceeds to Renminbi and HK dollar proceeds to U.S. dollar, with the remaining amounts reserved for additional conversions to Renminbi as needed. Translation for financial statement presentation purposes of our assets and liabilities exposes us to currency-related gains or losses and the actual conversion of our U.S. dollar and HK dollar denominated cash balances (including the HK dollar proceeds received from the Global Offering (comprising the Hong Kong public offering of 10,476,000 Shares and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company) into Renminbi) will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses increased by RMB46.2 million to RMB146.6 million in the year ended December 31, 2019 from RMB100.4 million in the year ended December 31, 2018, which was mainly attributable to i) increase of RMB15.6 million in cash compensation due to increased headcounts of new employees for the establishment of our finance and corporate development team and commercial strategy and marketing team in 2019, ii) increase of ongoing public listing costs, and meeting fee and activities associated with market research for the year ended December 31, 2019, and iii) increase of overhead costs including but not limited to leasehold expense, information technology service fee, and travelling expenses.

Other expenses

Our other expenses consist of expense associated with a donation of RMB1.7 million (equivalent to USD250,000) for the year ended December 31, 2019 to establish the Type 2 Diabetes research fund at the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania.

Finance cost

Our finance cost consisted of expenses associated with the issue of redeemable convertible preferred shares and interest on lease liabilities. Our finance cost was RMB0.9 million for the year ended December 31, 2019 as compared to RMB3.5 million for the year ended December 31, 2018, which was attributable to no new preferred shares issued for the year ended December 31, 2019.

Listing expenses

Our listing expenses mainly include sponsor fee, underwriting fees and commissions, and professional fees paid to legal advisers and the reporting accountants for their services rendered in relation to the Global Offering. We incurred listing expenses of approximately RMB38.9 million for the year ended December 31, 2018. No such expense was incurred for the year ended December 31, 2019.

Research and development expenses

The following table sets forth the components of our research and development expenses for the year indicated.

	For the year ended December 31,			
	2019		2018	
	RMB'000	%	RMB'000	%
Dorzagliatin Clinical Trials	158,900	49.4%	133,619	49.7%
Dorzagliatin Non-clinical Studies	3,124	1.0%	2,295	0.9%
Chemical, Manufacturing and Control	33,061	10.3%	44,733	16.5%
Labor Cost	109,458	34.0%	76,854	28.6%
Dorzagliatin Licensing and Patent Fee	2,018	0.6%	137	0.1%
Others	15,343	4.7%	11,427	4.2%
Total	321,904	100.0%	269,065	100.0%

Research and development expenses increased by RMB52.8 million to RMB321.9 million for the year ended December 31, 2019 from RMB269.1 million for the year ended December 31, 2018. The increase in research and development expenses included:

- an increase of RMB25.3 million for dorzagliatin clinical trials, which was primarily attributable to increased costs associated with the progress of our Phase III clinical trials and additional Phase I clinical trials conducted in the year ended December 31, 2019;

- an increase of RMB0.8 million in dorzagliatin non-clinical studies, which was primarily attributable to new efficacy evaluation studies conducted in the year ended December 31, 2019;

- a decrease of RMB11.7 million in chemical, manufacturing, and control (CMC) expenses, which was primarily attributable to higher expenditures on process validation of API manufacturing completed in 2018 compared with that on process validation for spray dried powder (SDP) manufacturing and drug product manufacturing completed in 2019;

- an increase of RMB32.6 million for increased labor costs, which was primarily attributable to an increase of RMB21.5 million in cash compensation mainly associated with headcount increase and milestone bonus payments and an increase of RMB11.1 million in share option expenses;

- an increase of RMB1.9 million for increased dorzagliatin licensing and patent fee, which was primarily attributable to a Patent Cooperation Treaty (PCT) application for dorzagliatin; and

- an increase of RMB3.9 million for others, which was primarily attributable to increased travelling, consulting and meeting costs, and increased rental cost.

Income tax expense

We recognized no income tax expenses for the year ended December 31, 2019 and the year ended December 31, 2018.

Adjusted net loss

Adjusted net loss was calculated by taking loss before tax for the year and adding back (a) share option expenses; and (b) loss on changes in fair value of financial liabilities at FVTPL.

We present this financial measure because it helps us to identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in net loss and it provides useful information about our operating results, enhances the overall understanding of our past performance and future prospects, and allows for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

The term adjusted net loss is not a financial measure defined under IFRS and does not have a standardised meaning prescribed by IFRS, hence it may not be comparable to similar measures presented by other issuers. The use of adjusted net loss has material limitations as an analytical tool, as it does not include all items that impact net loss for the year. Items excluded from adjusted net loss are significant components in understanding and assessing the Group's operating and financial performance. The following table reconciles the adjusted net loss for the period presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the year:

	For the year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Loss before tax for the period	(425,270)	(3,603,998)
Adjust for:		
Loss on changes in fair value of financial liabilities at FVTPL	–	3,266,216
Share option expenses	74,384	58,500
Adjusted net loss	(350,886)	(279,282)

Liquidity and capital resources

Since our inception, we have been in a net loss position with and net cash outflows from operations. Our primary use of cash is to fund our research and development activities. Our operating activities utilized RMB342.1 million for the year ended December 31, 2019. As of December 31, 2019, we had cash and cash equivalents of RMB1,105.6 million.

As of December 31, 2019, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Cash Operating Cost

The following table sets out the components of our cash operating cost for the years indicated:

	For the year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Research and development costs	238,337	169,938
Administrative costs		
– Workforce employment	46,267	40,262
– Others	57,463	59,223
	103,730	99,485
	342,067	269,423

Cash Flows

The following table provides information regarding our cash flows for the years ended December 31, 2018 and 2019:

	For the year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net cash used in operating activities	(342,067)	(269,423)
Net cash (used in) from investing activities	(9,515)	12,492
Net cash (used in) from financing activities	(1,236)	1,464,856
Effect of exchange rate changes	15,108	62,652
Net (decrease) increases in cash and cash equivalents	(337,710)	1,270,577

Net Cash Used in Operating Activities

The primary use of our cash was to fund the development of our research and development activities, regulatory, and other clinical trial costs, and related supporting administration. Our prepayments and other current assets, accounts payable and other payables balances were affected by the timing of vendor invoicing and payments.

During the year ended December 31, 2019, our operating activities used RMB342.1 million of cash, which resulted principally from our loss before tax of RMB425.3 million, adjusted for non-cash charges and non-operating cash charges of RMB61.7 million, and by cash used in our operating assets and liabilities of RMB21.5 million. Our net non-cash charges during the year ended December 31, 2019 primarily consisted of RMB3.4 million of depreciation of equipment, RMB6.9 million of amortization for right-of-use assets, RMB74.4 million share option expenses expenses, RMB7.3 million of bank interest income, RMB1.6 million of government subsidy income and RMB15.1 million net foreign exchange gain.

During the year ended December 31, 2018, our operating activities used RMB269.4 million of cash, which resulted principally from our loss before tax of RMB3,604.0 million, adjusted for non-cash charges and non-operating cash charges of RM3,255.9 million, and by cash used in our operating assets and liabilities of RMB78.7 million. Our net non-cash charges during the year ended December 31, 2018 primarily consisted of RMB3,266.2 million of loss on changes in fair value of financial liabilities at FVTPL, depreciation of equipment, amortization for intangible assets, share-based payments expenses, and net foreign exchange gain.

Net Cash (used in) from Investing Activities

Net cash used in investing activities was RMB9.5 million for the year ended December 31, 2019, which resulted primarily from the interest received from bank, payments for rental deposits and the purchase of equipment. Net cash provided by investing activities was RMB12.5 million for the year ended December 31, 2018, which resulted primarily from the disposals of other financial assets and purchases of equipment.

Net Cash (used in) from Financing Activities

Net cash used in financing activities was RMB1.2 million for the year ended December 31, 2019, which resulted from exercise of share options and payments relating to lease liabilities. Net cash from financing activities was RMB1,464.9 million for the year ended December 31, 2018, which resulted primarily from proceeds from the issue of our Series D and E preferred shares and net proceeds from the Global Offering.

Financial position

Our net current assets decreased from RMB1,396.9 million as of December 31, 2018 to RMB1,011.7 million as of December 31, 2019. Current assets decreased from RMB1,474.5 million as of December 31, 2018 to RMB1,120.5 million as of December 31, 2019, primarily due to a decrease in bank balances and cash from RMB1,443.3 million as of December 31, 2018 to RMB1,105.6 million as of December 31, 2019, which was due primarily to the payments for our research and development activities and daily operation.

Significant change in accounting policy

We have applied IFRS 16 for the first time using the modified retrospective approach under IFRS 16 at transition since January 1, 2019 and IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations. As of January 1, 2019, the Group recognized additional lease liabilities and right-of-use assets equal to the related lease liabilities, adjusted by any prepaid lease payments by applying IFRS 16 in our consolidated statement of financial position as of December 31, 2019.

Indebtedness

As of December 31, 2019, our lease liabilities amounted to RMB90.0 million. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31, 2019 RMB'000
Current portion	12,019
Non-current portion	77,959
Total	89,978

Our lease liabilities as of December 31, 2019 were from leased properties and vehicle lease contracts with lease terms of two to six years. As of December 31, 2019, we did not have any other indebtedness.

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to a variety of market risks, including currency risk, interest rate risk, credit risk, and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We currently do not hedge or consider it necessary to hedge any of these risks.

Currency Risk

Our business mainly operates in the PRC with most of our transactions settled in Renminbi, and our financial statements are presented in Renminbi. Renminbi is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of Renminbi is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Since our inception, we have raised funds through various rounds of offshore financings and received proceeds of such financings in U.S. dollars, HK dollars and Renminbi. We convert a portion of those funds to Renminbi immediately and place the remaining amount in time deposits. We convert additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. To the extent that we need to convert U.S. dollar or other currencies we have received in previous financings into Renminbi for our operations, or if any of our arrangements with other parties are denominated in U.S. dollars and need to be converted into Renminbi, appreciation of the Renminbi against the U.S. dollar or other currencies would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollar or other currencies for business purposes, appreciation of the U.S. or HK dollar against the Renminbi would have a negative effect on the U.S. dollar or other currencies amounts available to us. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency rate.

The following table details our sensitivity to a 5% increase and decrease in Renminbi against U.S. dollars and HK dollars, the foreign currencies with which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollars denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative/positive number below indicates an increase/decrease in loss where Renminbi strengthens 5% against U.S. dollars and HK dollars. For a 5% weakening of Renminbi against U.S. dollars and HK dollars there would be an equal and opposite impact or loss for the year.

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Impact on profit or loss		
US$	(42,433)	(50,411)
HK$	(2,634)	(20,438)

Interest Rate Risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Liquidity Risk

As of December 31, 2019 and 2018, we recorded net current assets of RMB1,011.7 million and RMB1,396.9 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key Financial Ratios

The following table sets forth our key financial ratios as of the dates indicated:

	As of December 31,	
	2019	2018
Current ratio [1]	10.3	19.0
Quick ratio [2]	10.3	19.0

(1) Current ratio represents current assets divided by current liabilities as of the same date.

(2) Quick ratio represents current assets less inventories divided by current liabilities as of the same date.

The current ratio and quick ratio as of December 31, 2019 decreased by 8.7 compared with that as of December 31, 2018 was mainly due to the cost of research activities and daily operation.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Li CHEN (陳力), aged 57, is our founder, Chief Executive Officer, Chief Scientific Officer, and the Chairman of the Company's Strategy Committee. He was appointed as a Director on June 4, 2010 and re-designated as an executive Director on May 11, 2018. He has been our Chief Executive Officer since June 4, 2010. Since August 2010 and March 2011, respectively, he has served as a director of Hua HK and Hua Shanghai.

Dr. Chen has over 20 years of experience in the biopharmaceutical industry. He is a pioneer in collaborative innovation in China and has been actively involved in the development of dorzagliatin including the years he spent at Roche (from whom we acquired our rights to dorzagliatin in 2011). Dr. Chen joined Roche in 1992 in the United States, focusing on R&D. Dr. Chen held many leadership positions rising to become a member of Roche's Research Leadership Team. In his last position at Roche before joining the Group, he served as the founding director and chief scientific officer of Roche China R&D Center in Shanghai, China. In that role, Dr. Chen was responsible for development and implementation of Roche China drug discovery strategy, creation of China discovery portfolio, and management of China operations with several drugs from the Roche R&D portfolio during his tenure (including dorzagliatin). Since June 2014, Dr. Chen has served as an independent director of Coland Pharmaceutical Co., Ltd (康聯藥業有限公司), listed on Taiwan Stock Exchange (stock code: 4144) and primarily engaged in sales, marketing and distribution of pharmaceutical products and medical devices.

Dr. Chen obtained his Bachelor of Science in Chemistry from Zhengzhou University in July 1982, a Master of Science in Chemistry from East China Normal University in November 1985 in Shanghai and a Ph.D. in Organic Chemistry in August 1992 from Iowa State University in the United States. He is an inventor of 38 granted patents and has authored 58 scientific publications. From September 2007 to September 2010, Dr. Chen served as an adjunct professor at Tongji University in Shanghai. In 2001, Dr. Chen served as the President of the Sino-American Pharmaceutical Professionals Association ("SAPA").

Save as disclosed above, Dr. Chen is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

George Chien Cheng LIN (林潔誠), aged 49, was appointed as our Director on May 11, 2018 and re-designated as an executive Director on the same date. He has been the Company's Executive Vice President and Chief Financial Officer since December 22, 2017. Mr. Lin has been serving as a member of the Biotech Advisory Panel of the Stock Exchange since April 24, 2018. Mr. Lin has over 18 years of experience in investment banking working with numerous private and public companies globally. Prior to joining the Group, he worked for Bank of America Merrill Lynch in Hong Kong as an investment banker, and held a number of senior positions including Asia Pacific head of consumer, retail and healthcare investment banking, and head of Hong Kong and Taiwan investment banking coverage from June 2013 to December 2017. From July 2000 to May 2013, he worked for Credit Suisse as an investment banker in the Los Angeles, San Francisco and Hong Kong offices. At Credit Suisse, he focused on financings and merger and acquisitions for a variety of global clients, including, but not limited to, U.S. biotechnology companies and Chinese healthcare companies. His last position at Credit Suisse was Asia Pacific (ex-Japan) head of consumer, retail and healthcare investment banking based in Hong Kong. Prior to investment banking, Mr. Lin practiced corporate law in Los Angeles including working for O'Melveny & Myers for over 4 years from September 1995 to July 1999.

Mr. Lin obtained his bachelor's degree in biological sciences from the University of California at Davis in June 1992 and a juris doctor degree from The University of Chicago Law School in June 1995. Mr. Lin was admitted to the California State Bar in December 1995. Mr. Lin is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Non-executive Directors

Robert Taylor NELSEN, aged 56, was appointed as our Director on April 23, 2010 and re-designated as a non-executive Director on May 11, 2018. He is the Chairman of our Board, the Chairman of the Nomination Committee and a member of the Strategy Committee, and has also been a director of our subsidiary, Hua HK, since August 2010.

Since 1994, Mr. Nelsen has served as a co-founder and managing director of ARCH Venture Partners, a venture capital firm focused on early-stage technology companies, and has played a significant role in the early sourcing, financing and development of more than 30 biopharmaceutical companies. Mr. Nelsen has been serving as a director of Karuna Therapeutics Inc. (stock code: KRTX) since August 2018, Beam Therapeutics Inc. (stock code: BEAM) since June 2017, Vir Biotechnology Inc. (stock code: VIR) since January 2017, Denali Therapeutics, Inc. (stock code: DNLI) since May 2015, and Unity Biotechnology, Inc. (stock code: UBX) since November 2011, and previously served as a director of Sienna Biopharmaceuticals, Inc. (stock code: SNNA) from August 2015 to October 2018, Syros Pharmaceuticals, Inc. (stock code: SYRS) from August 2012 to June 2018, Juno Therapeutics, Inc. (stock code: JUNO) from August 2013 to March 2018, KYTHERA Biopharmaceuticals, Inc. (stock code: KYTH) from January 2006 to December 2014, Agios Pharmaceuticals Inc. (stock code: AGIO) from December 2007 to June 2017, Sage Therapeutics, Inc. (stock code: SAGE) from September 2013 to March 2016, Bellerophon Therapeutics, Inc. (stock code: BLPH) from February 2014 to November 2015, Adolor Corporation (stock code: ADLR) from November 1994 to May 2004, Illumina, Inc. (stock code: ILMN) from June 1998 to August 2006, Fate Therapeutics, Inc. (stock code: FATE) from September 2007 to June 2014, and NeurogesX, Inc. (stock code: NGSX) from July 2000 to July 2013, all of which were companies listed on NASDAQ stock market in the United States. Subsequent to June 29, 2012, NGSX shares were quoted on the Over the Counter Bulletin Board (OTC) in the United States. Mr. Nelsen also previously served as a trustee of Fred Hutchinson Cancer Research Center.

Mr. Nelsen received a Bachelor of Science degree with majors in economics and biology from the University of Puget Sound in the United States in 1985 and an M.B.A. from the University of Chicago in the United States in 1987. Save as disclosed above, Mr. Nelsen is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Lian Yong CHEN (陳連勇), aged 57, was appointed as our Director on January 6, 2015 and re-designated as a non-executive Director on May 11, 2018. Dr. Lian Yong Chen is a member of the Audit Committee and the Remuneration Committee. He has also been a director of our subsidiaries, Hua HK and Hua Shanghai, since January 2015 and April 2016 respectively. Dr. Lian Yong Chen is currently the founding managing partner and CEO of 6 Dimensions Capital. He has over 20 years of experience in the life sciences industry in China and the United States as a venture capitalist, senior management executive, entrepreneur, and scientific inventor. He was the founder and managing partner at Frontline BioVentures and a partner at FIL Capital Management (Hong Kong) Limited in Asia from May 2008 to March 2014.

Since May 2019, he has served as a director at 111, Inc., a company listed on NASDAQ (stock code: YI). Since August 2018, he has served as a director at CStone Pharmaceuticals, a company listed on the main board of the Stock Exchange (stock code: 2616). He served as a director of Shanghai Hile Bio-Pharmaceutical Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603718) since December 2014. Save as disclosed above, Dr. Lian Yong Chen is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Dr. Lian Yong Chen conducted postdoctoral research at the Massachusetts Institute of Technology after obtaining his Ph.D. degree in Chemistry (with top honor) from the University of Louvain, Louvain-La-Neuve in Belgium in July 1991. He obtained his Bachelor of Science degree in Chemistry from Peking University in June 1984.

Independent Non-executive Directors

Walter Teh-Ming KWAUK (郭德明), aged 67, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Kwauk is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Kwauk has been serving as an independent director at Alibaba Group Holding Limited, a company primarily engaged in internet commerce services and listed on the New York Stock Exchange (stock code: BABA) and the Stock Exchange (stock code: 9988), since September 2014 and November 2019, and is currently the chairman of the audit committee of Alibaba Group Holding Limited. He previously served as an independent non-executive director and chairman of the audit committee of Alibaba.com Limited, a subsidiary of Alibaba Group Holding Limited which was listed on the Stock Exchange, from October 2007 to July 2012. Mr. Kwauk is also currently a senior adviser of Motorola Solutions (China) Co., Ltd., a software and services company primarily engaged in provision of data communications and telecommunications equipment, and serves as an independent non-executive director of Sinosoft Technology Group Limited, a software and services company listed on the Stock Exchange (stock code: 1297), and WuXi Biologics (Cayman) Inc., a company primarily engaged in biologics services provision and listed on the Stock Exchange (stock code: 2269), for both of which Mr. Kwauk is also the chairman of their audit committees.

From June 2014 to August 2016, he served as an independent non-executive director and the chairman of the audit committee of China Fordoo Holding Limited, a menswear design and manufacturing company listed on the main board of the Stock Exchange (stock code: 2399), and has been responsible for providing independent judgment to the board of the company. From August 2014 to December 2015, Mr. Kwauk also served as an independent director of WuXi PharmaTech, a biopharmaceutical company formerly listed on the New York Stock Exchange during the same period. Mr. Kwauk was a vice president of Motorola Solutions, Inc., data communications and telecommunications equipment provider, and its director of corporate strategic finance and tax for Asia Pacific from 2003 to 2012. Mr. Kwauk served with KPMG from 1977 to 2002 and held a number of senior positions, including the general manager of KPMG's joint venture accounting firm in Beijing, the managing partner in KPMG's Shanghai office and a partner in KPMG's Hong Kong office.

Mr. Kwauk has been a member of the Hong Kong Institute of Certified Public Accountants since March 1983. He received a bachelor's degree in science and a licentiate's degree in accounting from the University of British Columbia in Canada in April 1975 and April 1977 respectively. Save as disclosed above, Mr. Kwauk is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

William Robert KELLER, aged 71, was appointed as independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Remuneration Committee as well as a member of the Audit Committee and Nomination Committee. Mr. Keller is primarily responsible for supervising and providing independent judgment to our Board.

Since May 2017, Mr. Keller has served as an independent non-executive director on the board of WuXi Biologics, a company primarily engaged in biologics services provision and listed on the main board of the Stock Exchange (stock code: 2269). Since December 2010, he holds directorship at Coland Pharmaceutical Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 4144). From September 2014 to December 2015, Mr. Keller served as an independent director of WuXi PharmaTech, a biopharmaceutical company formerly listed on the New York Stock Exchange during the same period. Between 1974 to 2003, Mr. Keller served in various positions at the Roche Group, including as the general manager of Roche China Ltd. and Shanghai Roche Pharmaceutical Ltd. He has been a vice chairman of the Shanghai Association of Enterprises with Foreign Investment, a senior consultant to the Shanghai Foreign Investment Development Board, and the deputy general manager of Zhangjiang Biotech and Pharmaceutical Base Development Co., Ltd. Mr. Keller previously held directorships in biopharmaceutical companies including Alexion Pharmaceuticals, Inc., a company listed on NASDAQ (stock code: ALXN) from December 2009 to May 2015, China Nuokang Pharmaceutical Inc. a company listed on NASDAQ (stock code: NKBP) from August 2008 to December 2011. He has also served as a chairman of HBM Biomed China Partners.

Mr. Keller obtained a Bachelor of Science degrees from the School of Economics and Business Administration in Switzerland in July 1972. Save as disclosed above, Mr. Keller is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Junling LIU (劉峻嶺), aged 55, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also a member of the Nomination Committee and Strategy Committee. Mr. Liu is the chairman and chief executive officer of 111,Inc., a digital and mobile healthcare platform operator in China, a company listed on NASDAQ (stock code: YI). Mr. Liu was a co-founder and chief executive officer of Yihaodian. Before establishing Yihaodian in 2008, Mr. Liu was a co-president of Dell (China) Company Limited from 2006 to 2007. He has been an independent director of Autohome Inc., company listed on New York Stock Exchange (stock code: ATHM) since January 12, 2015.

Mr. Liu received his Master of International Business Administration degree from Flinders University in Australia in 1998. Save as disclosed above, Mr. Liu is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Yiu Wa Alec TSUI (徐耀華), aged 70, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management. He served at various positions, including the chief executive of the Stock Exchange from February 1997 to August 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited from March 2000 to August 2000 and the chairman of Hong Kong Securities Institute from December 2001 to December 2004. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited, a private professional consulting services and financial solutions company from February 2006 to June 2016, and presently serves as a director to WAG Worldsec Management Consultancy Limited.

Mr. Tsui is an independent non-executive director of a number of companies listed in Hong Kong, namely, COSCO Shipping International (Hong Kong) Co., Ltd., (stock code: 517) since February 2004, Pacific Online Limited (stock code: 543) since November 2007 and DTXS Silk Road Investment Holdings Company Limited (stock code: 620) since December 2015. He also serves as independent director of NASDAQ listed companies, ATA Creativity Global (previous known as ATA Inc.) (stock code: ATAI) since January 2008 and Melco Resorts & Entertainment Limited (stock code: MLCO) since December 2006 as well as Melco Resorts and Entertainment (Philippines) Corporation (stock code: MRP) since December 2012, a company listed on the Philippine Stock Exchange and withdrawal from listing effective on 11 June 2019. Mr. Tsui is also an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited, a company previously listed in Hong Kong, since August 2000. He also served as independent non-executive directors in various other Hong Kong listed companies, including China Power International Development Limited (stock code: 2380) from March 2004 to December 2016, China Oilfield Services Limited (stock code: 2883) from June 2009 to June 2015, Summit Ascent Holdings Limited (stock code: 102) from March 2011 to September 2018, and Kangda International Environmental Company Limited from July 2014 to April 2019. Save as disclosed above, Mr. Tsui is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Mr. Tsui graduated from the University of Tennessee in the United States, with a bachelor's degree in science in industrial engineering in June 1975 and a master's degree in engineering in June 1976. He completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University in the United States in August 1993.

SENIOR MANAGEMENT

Li CHEN (陳力), see "– Directors" for details.

George Chien Cheng LIN (林潔誠), see "– Directors" for details.

Yi ZHANG (張怡), aged 45, has been serving as the senior vice president of our Clinical R&D department since April 2018. Prior to joining our Group in February 2013 as vice president of our Clinical R&D department, Dr. Zhang was the associate medical director of clinical science at Roche Product Development group, Asia Pacific region in early 2010s. She served as a clinical scientist for innovative drug development in the areas of cardiovascular, metabolic and renal diseases. Prior to Roche, Dr. Zhang was a physician at Shanghai Renji Hospital, and worked at Shanghai Renji Hospital, Shanghai Ruijin Hospital, and Shanghai Jiaotong University School of Medicine with 10 years' clinical experience between December 1999 and October 2009. Dr. Zhang obtained her Ph.D. degree from Shanghai Jiaotong University School of Medicine (specialization in cardiology) in China in June 2004. She was involved in the Framingham Heart Study as a NIH/NHLBI visiting researcher. Dr. Zhang was nominated as a "Shanghai Excelling Academic/ Technical Leader" (上海市優秀學術／技術帶頭人) in 2015 and has authored 60 publications in journals such as Nature Genetics, Circulation: Cardiovascular Genetics, and Human Molecular Genetics, and has invented 3 China patents.

Daniel Yunlong DU (杜雲龍), aged 55, has been serving as the senior vice president of our Regulatory, Clinical and Manufacture department and Drug Safety and Pharmacovigilance department since he joined our Group on August 15, 2017. Prior to joining our Group, he worked in Frontage Clinical Services, Inc. as vice president from March 2016 to August 2017, Akebia Therapeutics, Inc. as clinical director in the mid-2010s, GlaxoSmithKline plc as principal clinical scientist and Pfizer, Inc. as associate director. He is the inventor of 9 patents. Dr. Du received his bachelor's degree from Beijing Medical University in China in July 1987 and Ph.D. degree in Biological Sciences from Albany Medical College in the United States in May 1995. He received U.S. Education Certificates for Foreign Medical Graduates (ECFMG) in 1996.

Jin SHE (佘勁), aged 47, has been serving as the Company's vice president in our Chemical Manufacturing Control department since June 2015. Prior to joining our Group in June 2015, Dr. She worked at MSD R&D Center (China) from January 2013 to May 2015 and at Roche R&D Center (China) from April 2009 to December 2012. He has 8 publications in peer-reviewed journals and 6 patents. Dr. She received his Ph.D. degree in chemistry from the University of North Carolina at Chapel Hill in August 2004 and his bachelor and master's degree in chemistry from Peking University in China in July 1996 and July 1999 respectively.

Fuxing TANG (湯福興), aged 53, has been serving as Chief Technology Officer, vice president in our Chemical Manufacturing Control department and head of R&D in USA since February 2020. Dr. Tang obtained his Ph.D. in Pharmaceutical Sciences from the University of Florida and conducted postdoctoral research in peptide delivery in Professor Ronald Borchardt ("Father of Caco-2") group. Dr. Tang started his career in Forest labs, Inc. During his tenure in Forest labs, Inc./Allergan, Dr. Tang was instrumental in building biopharmaceutical functions and in charging of multi-functions of ADME, preformulation, drug product formulation and post approval drug products manufacturing process trouble-shooting. In addition, Dr. Tang contributed to the development of novel CaCo2 technology for drug discovery and the concept of MDO – multiple dimensional optimization in drug discovery. Prior to joining us, Dr. Tang worked as reviewer in ORS, FDA and worked in TEVA/Allergan as global Director of Biopharmaceutical Sciences. He has led and contributed to multiple products launch and NDA/ANDA filings.

Yilei FU (付宜磊), aged 49, has been serving as the Company's vice president for the Quality Assurance department since he joined our Group in July 2017. Mr. Fu served as quality director at Boehringer-Ingelheim from September 2010 to July 2017. Mr. Fu also served as senior quality and compliance manager at pharmaceutical company Xian Janssen in the late 2000s. Prior to that, he served as quality assurance manager at pharmaceutical company AstraZeneca. Mr. Fu obtained his bachelor's degree in pharmaceutical analysis from Shenyang Pharmaceutical University in 1994, his master's degree of business administration from Shanghai Jiaotong University in China in January 2008 and was certified as a licensed pharmacist by the China Food and Drug Administration in October 2000.

Wenjie XU (徐文潔), aged 48, has been serving as vice president, Head of Commercial Strategy and Marketing since August 9, 2018. Prior to joining our Group, Ms. Xu served as Executive Director of the Cardiovascular, Renal, and Metabolic Business Unit of AstraZeneca China from January 2016 to August 2018. Ms. Xu's principal responsibility at AstraZeneca China was sales and marketing of their diabetes franchise in China, including the successful launch of Dapagliflozin. Prior to AstraZeneca, she also served in various sales and marketing roles at Eli Lilly from February 2007 to December 2015, focused on diabetes starting in 2009. Prior to Eli Lilly, Ms. Xu served in sales and marketing functions of various pharmaceutical companies, including Amgen China. Ms. Xu obtained her bachelor's degree in pharmaceutical analysis from the China Pharmaceutical University in 1993, and a master of business administration degree from Goizueta Business School, Emory University in the United States, in 2004.

REPORT OF DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2019.

Principal activities

The Company, together with its subsidiaries, is principally engaged in the development of a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of diabetes. Dorzagliatin is a first-in-class glucokinase activator, or GKA, designed to control the progressive degenerative nature of diabetes by restoring glucose homeostasis in T2D. The Company in-licensed the global rights to Dorzagliatin from Roche.

Business review

A review of the Company's business, and a discussion of future clinical progress and business development are presented in the sections titled "Chairman and CEO Statement" on pages 6 to 7 of this annual report, "Management discussion and analysis" on pages 8 to 19. The financial risk management objectives and policies of the Company are set out in note 30 of the consolidated financial statements in this annual report. Significant events that have an effect on us subsequent to the financial year ended December 31, 2019 are set out in the "Key events after the reporting period" section of the "Management Discussion and Analysis" on pages 10 to 11.

More information regarding the Company's performance with regards to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations are discussed in the "Environmental, Social and Governance Report".

Financial key performance indicators

The financial key performance indicators of the Group for the year are set out in the section "Business and Financial Highlights" of this annual report.

Dividend policy and final dividend

Subject to the laws of the Cayman Islands and the Articles of Association, the Company may in general meeting declare dividends in any currency but no dividends shall exceed the amount recommended by the Board, and no dividend will be declared or payable except out of the profits and reserves of the Company lawfully available for distribution including share premium. We do not currently have an expected dividend payout ratio. The determination to pay dividends will be made at the discretion of the Board and will be based upon our cash flow, financial condition, capital requirements and any other conditions that our Directors deem relevant.

The Board did not recommend the payment of final dividend for the year ended December 31, 2019 (December 31, 2018: NIL).

Major suppliers and customers

For the year ended December 31, 2019, the Group's five largest suppliers accounted for 57.6%, as compared to 55.1% of the Group's total purchases for the year ended December 31, 2018. The Group's single largest supplier accounted for 25.7% for the year ended December 31, 2019, as compared to 27.3% of the Group's total purchases for the year ended December 31, 2018. Wuxi App Tec Group, which includes Shanghai SynTheAll Pharmaceuticals Co., Ltd., Changzhou SynTheAll Pharmaceuticals Co., Ltd., Shanghai STA Pharmaceutical R&D Co., Ltd., Shanghai MedKey Med-Tech Development Co., Ltd., WuXi Clinical Development Services (Shanghai) Co., Ltd., WuXi AppTec (Su Zhou) Co., Ltd., and WuXi AppTec (Shanghai) Co., Ltd. a related group controlled by the substantial shareholder of the Company, was the Group's largest supplier for the year.

As of December 31, 2019, Mr. George Chien Cheng LIN, Executive Director and Chief Financial Officer, had a direct interest of 0.01% in one of the Group's five largest suppliers. None of his close associates had interest in the Group's five largest suppliers.

Save as disclosed above, during the year ended December 31, 2019, at no time did the other Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of total issued Shares of the Company) had interest in the Group's five largest suppliers.

During the year ended December 31, 2019, there were no sales of goods or rendering of services by the Group and thus, no major customers were identified.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 32 to the consolidated financial statements.

Equipment

Details of the movements in equipment of the Group during the year ended December 31, 2019 are set out in note 16 to the consolidated financial statements.

Share capital

The changes in the share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

Debentures

As of December 31, 2019, our lease liabilities amounted to RMB90.0 million. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31, 2019 RMB'000
Current portion	12,019
Non-current portion	77,959
Total	89,978

Our lease liabilities as of December 31, 2019 were from buildings and vehicle lease contracts with lease terms of two to six years. As of December 31, 2019, we did not have any other indebtedness.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2019.

Pre-emptive rights

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association"), or the law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, under which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Reserves

Details of the movement in the reserves of the Group and the Company during the year ended December 31, 2019 are set out in consolidated statement of changes in equity and note 34 respectively to the consolidated financial statements. The distributable reserve as at December 31, 2019 is RMB736,290,000.

Borrowings

Details of the borrowings of the Group are set out in the section headed "Management Discussion and Analysis" in this annual report.

Tax Relief and Exemption

The Directors are not of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's Shares.

Use of net proceeds from the Global Offering

The Company's Shares were listed on the Stock Exchange on September 14, 2018. The net proceeds from the Company's issue of new Shares amounted to RMB747.2 million (including the issue of additional Shares pursuant to the partial exercise of the over-allotment option on October 5, 2018), which have been, and will continue to be, applied according to the intentions set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. We expect that majority of the net proceeds from the Global Offering will be utilized by December 31, 2020. We also expect that a portion of the net proceeds will be carried forward and utilized in financial year 2021 due to a slight adjustment to the timeline for the development of our manufacturing capabilities.

The following table sets forth the status of the Company's use of proceeds raised in the Global Offering as of December 31, 2019:

		% of use of proceeds	Net proceeds from the Global Offering RMB million	Actual usage up to December 31, 2019 RMB million	Unutilized net proceeds as of December 31, 2019 RMB million
(a)	Dorzagliatin research and development	39%	291.4	185.0	106.4
(b)	Dorzagliatin lifecycle management and additional indications	9%	67.2	19.0	48.2
(c)	Dorzagliatin launch and commercialization	27%	201.8	21.9	179.9
(d)	New product and diabetes care technology development	11%	82.2	8.1	74.1
(e)	Product licensing and partnership	4%	29.9	–	29.9
(f)	General working capital	10%	74.7	50.4	24.3
Total		100%	747.2	284.4	462.8

Directors

The Directors during the year ended December 31,2019 and up to the date of this annual report were:

Executive directors

Li CHEN (陳力) (Chief Executive Officer and Chief Scientific Officer)
George Chien Cheng LIN (林潔誠) (Executive Vice President and Chief Financial Officer)

Non-executive directors

Robert Taylor NELSEN (Chairman)
Lian Yong CHEN (陳連勇)

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明)
William Robert KELLER
Junling LIU (劉峻嶺)
Yiu Wa Alec TSUI (徐耀華)

Biographies of the Directors and Senior Management

The biographies of the Directors and senior management of the Company are provided in the section titled "Directors and Senior Management" on pages 20 to 25 of this annual report.

Directors' Service Contracts

Each of Dr. Li CHEN and Mr. George Chien Cheng LIN, being our executive Directors, has entered into a letter of appointment with us for an initial term of three years commencing from September 14, 2018, the Listing Date, which may be terminated by not less than 30 days' notice in writing served by either the executive Director or our Company.

Each of Mr. Robert Taylor NELSEN and Dr. Lian Yong CHEN, being our non-executive Directors, has entered into a letter of appointment with us for an initial term of three years commencing from September 14, 2018, the Listing Date, which may be terminated by not less than one month's notice in writing served by either the non-executive Director or our Company.

Each of Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER, Mr. Junling LIU, and Mr. Yiu Wa Alec TSUI, being our independent non-executive Directors, has entered into a letter of appointment with us for an initial term of three years commencing from September 14, 2018, the Listing Date, which may be terminated by not less than one month's notice in writing served by either the independent non-executive Director or our Company.

No Director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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 by the Company or existed during the year ended December 31, 2019.

Emolument policy

In compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's performance, qualification, position and seniority, as well as comparable market practices. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme.

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 12 and note 13 to the consolidated financial statements in this annual report.

None of the Directors waived or agreed to waive any remuneration and there was no emoluments paid by the Group to any of the Directors as an inducement to upon, or upon joining the Group, or as compensation for loss of office.

Directors' interests in transactions, arrangements, or contracts of significance

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance to which the Company, or any of its holding companies or subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, subsisted during or at the end of the reporting period.

Directors' interests in competing business

As of the date of this annual report, none of the Directors nor their respective associates (as defined in the Listing Rules) had interests in businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Dr. Li CHEN has provided a confirmation in respect of the compliance with the deed of non-competition ("Deed of Non-competition") on August 29, 2018.

The independent non-executive Directors have also reviewed the compliance by Dr. CHEN with the Deed of Non-competition during the year ended December 31, 2019. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by Dr. Chen of the Deed of Non-competition.

Permitted indemnity provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the reporting period. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Equity-linked agreement

Save for the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2019.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

Disclosure of Interests

Directors and chief executives' interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations are set forth below:

As of December 31, 2019, the interest or short positions of the Directors or the chief executives of the Company in the Shares or underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the ordinary Shares:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Li CHEN	Interest of spouse (1)	25,220,690(L)	2.39%
	Beneficial Owner (2)	26,000,725(L)	2.46%
	Interest of Controlled Corporation (3)	10,000,000(L)	0.95%
George Chien Cheng LIN	Founder and beneficiary of trust (4)	1,616,196(L)	0.15%
	Beneficial Owner (5)	32,775,504(L)	3.11%
Robert Taylor NELSEN	Interest of Controlled Corporation (6)	125,088,960(L)	11.86%
	Beneficial Owner (7)	150,000(L)	0.01%
Lian Yong CHEN	Interest of Controlled Corporation (8)	8,571,420(L)	0.81%
	Beneficial Owner (9)	108,486(L)	0.01%
Yiu Wan Alec TSUI	Beneficial Owner (10)	24,000(L)	0.01%

Notes:

(1) Dr. CHEN is the spouse of Ms. Jane Xingfang HONG. Under the SFO, Dr. CHEN is deemed to be interested in the same number of Shares in which Ms. Jane Xingfang HONG maintains on interest.

(2) Being options for Shares granted pursuant to the Pre-IPO and Post-IPO Share Incentive Scheme.

(3) On 10 April 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. Jane Xingfang HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.

(4) The George and Ann Lin 2005 Trust is a family trust set up by Mr. LIN; therefore, Mr. LIN is deemed to be interested in the same number of Shares held by the George and Ann Lin 2005 Trust.

(5) Being options and awards pursuant to the Pre-IPO Share Incentive Scheme and Post-IPO Share Incentive Scheme.

(6) ARCH Venture Partners VII, LLC is controlled as to one-third by Mr. Robert Taylor NELSEN and is the general partner of ARCH Venture Partners VII, L.P.. Mr. NELSEN is therefore deemed to be interested in the same number of Shares held by ARCH Venture Fund VII, L.P..

(7) Being shares purchased on the secondary exchange market.

(8) Dr. Lian Yong CHEN is the general partner of China Life Sciences Access Fund, L.P. and is therefore deemed to be interested in the same number of Shares held by China Life Sciences Access Fund, L.P..

(9) Being entitled to these shares as part of employment agreement with Eight Roads Holding Limited.

(10) Being shares purchased on the secondary exchange market.

(11) The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2019.

(12) The letter "L" denotes the person's long position in the Shares.

Substantial Shareholders

Substantial Shareholders' interests and short positions in the Shares, underlying Shares and debentures of the Company

As of December 31, 2019, the interests of relevant persons (other than a Director or the chief executives of the Company) who had interests or short positions in the Shares or the underlying Shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Shares held [(9)]	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P.[(1)]	Beneficial interest	125,088,960(L)	11.86%
ARCH Venture Partners VII, L.P.[(1)]	Interest in controlled corporation	125,088,960(L)	11.86%
ARCH Venture Partners VII, LLC[(1)]	Interest in controlled corporation	125,088,960(L)	11.86%
Keith Lawrence CRANDELL[(1)]	Interest in controlled corporation	125,088,960(L)	11.86%
Clinton Whitewood BYBEE[(1)]	Interest in controlled corporation	125,088,960(L)	11.86%
Venrock Associates V, L.P.[(2)]	Beneficial interest	103,475,595(L)	9.81%
Venrock Management V, LLC[(2)]	Interest in controlled corporation	103,475,595(L)	9.81%
FMR LLC[(3)(4)]	Interest in controlled corporation	98,211,173(L)	9.31%
Impresa Fund III Limited Partnership[(3)(4)]	Interest in controlled corporation	98,211,173(L)	9.31%
Impresa Management LLC[(3)(4)]	Interest in controlled corporation	98,211,173(L)	9.31%
Abigail P. JOHNSON[(3)(4)]	Trustee	98,211,173(L)	9.31%
Edward C. JOHNSON IV[(3)(4)]	Trustee	98,211,173(L)	9.31%
FIL Limited[(3)(5)]	Interest in controlled corporation	94,737,611(L)	8.98%
Pandanus Partners L.P.[(3)(5)]	Interest in controlled corporation	94,737,611(L)	8.98%
Pandanus Associates Inc.[(3)(5)]	Interest in controlled corporation	94,737,611(L)	8.98%
Eight Roads Holding Limited[(3)(5)]	Interest in controlled corporation	94,737,611(L)	8.98%
WuXi PharmaTech Healthcare Fund I L.P.[(6)]	Beneficial interest	74,029,635(L)	7.02%
WuXi PharmaTech Fund I General Partner L.P.[(6)]	Interest in controlled corporation	74,029,635(L)	7.02%

Name of Shareholders	Capacity/nature of interest	Number of Shares held [(9)]	Approximate percentage of shareholding in the Company
WuXi PharmaTech Investments (Cayman) Inc.[(6)]	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi PharmaTech Investment Holdings (Cayman) Inc.[(6)]	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi AppTec International Holdings Limited[(6)]	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi AppTec Co., Ltd.[(6)]	Interest in controlled corporation	74,029,635(L)	7.02%
Harvest Yuanxiang (Cayman) Limited[(7)]	Beneficial interest	65,665,860(L)	6.22%
Harvest Investment Management Co., Ltd (嘉實投資管理有限公司)[(7)]	Interest in controlled corporation	65,665,860(L)	6.22%
HLYY Limited[(8)]	Nominee of a trust	116,027,398(L)	10.99%
TCT (BVI) Limited[(8)]	Interest in controlled corporation	116,027,398(L)	10.99%
The Core Trust Company Limited[(8)]	Trustee	116,027,398(L)	10.99%
Jane Xingfang HONG[(9)]	Beneficial interest	25,220,690(L)	2.39%
	Interest of spouse	26,000,725(L)	2.46%
	Interest in controlled corporation	10,000,000(L)	0.95%

Notes:

1. To the best of our Directors' knowledge, ARCH Venture Fund VII, L.P. is a Delaware limited partnership established in the United States. The general partner of ARCH Venture Fund VII, L.P. is ARCH Venture Partners VII, L.P., a Delaware limited partnership established in the United States. The general partner of ARCH Venture Partners VII, L.P. is ARCH Venture Partners VII, LLC, a limited liability company incorporated in the United States. ARCH Venture Partners VII, LLC is controlled as to one-third by each of Mr. Robert Taylor NELSEN, our non-executive Director, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE. As such, each of ARCH Venture Partners VII, L.P., ARCH Venture Partners VII, LLC, Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE is deemed to be interested in the equity interest held by ARCH Venture Fund VII, L.P. and the ultimate controllers of ARCH Venture Fund VII, L.P. are Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE.

2. To the best of our Directors' knowledge, Venrock Associates V, L.P. is an exempted limited partnership established in the United States. The general partner of Venrock Associates V, L.P. is Venrock Management V, LLC, an exempted limited liability company established in the United States. Venrock Management V, LLC is ultimately controlled by a group of individuals, none of whom controls, directly or indirectly, one-third or more of the voting power at the general meetings of Venrock Management V, LLC or otherwise is deemed to control Venrock Management V, LLC under the SFO.

3. To the best of our Directors' knowledge, Asia Ventures II L.P. is a limited partnership established in Bermuda and holds approximately 4.08% of the voting rights of the Company. Further, F-Prime Capital Partners Healthcare Fund II LP is a limited partnership established in Delaware and holds approximately 4.90% of the voting rights of the Company. Moreover, Impresa Fund III Limited Partnership is a limited partnership established in Delaware and holds approximately 0.33% of the voting rights of the Company.

4. To the best of our Directors' knowledge, Impresa Fund III Limited Partnership is deemed to be interested in the equity interests held by both Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP due to its interests in each of Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP as a limited partner. The general partner of Impresa Fund III Limited Partnership is Impresa Management LLC, which is controlled (as defined under the SFO) by each of Abigail P. JOHNSON and Edward C. JOHNSON IV and owned, directly or indirectly, by various shareholders and employees of FMR LLC. Further, the general partner of F-Prime Capital Partners Healthcare Fund II LP is F-Prime Capital Partners Healthcare Advisors Fund II LP, whose general partner is Impresa Management LLC.

   As such, under the SFO, Impresa Fund III Limited Partnership, Impresa Management LLC, Abigail P. JOHNSON, Edward C. JOHNSON IV and FMR LLC are deemed interested in the Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP and Impresa Fund III Limited Partnership, which collectively hold 9.46% of the voting rights of the Company.

5. To the best of our Directors' knowledge, FIL Limited is deemed to be interested in the equity interests held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Eight Roads Investments Limited and Eight Roads GP due to (i) its interests in Asia Ventures II L.P. as a limited partner and the fact that it is the sole shareholder of FIL Capital Management Ltd, the general partner of Asia Partners II L.P., which in turn is the general partner of Asia Ventures II L.P.; (ii) its interests in F-Prime Capital Partners Healthcare Fund II LP as a limited partner; and (iii) the fact that Eight Roads Investments Limited and Eight Roads GP are controlled by FIL Limited (as defined under the SFO). FIL Limited is controlled (as defined under the SFO) by Pandanus Partners L.P., whose general partner is Pandanus Associates Inc.

As such, under the SFO, FIL Limited, Pandanus Partners L.P., and Pandanus Associates Inc. are deemed interested in our Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Eight Roads Investments Limited and Eight Roads GP, which collectively holds 8.98% of the voting rights of the Company.

To the best of our Directors' knowledge, Eight Roads Holding Limited is deemed to be interested in the equity interests held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II L.P., Eight Roads Investments Limited and Eight Roads GP due to (i) F-Prime Capital Partners Healthcare Fund II L.P. and Asia Ventures II L.P. are controlled by Eight Roads Investments (ii) Eight Roads Investments Limited and Eight Roads GP are controlled by Eight Roads Holdings Limited.

6. To the best of our Directors' knowledge, the general partner of Wuxi Pharmatech Healthcare Fund I L.P. is Wuxi Pharmatech Fund I General Partner L.P., a limited partnership established in the Cayman Islands whose general partner is Wuxi Pharmatech Investments (Cayman) Inc., an exempted limited liability company established in the Cayman Islands. Wuxi Pharmatech Investments (Cayman) Inc. is a wholly-owned subsidiary of Wuxi Pharmatech Investment Holdings (Cayman) Inc., which is in turn wholly-owned by Wuxi AppTec International Holdings Limited, which is in turn wholly-owned by WuXi AppTec Co., Ltd.

7. To the best of our Directors' knowledge, Harvest Yuanxiang (Cayman) Limited is an indirectly wholly-owned subsidiary of Shenzhen Jiashi Yuanxiang Venture Capital Investment Partnership (LP) (深圳嘉實元祥股權投資合夥企業(有限合夥)). The general partner of Shenzhen Jiashi Yuanxiang Venture Capital Investment Partnership (LP) is Harvest Investments Management Co., Ltd. (嘉實投資管理有限公司), a limited liability company incorporated in the PRC and the ultimate controller of Harvest Yuanxiang (Cayman) Limited.

8. HLYY Limited is 100% owned by TCT (BVI) Limited. TCT (BVI) Limited is 100% owned by The Core Trust Company Limited. HLYY Limited holds the Shares underlying the option and awards granted under the Pre-IPO Share Incentive Scheme.

9 Ms. Jane Xingfang HONG is the spouse of Dr. Li CHEN, who was granted options for 13,921,725 Shares pursuant to the Pre-IPO Share Incentive Scheme and 12,079,000 Share Options granted pursuant to the Share Option Scheme, respectively. Under the SFO, Ms. HONG is deemed to be interested in the same number of Shares in which Dr. CHEN maintains on interest. She also holds approximately 2.39% of the voting rights of the Company.

On 10 April 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.

10. The letter "L" denotes the person's long position in the Shares.

11. The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2019.

Saved as disclosed above, so far as the Directors are aware, no other persons had registered an interest or short position in any Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Connected Transactions and Continuing Connected Transactions

During the year ended December 31, 2019, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

Related Party Transactions

Details of the related party transactions of the Group for the year ended December 31, 2019 are set out in Note 28 to the consolidated financial statements contained herein.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent shareholders' approval, annual review and disclosure requirements in Chapter 14A of the Listing Rules.

Interests in Competitor

The Company does not hold any interests in our competitors.

Share Option Scheme

Pre-IPO Share Incentive Scheme

The Company's Pre-IPO Share Incentive Scheme was adopted pursuant to a resolution passed on March 25, 2013 for the primary purpose of providing incentives to directors, eligible employees and individual consultants who render services to the Group. For the details of the Pre-IPO Share Incentive Scheme, please refer to the disclosure in the Prospectus.

The Company has also established an employee trust to administer the scheme. A total of 117,000,000 Shares, representing all the Shares underlying the options and awards granted under the Pre-IPO Share Incentive Scheme, were issued to HLYY Limited, the nominee under the trust, to hold the Shares to satisfy the options and awards granted upon exercise/vesting. No further Shares will be allotted and issued to the HLYY Limited or the trustee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to Capitalization Issue (as defined in note 26(g) to the consolidated financial statements), rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme. As the Pre-IPO Share Incentive Scheme does not involve the grant of options to subscribe for any new Shares of the Company, it is not required to be subject to the provisions under Chapter 17 of the Listing Rules.

Post-IPO Share Option Scheme

The Company's Post-IPO Share Option Scheme was adopted by the resolutions in writing of all the shareholders passed on August 26, 2018.

The purpose of the Post-IPO Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Post-IPO Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 105,191,330 Shares (the "General Scheme Limit"), but excluding any Shares which may be issued upon the exercise of the Over-allotment Option (as defined in the Prospectus). Unless otherwise approved by the Shareholders in general meeting, the number of Shares that may be granted to a participant under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial Shareholders (as defined in the Listing Rules), or the total number of Shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Post-IPO Share Option Scheme. The exercise price per Share under the Post-IPO Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before Listing); and (iii) the nominal value of a Share on the date of grant.

Grant offer letter and notification of grant of options

An offer shall be made to selected participants by a letter in duplicate which specifies in terms on which the option is to be grant and an offer shall be deemed to have been accepted and the options to which the offer relates shall be able deemed to have been granted and to have taken effective when the duplicate of the offer letter comprising acceptance of the duly signed by the grantee with ordinary shares, together with a remittance in favor of the Company of HK$1.00 with the Company at the principal place of business of the Company in Hong Kong (or at such other place and in such manner acceptable to the Company) within 20 business days from the date of this letter.

A consideration of HK$1.00 is payable on acceptance of the grant of an option.

The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to September 14, 2028. The remaining life of the Post-IPO Share Option Scheme is approximately eight years.

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme during the year ended December 31, 2019:

Category	Option type	Note	Outstanding at January 1, 2019	Granted During year	Exercised during year	Forfeited during year	Outstanding at December 31, 2019
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Scheme**						
	December 4, 2014	2	2,700,000	–	(1,000,000)	–	1,700,000
	January 11, 2016	3	750,000	–	–	–	750,000
	July 19, 2016	4	750,000	–	–	–	750,000
	March 6, 2017	5	1,500,000	–	–	–	1,500,000
	January 7, 2018	6	1,362,975	–	–	–	1,362,975
	April 3, 2018	7	4,608,750	–	–	–	4,608,750
	August 26, 2018	8	2,250,000	–	–	–	2,250,000
	Post-IPO Scheme						
	June 25, 2019	17	–	12,079,000	–	–	12,079,000
			13,921,725	12,079,000	(1,000,000)	–	25,000,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**						
	April 3, 2018	9	25,980,405	–	(388,000)	–	25,592,405
	Post-IPO Scheme						
	May 17, 2019	17	–	300,000	–	–	300,000
			25,980,405	300,000	(388,000)	–	25,892,405
Category 2: Employees							
	Pre-IPO Scheme						
	March 25, 2013	10	3,000,000	–	(592,000)	–	2,408,000
	September 12, 2013	11	2,250,000	–	(750,000)	–	1,500,000
	December 4, 2014	2	7,050,000	–	(2,570,000)	–	4,480,000
	January 11, 2016	3	8,490,615	–	(614,064)	–	7,876,551
	July 19, 2016	4	375,000	–	(242,197)	–	132,803
	March 6, 2017	5	5,783,115	–	(211,435)	(59,680)	5,512,000
	July 24, 2017	12	2,250,000	–	(74,500)	–	2,175,500
	January 7, 2018	6	8,047,500	–	(782,774)	(339,992)	6,924,734
	April 3, 2018	7	13,205,535	–	(277,894)	(589,031)	12,338,610
	June 1, 2018	13	5,250,000	–	–	–	5,250,000
	August 26, 2018	8	6,215,130	–	(34,189)	(366,250)	5,814,691
	Post-IPO Scheme						
	October 29, 2018	18	75,000	–	–	–	75,000
	November 26, 2018	19	500,000	–	–	–	500,000
	December 31, 2018	20	500,000	–	–	(500,000)	–
	May 15, 2019	17	–	8,540,300	–	(730,000)	7,810,300
	September 19, 2019	21	–	500,000	–	–	500,000
	Total employees		62,991,895	9,040,300	(6,149,053)	(2,584,953)	63,298,189

Category	Option type	Note	Outstanding at January 1, 2019	Granted During year	Exercised during year	Forfeited during year	Outstanding at December 31, 2019
Category 3: Individual consultants	**Pre-IPO Scheme**						
	September 12,2013	14	1,800,000	–	(500)	–	1,799,500
	December 4, 2014	2	150,000	–	–	–	150,000
	January 11, 2016	3	3,450,000	–	(33,500)	–	3,416,500
	March 15, 2016	15	1,050,000	–	(525,000)	–	525,000
	May 11, 2018	16	1,125,000	–	–	–	1,125,000
	Post-IPO Scheme						
	May 15, 2019	17	–	200,000	–	–	200,000
	Total individual consultants		7,575,000	200,000	(559,000)	–	7,216,000
	Total all categories		110,469,025	21,619,300	(8,096,053)	(2,584,953)	121,407,319
	Exercisable at the beginning and end of the year		39,232,575				60,864,074
	Weighted average exercise price (HK$)		2.46	8.82	1.09	5.11	3.58
	Total directors		39,902,130	12,379,000	(1,388,000)	–	50,893,130

Notes:

1. Unless stated otherwise, 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date (the "Standard Vesting Schedule"). The Share Options shall be valid for a period of ten years from the date upon which the offer for the grant is options is made by the Company.

2. With vesting commencement date of November 21, 2014 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55).

3. With vesting commencement date of December 22, 2015 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.23 (equivalent to approximately HK$1.79).

4. With vesting commencement date of April 28, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.40 (equivalent to approximately HK$3.14).

5. With vesting commencement date of December 30, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

6. With vesting commencement date of December 29, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67) or approximately US$0.07 (equivalent to approximately HK$0.55).

7. With vesting commencement date of April 4, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.66) or approximately US$0.25 (equivalent to approximately HK$1.95).

8. With vesting commencement date of August 1, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.37 (equivalent to approximately HK$2.88) or US$0.47 (equivalent to approximately HK$3.67).

9. With vesting commencement date of September 14, 2018 or December 22, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

10. With vesting commencement date of September 1, 2013 or November 1, 2012 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55).

11. With vesting commencement date of November 1, 2010 or August 1, 2012 or February 1, 2013 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55).

12. With vesting commencement date of July 17, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55), or with vesting commencement date of August 15, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

13. With vesting commencement date of June 1, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.25 (equivalent to approximately HK$1.95) or approximately US$0.47 (equivalent to approximately HK$3.67).

14. With vesting commencement date of August 1, 2010 or February 1, 2012 and are exercisable in accordance with the vesting schedule that 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 24 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

15. With vesting commencement date of March 15, 2016 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested in 12 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US$0.27 (equivalent to approximately HK$2.11).

16. With vesting commencement date of September 14, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

17. With vesting commencement date of January 23, 2019 or November 11, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$8.866.

18. With vesting commencement date of October 29, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$7.192.

19. With vesting commencement date of November 26, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$7.970.

20. With vesting commencement date of December 31, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$8.30.

21. With vesting commencement date of September 19, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$6.80.

Set out below are details of the retrieved share units grated under the Pre-IPO Share Incentive Scheme

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement including equity incentives of options under Pre-IPO Share Incentive Scheme as disclosed above and the restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 Shares of the Company (as adjusted after Capitalization Issue) were granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme on April 3, 2018. Such Shares are to be vested after a qualified HK IPO in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. During the year ended December 31, 2019, the numbers of vested share units was 1,855,752.

Principal Risks and Uncertainties

The Company has the following risks and uncertainties which may affect the results and business operations, some of which are inherent to the Company, some are inherent to the pharmaceutical sector, and some are from external sources.

- Drug approval related to dorzagliatin:

  Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and failure can occur at any stage of clinical development. Because prior clinical trials are not necessarily predictive of future results, our Phase III studies of dorzagliatin may be unsuccessful and we may not receive regulatory approval. The NMPA NDA submission process for dorzagliatin will be complicated and expensive and, even if our Phase III results are successful, we may be required to conduct additional studies as a condition filing, receiving or maintaining NMPA approval. The Company maintains regular dialogue with the NMPA to ensure they are provided with the latest updates with regards to the clinical trials and other NDA enabling processes.

- Our clinical trials may not progress as expected:

  Delays in enrollment and in the completion of our clinical trials could result in increased costs to us and delay or limit our ability to obtain regulatory approval for dorzagliatin. The Company continues to provide regular training sessions for our clinical trial doctors, our CROs, our internal staff.

- Company reliance on third parties:

  We rely on third-party CROs and SMOs to conduct, supervise, and monitor our clinical trials, and if those third parties perform in an unsatisfactory manner, it may harm our business. We intend to continue to rely on third-party CMOs to produce dorzagliatin both for our Phase III clinical trials and for commercial production requirements for the foreseeable future. If we experience problems with our CMOs, the manufacturing of dorzagliatin could be delayed and our efforts to market dorzagliatin compromised. Our quality assurance team conducts regular quality checks, has set up with joint quality committees, and our clinical operations team conducts regular trainings for our CROs.

- Dorzagliatin as cornerstone therapy:

  Dorzagliatin as a monotherapy or in combination with other T2D treatments may cause undesirable side effects that could delay or prevent its regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following regulatory approval, if any. The Company continues to plan for and conduct additional clinical trials and other studies to establish dorzagliatin's potential as a cornerstone therapy for T2D.

- National Reimbursement Drug List entry is not certain:

  Reimbursement may not be available for dorzagliatin in China, which could diminish our sales or affect our profitability. The Company continues to maintain regular dialogue with national and provincial level authorities.

- Retention of key staff members:

  Our continued success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel. The Company has regularly reviewed our compensation packages and benefits to ensure we remain competitive with the market.

- The Company currently only has one drug in the clinical trial process:

  Our future success depends substantially on the success in China of our only clinical drug candidate, dorzagliatin. Our ongoing Phase III clinical trials for dorzagliatin in China may not succeed, we may fail to successfully commercialize dorzagliatin in China or experience significant delays in doing so, or we may not meet our goal of establishing dorzagliatin as a first-line standard of care in China, any of which could materially harm our business. The Company has committed substantial resources to ensuring the quality and development of dorzagliatin.

- The Company's key operations are in China:

  Currently, our pivotal registration trials are in China, and we expect to launch dorzagliatin in China first. There are potential risks associated with doing business primarily in one geographic region, and our clinical trials and future launch timeline could be impacted.

- We are a pre-revenue biopharmaceutical company with a limited operating history and a history of losses. We must obtain required regulatory approvals before we can market dorzagliatin and generate revenues.

Key Relationships

- Employees

  The company's relationship with the employees are discussed in the "Environmental, Social and Governance Report".

- Key customers

  Since we are a pre-revenue biotech Company, we do not have any customer for the year ended December 31, 2019.

- Service Providers and Suppliers

  Our service providers and suppliers are mainly CROs, CMOs and SMOs located in China, providing us with a range of services such as drug discovery, development, clinical trial expertise, and clinical and commercial manufacturing. We are heavily reliant on our suppliers to provide us services regarding our clinical trials, preclinical studies, as well as our manufacturing. We do not make material purchases of raw materials or equipment. For the year ended December 31, 2019, the Company's five largest suppliers accounted for 57.6% as compared to 55.1% of the Company's total purchases for the year ended December 31, 2018.

- Hospitals

  Our current registration trials (HMM0301 and HMM0302) are conducted at a total of 110 sites across China. We remain committed to offering the hospitals and doctors related training and full support in conducting the clinical trials. We maintain a close relationship directly, through telephone calls, direct mail, visits, and training sessions. We also work with our CROs and SMOs to ensure the hospitals and doctors have the support they need to guarantee the quality of our clinical trials.

- Licensing Agreement with Roche

  We have entered into a research, development and commercialization agreement with Hoffmann-La Roche Inc. and F. Hoffmann-La Roche Ltd., or collectively, Roche in December 2011, under which we obtained an exclusive license under certain patents and know-how owned by Roche to develop, make, commission, use, sell, offer for sale, export and import Roche's proprietary GKA, RO5305552 (now referred to as dorzagliatin or HMS5552), worldwide in the licensed field of treatment of diabetes. The key U.S. patent licensed from Roche (U.S. 7,741,327) recites claims to compounds and pharmaceutical compositions thereof, and has an expiration date of March 9, 2029. We have the right to sublicense our rights to third parties. Under our agreement, we are required to make various upfront, milestone and royalty payments.

Employees and remuneration policy

As of December 31, 2019, the Group employed a total of 158 employees, as compared to a total of 115 employees as of December 31, 2018. The majority of the employees are employed in mainland China. For the year ended December 31, 2019, staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB191.2 million as compared to RMB136.8 million for the year ended December 31, 2018.

The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and agreements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve their working efficiency. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the year ended December 31, 2019.

The Company has also adopted a Pre-IPO Share Incentive Scheme and a Post-IPO Share Option Scheme. Please refer to the section headed "Statutory and General Information – D. Share Incentive Schemes" in Appendix IV to the Prospectus for further details.

Sufficiency of Public Float

The Company has maintained the public float as required by the Listing Rules during the year ended December 31, 2019.

Review of Annual Results

The consolidated financial results of the Group for the year ended December 31, 2019 has been audited by the Company's auditor, Deloitte Touche Tohmatsu, and reviewed by the Audit Committee of the Company, which consists of Mr. Walter Teh-ming Kwauk, Mr. William Robert Keller and Dr. Lian Yong Chen.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2019 have been audited by Deloitte Touche Tohmatsu, auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

A resolution will be proposed at the AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company and to authorize the Board to fix the remuneration of auditor.

By Order of the Board,
Hua Medicine
Dr. Li CHEN
Chief Executive Officer and Executive Director

Hong Kong, March 16, 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "**Board**") of the Company is committed to maintaining 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 Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

The Board is of the view that the Company has complied with all applicable code provisions as set out in the CG Code throughout the year ended December 31 2019 (the "**Reporting Period**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

The Company has also established the Code for Securities Transactions by Relevant Officers of the Company (the "**Code**") 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 Code by the relevant officers 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.

Board Composition

The Board currently comprises two executive Directors, two non-executive Directors and four independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors
Li CHEN *(Chief Executive Officer and Chief Scientific Officer)*
George Chien Cheng LIN *(Executive Vice President and Chief Financial Officer)*

Non-executive Directors
Robert Taylor NELSEN *(Chairman)*
Lian Yong CHEN

Independent Non-executive Directors
Walter Teh-Ming KWAUK
William Robert KELLER
Junling LIU
Yiu Wa Alec TSUI

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 20 to 25 of this annual report.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Robert Taylor NELSEN and Dr. Li CHEN respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the Reporting Period, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written 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

Each Director has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date, subject to renewal after the expiry of the then current term.

According to the Company's Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Besides, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Under the Articles of Association of the Company, every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Responsibilities of the Board and Management

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 judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, 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 management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Pursuant to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, in order to ensure compliance and enhance their awareness of good corporate governance practices. The Company is also arranging suitable professional development seminars and courses for the Directors.

The Directors informed the Company that they had received sufficient and relevant training and continuous professional development during the Reporting Period.

Record of training received by the Directors for the year ended 31 December 2019 are summarized as follows:

Directors	Type of Training Note
Executive Directors	
Li CHEN	A/B
George Chien Cheng LIN	A/B
Non-executive Directors	
Robert Taylor NELSEN	A/B
Lian Yong CHEN	A/B
Independent Non-executive Directors	
Walter Teh-Ming KWAUK	A/B
William Robert KELLER	A/B
Junling LIU	A/B
Yiu Wa Alec TSUI	A/B

Note:

Types of Training

A. Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B. Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Meetings, General Meetings and Directors' Attendance Records

Code provision A.1.1. of the CG Code stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communications.

Apart from regular Board meetings, the Chairman should at least annually hold meeting with the Independent Non-executive Directors without the presence of other Directors under the code provision A.2.7 of the CG Code.

The attendance records of the Directors at the Board meetings and general meetings of the Company during the Reporting Period are as follows:

Name of Directors	Attendance/No. of Meeting(s) Board Meetings	Annual General Meeting
Executive Directors		
Li CHEN	8/8	1/1
George Chien Cheng LIN	8/8	1/1
Non-executive Directors		
Robert Taylor NELSEN (Chairman)	8/8	1/1
Lian Yong CHEN	7/8 *(Note 1)*	0/1
Independent Non-executive Directors		
Walter Teh-Ming KWAUK	8/8	1/1
William Robert KELLER	7/8 *(Note 2)*	1/1
Junling LIU	8/8	0/1
Yiu Wa Alec TSUI	8/8	1/1

Note 1: One meeting that Mr. Lian Yong CHEN did not attend personally was attended by his alternate director.

Note 2: One meeting that Mr. William Robert KELLER did not attend personally was attended by his alternate director.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Strategy 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 deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are available on the Company's website and the Stock Exchange's website. The terms of reference of Strategy Committee is available on the Company's website.

The list of the chairman and members of each Board committee is set out under "Corporate Information" in this annual report on page 2.

Audit Committee

The Company established the Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3.3 of the CG Code.

The Audit Committee consists of three members, namely Mr. Walter Teh-Ming KWAUK and Mr. William Robert KELLER, Independent Non-executive Directors, and Dr. Lian Yong CHEN, Non-executive Director. Mr. Walter Teh-Ming KWAUK is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held six meetings, to review the annual and interim 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, engagement of non-audit services, relevant scope of works, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	**Attendance**
Walter Teh-Ming KWAUK (Chairman)	6/6
William Robert KELLER	5/6 *(note 1)*
Lian Yong CHEN	5/6 *(note 2)*

Note 1: One meeting that Mr. William Robert KELLER did not attend personally was attended by his alternate director.

Note 2: One meeting that Mr. Lian Yong CHEN did not attend personally was attended by his alternate director.

Remuneration Committee

The Company established the Remuneration Committee in compliance with Rules 3.25 and 3.26 of the Listing Rules and code provision B.1.2 of the CG Code.

The Remuneration Committee consists of three members, namely Mr. William Robert KELLER and Mr. Walter Teh-Ming KWAUK, Independent Non-executive Directors and Dr. Lian Yong CHEN, Non-executive Director. Mr. William Robert KELLER is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration.

During the Reporting Period, the Remuneration Committee held four meetings to review and make recommendations to the Board on the remuneration policy and packages and other related matters.

Details of the remuneration of the senior management by band are set out in the section of "REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT".

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
William Robert KELLER (Chairman)	3/4 *(note 1)*
Walter Teh-Ming KWAUK	4/4
Lian Yong CHEN	4/4

Note 1: One meeting that Mr. William Robert KELLER did not attend personally was attended by his alternate director.

Nomination Committee

The Company established the Nomination Committee in compliance with code provisions A.5.1 and A.5.2 of the CG Code.

The Nomination Committee consists of three members, namely Mr. Robert Taylor NELSEN, Non-executive Director, Mr. Junling LIU and Mr. William Robert KELLER, Independent Non-executive Directors. Mr. Robert Taylor NELSEN is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive 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 but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee held one meeting, to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Robert Taylor NELSEN (Chairman)	1/1
William Robert KELLER	1/1
Junling LIU	1/1

Board Diversity Policy

The Company has adopted a Board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Going forward, we will continue to work to enhance gender diversity of the Board. Our nomination committee will continue to use its best efforts to identify and recommend suitable female candidates to our Board for its consideration on appointment of a Director. We will also ensure that there is gender diversity when recruiting staff at mid to senior level so that we will continue to have a pipeline of female senior management and potential successors to our Board in due time to ensure gender diversity of the Board.

Director Nomination Policy

The Company has adopted a director nomination policy (the "Director Nomination Policy") which aims to set out the criteria and process in the nomination and appointment of directors of the Company, to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and to ensure the Board continuity and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

No candidate was nominated for directorship and no change in the composition of the Board during the year ended 31 December 2019.

Strategy Committee

The Strategy Committee consists of three members, namely Dr. Li CHEN, Executive Director, Mr. Robert Taylor NELSEN, Non-executive Director, and Mr. Junling LIU, Independent Non-executive Director. Dr. Li CHEN is the chairman of the Strategy Committee.

The principal duties of the Strategy Committee include considering, reviewing and advising on the mid-term and long-term development strategies of the Company's operations and to supervise or monitor the implementation of the development strategies and business plans.

During the Reporting Period, the Strategy Committee held one meeting, to supervise and monitor the implementation of the development strategies and business plans of the Company.

The attendance records of the members of the Strategy Committee are as follows:

Name of Members of the Strategy Committee	Attendance
Li CHEN (Chairman)	1/1
Robert Taylor NELSEN	1/1
Junling LIU	1/1

Corporate Governance Functions

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

During the year, 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.

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 at least annually, in reviewing the design, implementation and monitoring of the risk management and internal control systems.

- Risk management

  The Company has conducted risk assessment by the management to identify and assess enterprise risks (including environmental, social and governance risks) with reference to the Company's business objectives and strategies. Key risks and the respective mitigation strategies have been discussed among senior management. The management regularly reviews the action plans which have been developed to further enhance the risk management capabilities of particular key risks as appropriate.

- Internal control

  The Company ensures internal controls are designed and implemented in all major aspects of the Company's operations and details of internal control activities are included in the operating policies and procedures. The management regularly revisits the policies and procedures and furnishes updates as necessary.

During the year, the Company has appointed an independent consultancy firm to review the effectiveness of the risk management and internal control systems. Findings and recommendations on deficiencies were communicated with the management and action plans were developed by the management to address the issues identified. Follow-up reviews were scheduled to ensure the action plans were executed as designed.

The company has conducted review on the effectiveness of the Groups risk management and internal control systems for the year ended December 31, 2019, and confirms that they are effective and adequate.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. 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 (the "Information Disclosure Policy").

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited. Information Disclosure Policy is in place to guide and promote timely and accurate dissemination of inside information and stakeholder communication.

As of December 31, 2019, the Company has established an internal audit function.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2019.

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 63 to 66.

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 2019 amounted to RMB1.9 million and RMB1.46 million respectively.

An analysis of the remuneration paid to the external auditors of the Company, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services for the year ended December 31, 2019 is set out below:

Service Category	Fees Paid/Payable (RMB'000)
Audit Services	1,900
Non-audit Services	
– Interim review	680
– IP tax consulting	650
– Special review	80
– Other tax	50
	3,360

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 20 to 25 of this annual report, for the year ended December 31, 2019 are set out below:

Remuneration band	Number of individuals
RMB2,500,001 to RMB3,000,000	1
RMB3,000,001 to RMB3,500,000	2
RMB3,500,001 to RMB4,000,000	2
Above RMB5,000,000	3

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. YUEN Wing Yan, Winnie has been appointed in place of Ms. CHAN Wing Sze as the Company's company secretary with effect from December 31, 2019. Its primary contact person at the Company is Mr. George Chien Cheng LIN, Executive Director and Chief Financial Officer.

Ms. YUEN Wing Yan, Winnie has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

SHAREHOLDERS' RIGHTS

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

The Company's shareholders may convene an extraordinary general meeting ("EGM") or put forward proposals at shareholders' meetings as follows:

- Pursuant to Article 12.3 of the Company's Articles of Association, EGM shall convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. EGM may also be convened on the written requisition of any one member which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

- Pursuant to Article 16.4 of the Company's Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Putting Forwards Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

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

Address	:	No. 275 Ai Di Sheng Road Zhangjiang Hi-Tech Park Pudong New Area Shanghai, PRC (For the attention of the Director of Corporate Finance – Ms Emily Yeh)
Tel	:	+86 (21) 38101852
Email	:	ir@huamedicine.com

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 and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR 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.

Constitutional Documents

The amended and restated Memorandum and Articles of Association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the year ended December 31, 2019, the Company has not made any changes to its Memorandum and Articles of Association.

The amended and restated Memorandum and Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUA MEDICINE

(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hua Medicine (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 136, which comprise the consolidated statement of financial position as of December 31, 2019, 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 of December 31, 2019, 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 the 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 (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Key audit matter	How our audit addressed the key audit matter
Risk of misstatement of research and development expenses	
As disclosed in the consolidated statement of profit or loss and other comprehensive income, for the year ended December 31, 2019, the Group incurred significant research and development ("R&D") expenses, amounted to approximately RMB322 million. A large portion of the Group's R&D expenses are service fees paid to contract research organizations ("CROs"), clinical site management operators ("SMOs"), and contract manufacturing organizations ("CMOs") (collectively referred as "Outsourced Service Providers"). The R&D activities with these Outsourced Service Providers are documented in detailed agreements and are typically performed over an extended period. Allocation of these expenses to the appropriate financial reporting period based on the progress of the research and development projects involves estimation.	Our procedures included, among others: • Testing the design and implementation of management's control in relation to the accrual of the R&D expenses; • Inquiring the project managers and inspecting the relevant supporting documents to understand the progress of R&D projects, on a sample basis; • Checking to agreements with the Outsourced Service Providers on a sample basis to challenge and evaluate the reasonableness of the key estimation adopted by the management in setting up the accrual basis for R&D projects; and • Evaluating the reasonableness of the R&D expense accrual by comparing the subsequent payments made to the Outsourced Service Providers with the accrued R&D expenses at the year end.

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.

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

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 of the Company.

- Conclude on the appropriateness of the directors of the Company's 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 consolidated 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 Fung Hin Chiu.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 16, 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	For the year ended December 31, 2019 RMB'000 (audited)	2018 RMB'000 (audited)
Other income	6	29,574	10,355
Other gains and losses	7	16,275	63,778
Administrative expenses		(146,584)	(100,398)
Finance cost	8	(907)	(3,534)
Other expenses	9	(1,724)	–
Listing expenses		–	(38,918)
Research and development expenses		(321,904)	(269,065)
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")		–	(3,266,216)
Loss before tax	9	(425,270)	(3,603,998)
Income tax expense	10	–	–
Loss and total comprehensive expense for the year		(425,270)	(3,603,998)
Loss and total comprehensive expense for the year attributable to:			
– Owners of the Company		(425,270)	(3,602,726)
– Non-controlling interests		–	(1,272)
		(425,270)	(3,603,998)
LOSS PER SHARE	14	RMB	RMB
Basic and diluted		0.45	(10.07)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2019

	Notes	As of December 31, 2019 RMB'000	2018 RMB'000
Non-current assets			
Equipment	16	10,988	5,328
Right-of-use assets	17	90,486	–
Intangible assets	18	1,980	859
Prepayments and other receivables	19	30,707	9,552
		134,161	15,739
Current assets			
Prepayments and other receivables	19	14,852	24,337
Prepayments to related parties	20	–	6,863
Bank balances and cash	21	1,105,600	1,443,310
		1,120,452	1,474,510
Current liabilities			
Trade and other payables	22	88,317	76,033
Lease liabilities	24	12,019	–
Deferred income	23	8,450	1,600
		108,786	77,633
Net Current Assets		1,011,666	1,396,877
Total Assets Less Current Liabilities		1,145,827	1,412,616
Non-current liabilities			
Lease liabilities	24	77,959	–
Deferred income	23	7,248	9,128
		85,207	9,128
Net Assets		1,060,620	1,403,488

	Notes	As of December 31, 2019 RMB'000	2018 RMB'000
Capital and reserves			
Share capital	25	7,209	7,209
Treasury shares held in trust	25	(729)	(797)
Reserves		1,054,140	1,397,076
Equity attributable to owners of the Company		1,060,620	1,403,488
Total Equity		1,060,620	1,403,488

The consolidated financial statements on pages 67 to 136 were approved and authorized for issue by the directors of the Company on March 16, 2020 and are signed on its behalf by:

Dr. Li Chen
DIRECTOR

Mr. George Chien Cheng Lin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2019

	Attributable to owners of the Company								
	Share capital RMB'000	Treasury shares held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total (deficit) equity RMB'000
As of January 1, 2018	48	–	–	(20,218)	15,564	(949,274)	(953,880)	11,350	(942,530)
Loss and total comprehensive expense for the year	–	–	–	–	–	(3,602,726)	(3,602,726)	(1,272)	(3,603,998)
Subsidiary's ordinary share issued to non-controlling investors	–	–	–	61,532	–	–	61,532	2,580	64,112
Effect of put option granted to non-controlling investors to convert their equity interests in subsidiary to the Company's redeemable convertible preferred shares	–	–	–	(64,112)	–	–	(64,112)	–	(64,112)
Repurchase of subsidiary's ordinary shares from non-controlling investors	–	–	–	12,765	–	–	12,765	(12,765)	–
Options exercised to purchase ordinary shares	–	–	549	–	–	–	549	–	549
Shares issued upon initial public offerings and over-allotment	738	–	776,193	–	–	–	776,931	–	776,931
Conversion of redeemable convertible preferred shares into ordinary shares	327	–	5,149,139	–	–	–	5,149,466	–	5,149,466
Recognition of equity-settled share-based payment	–	–	–	–	58,393	–	58,393	107	58,500
Transaction costs attributable to issue of new shares	–	–	(34,534)	–	–	–	(34,534)	–	(34,534)
Shares issued to trust and convert to treasury shares	53	(53)	–	–	–	–	–	–	–
Capitalization issue	6,043	(747)	(5,296)	–	–	–	–	–	–
Restricted stock units vested under the trust (Note 25 (k))	–	3	(3)	–	–	–	–	–	–
Repurchase of vested share options to satisfy withholding tax obligation	–	–	–	–	(896)	–	(896)	–	(896)
As of December 31, 2018	7,209	(797)	5,886,048	(10,033)	73,061	(4,552,000)	1,403,488	–	1,403,488

	Attributable to owners of the Company								
	Share capital RMB'000	Treasury shares held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total (deficit) equity RMB'000
Loss and total comprehensive expense for the year	–	–	–	–	–	(425,270)	(425,270)	–	(425,270)
Options exercised to purchase ordinary shares under the trust (Note 25 (j))	–	55	7,270	693	–	–	8,018	–	8,018
Restricted stock units vested under the trust (Note 25 (k))	–	13	–	(13)	–	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	74,384	–	74,384	–	74,384
As of December 31, 2019	7,209	(729)	5,893,318	(9,353)	147,445	(4,977,270)	1,060,620	–	1,060,620

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Loss before tax	(425,270)	(3,603,998)
Adjustments for:		
Loss on changes in fair value of financial liabilities at FVTPL	–	3,266,216
Bank interest income	(7,317)	(1,226)
Income from government grants	(1,600)	(8,655)
Depreciation of equipment	3,361	1,534
Depreciation of right-of-use assets	6,920	–
Amortization of intangible assets	151	7
Finance cost	907	3,534
Share-based payment expense	74,384	58,500
Gain from changes in fair value of other financial assets	–	(259)
Net unrealized foreign exchange gain	(15,108)	(63,763)
Loss on disposal of equipment	–	7
Operating cash flows before movements in working capital	(363,572)	(348,103)
Decrease (increase) in prepayments and other receivables	12,484	(973)
Decrease in prepayments to related parties	6,863	13,227
Increase in trade and other payables	12,284	63,894
(Increase) decrease in value added tax recoverable	(16,696)	1,303
Increase in deferred income	6,570	5,555
Decrease in amounts due to related parties	–	(4,326)
NET CASH USED IN OPERATING ACTIVITIES	(342,067)	(269,423)
INVESTING ACTIVITIES		
Interest received from bank	4,538	1,226
Proceeds from disposal of equipment	–	2
Purchase of equipment	(9,021)	(4,230)
Purchase of intangible assets	(1,272)	(866)
Payments for rental deposits	(3,760)	–
Proceeds on disposal of other financial assets	–	16,360
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(9,515)	12,492

	Note	Year ended December 31 2019 RMB'000	2018 RMB'000
FINANCING ACTIVITIES			
Proceeds from exercise of share options		6,620	549
Repayments of leases liabilities		(7,856)	–
Proceeds from issue of ordinary shares		–	776,931
Proceeds from the issue of the Company's convertible redeemable preferred shares		–	673,909
Proceeds from the issue of subsidiary's ordinary shares and written put options over subsidiary		–	64,112
Repayment to investors		–	(12,577)
Transaction costs for the issue of the Company's convertible redeemable preferred shares		–	(3,534)
Payments relating to issue costs		–	(34,534)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	33	(1,236)	1,464,856
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(352,818)	1,207,925
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,443,310	172,733
Effect of exchange rate changes		15,108	62,652
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		1,105,600	1,443,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

1. General information

Hua Medicine (the "Company") was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009, and its shares are listed on The Stock Exchange of Hong Kong Limited on September 14, 2018 (the "Listing Date"). The address of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" to the annual report. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as "Group") are principally engaged in developing a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of Type 2 diabetes.

The functional currency of the Company is RMB, which is the same as the presentation currency of the consolidated financial statements.

2. Application of new and amendments to international financial reporting standards ("IFRSs")

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

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time in the current year:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

2. Application of new and amendments to international financial reporting standards ("IFRSs") (Continued)

IFRS 16 *Leases* (Continued)

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the People's Republic of China (the "PRC") was determined on a portfolio basis;

On transition, the Group has made the following adjustments upon application of IFRS 16:

As of January 1, 2019, the Group recognized additional lease liabilities and right-of-use assets equal to the related lease liabilities, adjusted by any prepaid lease payments by applying IFRS 16.C8(b)(ii) transition.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates by the relevant group entities range from 3.96% to 5.32%.

2. Application of new and amendments to international financial reporting standards ("IFRSs") (Continued)

IFRS 16 *Leases* (Continued)

As a lessee (Continued)

	As of January 1, 2019 RMB'000
Operating lease commitments disclosed as of December 31, 2018	6,056
Lease liabilities discounted at relevant incremental borrowing rates	5,835
Less: Recognition exemption – short-term leases	(465)
Practical expedient – leases with lease term ending within 12 months from the date of initial application	(1,138)
Lease liabilities as of January 1, 2019	4,232
Analysed as	
Current	2,715
Non-current	1,517
	4,232

The carrying amount of right-of-use assets as of January 1, 2019 comprises the following:

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognized upon application of IFRS 16		4,232
Reclassified from operating lease prepayments	(a)	479
Total		4,711
By class:		
Leased properties		4,521
Motor vehicles		190
		4,711

(a) Operating lease prepayment in the PRC/Hong Kong were classified as prepayments and other receivables as of December 31, 2018. Upon application of IFRS 16, the prepayments amounting to RMB479,000 were reclassified to right-of-use assets.

2. Application of new and amendments to international financial reporting standards ("IFRSs") (Continued)

IFRS 16 *Leases* (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognized in the consolidated statement of financial position as of January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as of December 31, 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 as of January 1, 2019 RMB'000
Non-current Assets			
Right-of-use assets	–	4,711	4,711
Current Assets			
Prepayments and other receivables	24,337	(479)	23,858
Current Liabilities			
Lease liabilities	–	2,715	2,715
Non-current liabilities			
Lease liabilities	–	1,517	1,517

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as of January 1, 2019 as disclosed above.

New and amendments IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

2. Application of new and amendments to international financial reporting standards ("IFRSs") (Continued)

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

[1] Effective for annual periods beginning on or after January 1, 2021

[2] 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

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after January 1, 2020

[5] Effective for annual periods beginning on or after January 1, 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after January 1, 2020.

The directors of the Company anticipate that application of the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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 of Hong Kong Limited ("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 which 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 accounted for in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 *Impairment of Assets*.

3. Significant accounting policies (Continued)

In addition, for financial reporting purposes, fair value measurements are categorized 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.

Profit or loss 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.

3. Significant accounting policies (Continued)

Basis of consolidation (Continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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.

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.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2)

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

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2) (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liabilities at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2) (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liabilities based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to January 1, 2019)

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.

Operating lease payments are recognized as an expenses on a straight-line basis over the lease term.

3. Significant accounting policies (Continued)

Government grants

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. While the government grants whose primary condition is to compensate for research projects or other than purchase, construct or otherwise acquire long-term assets are designated as grants related to income. Some of the grants related to income have future related costs expected to be incurred, and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance.

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.

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 on 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 in the period in which they arise.

3. Significant accounting policies (Continued)

Equipment

Equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Leasehold improvement in the course of construction are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of items of equipment other than construction in progress 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 equipment is derecognized 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 equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization 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.

3. Significant accounting policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure

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

An internally-generated intangible asset arising from development activities is recognized 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;
- how 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 recognized 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 recognized, development expenditure is recognized 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 amortization and accumulated impairment losses (if any).

Retirement benefit 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 charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

3. Significant accounting policies (Continued)

Share-based Payments

Equity-settled share-based payment transactions

Share options/restricted stock units 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 is determined at the grant date without taking into consideration all non-market vesting conditions and the equity-settled share-based payments are expensed by tranche (each date on which any portion of option granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of option granted shall be vested is hereinafter referred to as a "Tranche") 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-based payment reserve). At the end of each reporting period, the Group reviews its estimates 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 recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share-based payment reserve.

When the share options are exercised or when the restricted stock units are vested, the Company transfers the treasury shares into ordinary shares or issues new ordinary shares, and the amount previously recognized in the share option reserve will continue to be held in share option reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in the share option reserve will continue to be held in share-based payment reserve.

3. Significant accounting policies (Continued)

Share-based Payments (Continued)

Share options granted to individual consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognized as expenses (unless the goods or services qualify for recognition as assets).

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 each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. Significant accounting policies (Continued)

Taxation (Continued)

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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 to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss.

Impairment on equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its equipment, right-of-use assets 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 equipment, right-of-use assets 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.

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.

3. Significant accounting policies (Continued)

Impairment on equipment, right-of-use assets and intangible assets (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 or the group of cash-generating units. 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 recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, 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 recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized 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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 acquirer of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized 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.

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 amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset 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 fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

By default, all other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. 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. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized 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 recognized in profit or loss and is included in the "other income" line item.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains and losses recognized in profit or loss. The net gain or loss recognized 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.

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. For financial assets measured at amortized cost, exchange differences are recognized in profit or loss in the 'other gains and losses' line item (Note 7).

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including cash and cash equivalents and other receivables) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 of the reporting date with the risk of a default occurring on the financial instrument as of 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;
- 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;
- 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.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

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.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Definition of default

For internal credit risk management, 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.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default 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; or

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 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. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

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 the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all 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 to 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;
- 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 amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognizes 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 amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued 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 the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as of FVTPL when the financial liability is designated as of FVTPL.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

A financial liability may be designated as of 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 of FVTPL.

Because the Group's convertible redeemable preferred shares contained multiple embedded derivatives, the convertible redeemable preferred shares are designated as of FVTPL. For financial liabilities that are designated as of 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 recognized 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 redeemable preferred shares, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. The remaining amount of change in the fair value of liability is recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in the "loss on changes in fair value of financial liabilities at FVTPL" line item. Changes in fair value attributable to a financial liability's credit risk that are recognized 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.

Obligation arising from put options over the ordinary shares of a subsidiary written to non-controlling shareholders

The gross financial liability arising from the put options is recognized when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the Group. The liability for the share redemption amount is initially recognized and subsequently measured at fair value of the financial instruments to be issued to exchange for the shares in a subsidiary with the corresponding debit to 'other reserve'. Prior to the exercise of the put options by non-controlling shareholders, the remeasurement of the estimated gross obligations under the written put options to the non-controlling shareholders is recognized in the profit or loss.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at amortized cost

Other financial liabilities including trade and other payables are subsequently measured at amortized 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 amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (Note 7).

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 of FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss.

Derecognition of financial liabilities

The Group derecognizes 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 derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Treasury shares

Own equity instruments which held by the Company or the Group (treasury shares) are recognized directly in equity at cost. No gain or loss is recognized in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

4. Critical accounting judgements 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 judgement, 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.

4. Critical accounting judgements and key source of estimation uncertainty (Continued)

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized 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, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Research and development expenses

Development expenses incurred on the Group's drug product pipelines are capitalized 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. Research and development expenses which do not meet these criteria are expensed when incurred. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. All expenses incurred for research and development activities were regarded as research expenses and therefore were expensed when incurred.

Key source of estimation uncertainty

The Group rely on global contract research organizations (CROs), clinical site management operators (SMOs), and contract manufacturing organizations (CMOs) to conduct, supervise, and monitor the Group's ongoing clinical trials in China. Determining the amounts of research and development expenses incurred up to the end of each reporting period requires the management of the Group to estimate and measure the progress of receiving research and development services under the CROs, SMOs and CMOs contracts using inputs such as number of patient enrollments, number of patient visits, time elapsed, milestone achieved and etc.

5. Segment information

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 present.

The Group did not record any revenue during the reporting period and the Group's non-current assets are substantially located in the PRC, accordingly, no analysis of geographical segment is presented.

6. Other income

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
Bank interest income	7,317	1,226
Government grants and subsidies related to income (Note)	22,257	9,129
	29,574	10,355

Note:

The government grants and subsidies related to income have been received to compensate for the expenses of Group's research and development. Some of the grants related to income intended to compensate future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to incomes were recognized in profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance. Details of these grants related to income are set out in Note 23.

Other government grants related to income 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 recognized in profit or loss in the period in which they become collectable.

7. Other gains and losses

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
Loss on disposal of equipment	–	(7)
Net foreign exchange gain	16,198	63,479
Gain from changes in fair value of other financial assets – realized	–	259
Others	77	47
	16,275	63,778

8. Finance cost

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
Interest on lease liabilities	907	–
Transaction cost for the issue of the Company's convertible redeemable preferred shares and written put option over subsidiary	–	3,534
	907	3,534

9. Loss before tax

Loss before tax for the year has been arrived at after charging:

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
Depreciation for equipment	3,361	1,534
Depreciation of right-of-use assets	6,920	–
Amortization for intangible assets	151	7
Other expenses (Note)	1,724	–
Staff costs (including directors' emoluments):		
– Salaries and other benefits	116,846	78,348
– Retirement benefit scheme contributions	9,066	6,177
– Share-based payment	74,384	58,500
	200,296	143,025
Auditors' remuneration	2,480	2,000
Expense relating to short-term leases (Note 17)	2,560	–
Minimum operating lease payment in respect of rented premises	–	4,677

Note: In 2019, the Company donated US$0.25 million (equivalent to RMB1,724,000) for establishing a type 2 diabetes research fund in the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania, USA.

10. Income tax expense

The Company was incorporated in the Cayman Islands and is exempted from income tax.

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax during the reporting period.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiary is 25% during the reporting period.

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	
	2019	**2018**
	RMB'000	**RMB'000**
Loss before tax	425,270	3,603,998
Income tax credit calculated at 25%	(106,318)	(901,000)
Tax effect of income not taxable for tax purpose	–	(2,164)
Tax effect of expenses that are not deductible for tax purpose	25,486	835,561
Effect of research and development expenses that are additionally deducted	(50,792)	(42,833)
Tax effect of tax losses not recognized	131,624	110,436
Income tax expenses recognized in profit or loss	–	–

The Group has unused tax losses of RMB1,308,494,000 and RMB822,776,000 available for offset against future profits as of December 31, 2019 and 2018 respectively. Deferred taxation had not been recognized on the unused tax losses due to the unpredictability of future profit streams.

10. Income tax expense (Continued)

The unrecognized tax losses will be carried forward and expire in years as follows:

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
2019	–	38,151
2020	44,942	44,942
2021	94,820	94,820
2022	203,120	203,120
2023	439,116	441,743
2024	526,496	–
	1,308,494	822,776

11. License agreement

In December 2011, the Company entered into a research, development and commercialization agreement ("GKA Agreement") with Hoffman-La Roche Inc., and F. Hoffman-La Roche AG (collectively referenced as "Roche") under which Roche granted the Company an exclusive license of patent rights, know-how and regulatory filings with respect to a compound which is a glucokinase activator to research, develop and commercialize products ("Licensed Product") in the field of diabetes in the licensed territory ("Licensed Territory"). Pursuant to the GKA Agreement, the Company made US$2,000,000 non-refundable upfront payment and US$1,000,000 milestone payment upon the commencement of clinical trial Phase III in the mainland China for the Licensed Product to Roche in 2012 and 2017, respectively, which were recorded as research and development expenses in the corresponding years.

The Company is obligated to make US$4,000,000 milestone payments upon the achievement of development of the Licensed Product through new drag approval in China and US$33,000,000 in the Licensed Territory other than China. Upon commercialization, the Company is contingently obligated to make US$15,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$500,000,000 and US$40,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$1,000,000,000. The Company is also obligated to make royalty payments at the applicable incremental royalty rate based on sales of the Licensed Product.

12. Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the service provided to the Group during the reporting period are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Performance based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2019						
Executive directors						
Dr. Li CHEN*	–	4,075	2,249	114	21,669	28,107
Mr. George Chien Cheng LIN	–	3,544	8,119	16	14,830	26,509
Non-executive directors						
Mr. Robert T. NELSEN	–	–	–	–	–	–
Dr. Lian Yong CHEN	–	–	–	–	–	–
Independent non-executive directors						
Mr. Walter Teh-Ming KWAUK	450	–	–	–	–	450
Mr. William Robert KELLER	450	–	–	–	–	450
Mr. Junling LIU	450	–	–	–	–	450
Mr. Yiu Wa Alec TSUI	450	–	–	–	–	450
	1,800	7,619	10,368	130	36,499	56,416

12. Directors' and chief executive's emoluments (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Performance based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2018						
Executive directors						
Dr. Li CHEN*	–	2,386	2,988	56	6,340	11,770
Mr. George Chien Cheng LIN (Note 1)	–	3,301	13,267	–	14,586	31,154
Non-executive directors						
Mr. Robert T. NELSEN	–	–	–	–	–	–
Dr. Lian Yong CHEN	–	–	–	–	–	–
Mr. Bryan ROBERTS (Note 2)	–	–	–	–	–	–
Mr. Daniel AUERBACH (Note 2)	–	–	–	–	–	–
Mr. Frank YU (Note 2)	–	–	–	–	–	–
Dr. John J. BALDWIN (Note 2)	–	–	–	–	839	839
Mr. Xiao Chuan QIU (Note 2)	–	–	–	–	–	–
Mr. Erdong HUA (Note 3)	–	–	–	–	–	–
Independent non-executive directors						
Mr. Walter Teh-Ming KWAUK (Note 1)	134	–	–	–	–	134
Mr. William Robert KELLER (Note 1)	134	–	–	–	–	134
Mr. Junling LIU (Note 1)	134	–	–	–	–	134
Mr. Yiu Wa Alec TSUI (Note 1)	134	–	–	–	–	134
	536	5,687	16,255	56	21,765	44,299

* Chief Executive Officer

Note 1: Mr. George Chien Cheng LIN was appointed as an executive director of the Company on May 11, 2018. Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER, Mr. Junling LIU and Mr. Yiu Wa Alec TSUI were appointed as independent non-executive directors of the Company on September 14, 2018.

Note 2: Mr. Bryan ROBERTS, Mr. Daniel AUERBACH, Mr. Frank YU, Dr. John J. BALDWIN, and Mr. Xiao Chuan QIU resigned and were removed from the list of the directors of the Company on August 26, 2018.

Note 3: Mr. Erdong HUA was appointed as a non-executive director of the Company on January 22, 2018 and was removed from the list of the directors of the Company on August 26, 2018.

12. Directors' and chief executive's emoluments (Continued)

The executive directors' emoluments shown above were for their service in connection with the management 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.

None of the directors of the Company has waived any emoluments during the reporting period.

Certain directors of the Company were granted share options and restricted stock units in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 26.

During the year, there were no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities (2018: nil).

13. Five highest paid employees

The five highest paid individuals of the Group included two directors of the Company (2018: two), details of whose remuneration are set out in Note 12 above. All these individuals have not received any emolument from the group as an inducement to join the group or compensation for loss of office during the year ended December 31, 2019. Details of the remuneration for the remaining three highest paid employees (2018: three) are as follows:

	Year ended December 31	
	2019	**2018**
	RMB'000	**RMB'000**
Salaries and other benefits	4,062	4,094
Retirement benefit scheme contributions	341	112
Performance based bonus	2,978	740
Share-based payment	9,392	9,496
	16,773	14,442

The emoluments of these employees (including directors) are within the following bands:

	Year ended December 31	
	2019	**2018**
	No. of employees	**No. of employees**
Hong Kong Dollars ("HK$")		
HK$4,000,001 to HK$4,500,000	2	–
HK$5,000,001 to HK$5,500,000	–	1
HK$5,500,001 to HK$6,000,000	–	2
HK$10,000,001 to HK$10,500,000	1	–
HK$13,500,001 to HK$14,000,000	–	1
HK$29,500,001 to HK$30,000,000	1	–
HK$31,500,001 to HK$32,000,000	1	–
HK$36,500,001 to HK$37,000,000	–	1

13. Five highest paid employees (Continued)

Certain non-directors highest paid employees were granted share options in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 26.

14. Loss per share

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

Loss figures are calculated as follows:

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	(425,270)	(3,602,726)

Number of Shares:

	Year ended December 31	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	942,060,515	357,864,458

The computation of basic and diluted loss per share for the years ended December 31, 2019 and 2018 respectively excluded the unvested restricted stock units of the Company. Details of these restricted stock units are set out in Note 26.

The computation of diluted loss per share for the year ended December 31, 2019 did not assume the exercise of share options since their assumed exercise would result in a decrease in loss per share.

The computation of diluted loss per share for the year ended December 31, 2018 did not assume the conversion of the convertible redeemable preferred shares, the exercise of share options or the overallotment options since their assumed conversion or exercise would result in a decrease in loss per share.

15. Dividends

No dividend was paid or declared by the Company during the years ended December 31, 2019 and 2018.

16. Equipment

	Motor vehicles RMB'000	Experimental equipment RMB'000	Furniture fixtures and equipment RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At January 1, 2018	860	–	3,184	–	–	4,044
Additions	–	–	2,120	2,110	–	4,230
Disposals	–	–	(250)	–	–	(250)
At December 31, 2018	860	–	5,054	2,110	–	8,024
Additions	93	2,331	2,214	188	4,195	9,021
Transfer from CIP	381	1,557	946	314	(3,198)	–
At December 31, 2019	1,334	3,888	8,214	2,612	997	17,045
Accumulated depreciation						
At January 1, 2018	466	–	937	–	–	1,403
Charge for the year	109	–	1,037	388	–	1,534
Eliminated on disposals	–	–	(241)	–	–	(241)
At December 31, 2018	575	–	1,733	388	–	2,696
Charge for the year	118	282	1,793	1,168	–	3,361
At December 31, 2019	693	282	3,526	1,556	–	6,057
Carrying amount						
At December 31, 2019	641	3,606	4,688	1,056	997	10,988
At December 31, 2018	285	–	3,321	1,722	–	5,328

The above items of equipment are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

Motor vehicles	4 years
Experimental equipment	7 years
Furniture, fixtures and equipment	3-5 years
Leasehold improvement	Over the shorter of the lease term or five years

17. Right-of-use assets

	Leased properties RMB'000	Motor vehicles RMB'000	Total RMB'000
As of January 1,2019			
Carrying amount	4,521	190	4,711
As of December 31, 2019			
Carrying amount	90,410	76	90,486
For the year ended December 31, 2019			
Depreciation charge	(6,806)	(114)	(6,920)
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 (Note (a))			2,560
Total cash outflow for leases (Note (b))			10,416
Additions to right-of-use assets			92,695

Notes:

(a) The Group regularly entered into short-term leases for motor vehicles and offices. As of December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

(b) Amount includes payments of principal and interest portion of lease liabilities and short-term leases. These amounts could be presented in financing or operating cash flows.

Restrictions or covenants on leases

Lease liabilities of RMB89,978,000 are recognised with related right-of-use assets of RMB90,486,000 as of December 31, 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

18. Intangible assets

	Software RMB'000
Cost	
As of January 1, 2018	–
Additions	866
As of December 31, 2018	866
Additions	1,272
As of December 31, 2019	2,138
Amortization	
As of January 1, 2018	–
Charge for the year	7
As of December 31, 2018	7
Charge for the year	151
As of December 31, 2019	158
Carrying amount	
As of December 31, 2019	1,980
As of December 31, 2018	859

The above items of intangible assets are software, which are amortized, using the straight-line method over 10 years.

19. Prepayments and other receivables

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Prepayments for research and development services	2,838	21,157
Utility and rental deposits	5,579	1,530
– non-current	4,117	–
– current	1,462	1,530
Value add tax recoverable – non-current	26,248	9,552
Interest receivables	2,779	–
Other receivables for considerations of options exercised	1,398	–
Others	6,717	1,650
– current	6,375	1,650
– non-current	342	–
	45,559	33,889
Analysis as		
– current	14,852	24,337
– non-current	30,707	9,552
	45,559	33,889

20. Prepayments to related parties

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Prepaid emolument (Note)	–	6,863

Note: In November 2017, the Company entered into an employment agreement with a senior management and paid US$2,000,000 (equivalent to RMB13,016,000) as an inducement to join the Company. Pursuant to the employment agreement, the employee would be obligated to remain in the Company's employment for 24 months since the hiring date. The Company recognized the inducement as prepayment in 2017 and amortized it over the required service period till November 2019.

21. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The short term bank deposits carry interests at market rates which ranged from 0.05% to 2.80% as of December 31, 2019 (2018: 0.01% to 0.30%) per annum.

Bank balances and cash that are denominated in currencies other than RMB are set out below:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
US$	846,502	1,008,265
HK$	51,283	408,764
Taiwan Dollars ("TWD")	3	3

22. Trade and other payables

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Trade payables	51,601	55,676
Payroll and bonus payables	28,577	14,867
Others	8,139	5,490
	88,317	76,033

The average credit period on purchases of goods/services ranges up to 30 days.

The ageing analysis of the trade payables presented based on the goods/services relevant invoice or billing date at the end of reporting period is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Uninvoiced or within 30 days	51,552	35,118
31 to 60 days	–	6,411
61 to 180 days	–	14,147
181 to 365 days	49	–
	51,601	55,676

22. Trade and other payables (Continued)

Analysis of trade and other payables denominated in currency other than RMB is set out below:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
US$	1,024	570

23. Deferred income

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Government grants received		
– current liabilities	8,450	1,600
– non-current liabilities	7,248	9,128
	15,698	10,728

During the years ended December 31, 2019 and 2018, the Group received subsidies related to its research and development activities. The grants were recognized in profit or loss as other income upon the Group complying with the conditions attached to the grants and the government acknowledged acceptance.

24. Lease liabilities

	As of December 31,
	2019
	RMB'000
Lease liabilities payable:	
Within one year	12,019
Within a period of more than one year but not more than two years	10,007
Within a period of more than two years but not more than five years	49,717
Within a period of more than five years	18,235
	89,978
Less: Amount due for settlement with 12 months shown under current liabilities	(12,019)
Amount due for settlement after 12 months shown under non-current liabilities	77,959

24. Lease liabilities (Continued)

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HKD RMB'000
As of December 31, 2019	261

25. Share capital

The details of the changes of the Company's authorized and issued and fully paid ordinary shares during the year ended December 31, 2019 and 2018 are set out as below:

	Authorized Number of shares	US$
Ordinary shares of US$0.001 each		
As of January 1, 2018	61,670,953	61,671
Increase (Note (a))	45,501,211	45,501
Decrease (Note (b))	(5,064,833)	(5,065)
Increase (Note (c))	1,850,000,000	1,850,000
Increase (Note (d))	47,892,669	47,893
As of December 31, 2018 and 2019	2,000,000,000	2,000,000

25. Share capital (Continued)

	Issued and fully paid Number of shares	US$	Shown in the consolidated statement of financial position as RMB'000
Ordinary shares of US$0.001 each			
As of January 1, 2018	7,426,154	7,426	48
Issue of shares by exercise share options (Note (e))	25,000	25	–
Issue of shares by converting preferred shares into ordinary share (Note (d))	47,892,666	47,893	327
Issue of shares held in trust (Note (f))	7,800,000	7,800	53
Issue of shares pursuant to capitalization Issue (Note (g))	884,013,480	884,013	6,043
Issue of shares by initial public offering (Note (h))	104,756,000	104,756	717
Issue of shares by exercise of over-allotment option (Note (i))	2,980,500	2,981	21
As of December 31, 2018 and 2019	1,054,893,800	1,054,894	7,209

The details of the treasury shares held in trust are set out as below:

	Number of treasury shares	US$	Shown in the consolidated statement of financial position as RMB'000
Treasury shares held in trust as of August 26, 2018 (Note (f))	117,000,000	117,000	800
Restricted stock units vested under the trust (Note (k))	(463,938)	(464)	(3)
Treasury shares held in trust as of December 31, 2018	116,536,062	116,536	797
Options exercised to purchase ordinary shares under the trust (Note (j))	(8,096,053)	(8,096)	(55)
Restricted stock units vested under the trust (Note (k))	(1,855,752)	(1,856)	(13)
Treasury shares held in trust as of December 31, 2019	106,584,257	106,584	729

25. Share capital (Continued)

As of December 31, 2019 and 2018, shares are held in trust including 101,480,972 and 109,577,025 shares for outstanding options (included forfeited shares of 1,354,953 and 183,000 which were originally entitled by resigned employees) and 5,103,285 and 6,959,037 shares for unvested restricted stock units and are disclosed separately in treasury shares since the Company has control over the Nominee.

Notes:

(a) On January 22, 2018, the authorized share capitals of the Company was increased by an aggregate of 50,000,000 ordinary shares of par value of US$0.001 each and 4,498,789 of which were re-designated into 4,498,788 Series D-1 Preferred Shares of the Company of par value of US$0.001 each, and 1 Series D-2 Preferred Share of the Company of par value of US$0.001 each.

(b) On March 12, 2018, an aggregate of 5,064,833 ordinary shares of par value of US$0.001 each were redesigned into 5,064,833 Series E Preferred Shares of the Company of par value of US$0.001 each.

(c) On August 26, 2018, the authorized share capital of the Company was increased from US$150,000 divided into 150,000,000 shares, which consisting of 102,107,334 ordinary shares of a par value of US$0.001 each and 47,892,666 preferred shares of a par value of US$0.001 each to US$2,000,000 divided into 2,000,000,000 shares by the creation of an additional of 1,850,000,000 ordinary shares of par value of US$0.001 each.

(d) Upon the completion of the international offering and the Hong Kong public offering (together form the "Global Offering"), an aggregate of 47,892,666 Preferred Shares of the Company are converted into ordinary shares and 1 Series C-2 Preferred Shares, 1 Series C-3 Preferred Shares and 1 Series D-2 Preferred Share of the Company are converted as authorized ordinary shares after the Share Purchase Option exercised.

(e) On March 22, 2018, an employee exercised his right, evidenced by certain option agreements under the Company's pre-IPO share option scheme, to subscribe 25,000 ordinary shares of the Company at the exercise of US$3.5 per share for an aggregate consideration of US$87,500 (equivalent to RMB549,640).

(f) HLYY Limited (the "Nominee") was incorporated in the British Virgin Islands as a limited liability company and is wholly owned by The Core Trust Company Limited (the "Trustee"), an independent third party. On August 26, 2018, the Company entered into a trust deed with the Trustee and the Nominee, pursuant to which the Trustee has agreed to act as the trustee to administer the Pre-IPO Share Incentive Scheme (defined in Note 26) and to hold the shares underlying the Pre-IPO Scheme (defined in Note 26) and restricted stock units granted under the Pre-IPO Share Incentive Scheme as disclosed in Note 26 through the Nominee. On August 27, 2018, the Company allotted and issued 7,800,000 shares to the Nominee at a nominal consideration of US$7,800(equivalent to RMB53,000). On the Listing Date, the total number of shares held in trust was 117,000,000 as adjusted after the Capitalization Issue (as defined in note (g) below), which includes 109,577,025 shares for Pre-IPO Scheme and 7,422,975 shares for restricted stock units under the Pre-IPO Share Incentive Scheme of the Company.

25. Share capital (Continued)

(g) On August 26, 2018, a shareholder's resolution was passed under which a total of 884,013,480 shares credited as fully paid at par value to the shareholders on the register of members of the Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional in proportion to the respective shareholdings in the Company by way of capitalization of the sum of US$884,013.48 (equivalent to RMB6,043,000) standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued Shares (the "Capitalization Issue"), in each case to be effective on the Listing Date.

(h) On September 14, 2018, the Company issued a total of 104,756,000 ordinary shares of US$0.001 each at the price of HK$8.28 per share by means of Global Offering.

(i) On October 12, 2018, the Company issued a total of 2,980,500 ordinary shares of US$0.001 each at the price of HK$8.28 per share by means of partial exercise of overallotment option.

(j) During the year ended December 31, 2019, several employees exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 8,096,053 ordinary shares of the Company at the average exercise price of HK$1.12 per share for an aggregate consideration equivalent to RMB8,018,000.

(k) During the year ended December 31, 2019, 1,855,752 (2018: 463,938) restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US$0.001 each.

26. Share-based payment transactions

On August 26, 2018, the Company adopted the pre-IPO share incentive scheme (the "Pre-IPO Share Incentive Scheme") and established an employee trust to administer the scheme. A total of 7,800,000 ordinary shares of the Company, representing all the Company's shares underlying the Pre-IPO Scheme (defined as below) and the restricted stock units granted under the Pre-IPO Share Incentive Scheme, were issued to, the Nominee, to hold such shares to satisfy the options and restricted stock units granted upon exercise/vesting. No further Company's shares will be allotted and issued to the Nominee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to the capitalization issue, rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme.

The Company also conditionally adopted a post-IPO share option scheme (the "Post-IPO Scheme") on August 26, 2018, which became effective on the Listing Date.

The history of the issuance of the share option schemes, restricted stock units under the Pre-IPO Share Incentive Scheme and Post-IPO Scheme is set out below.

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company

The Company's pre-IPO share option scheme (the "Pre-IPO Scheme") was adopted pursuant to a resolution passed on March 5, 2015 for the primary purpose of providing incentives to directors, eligible employees and individual consultants who render services to the Group.

The Company's Post -IPO Scheme was adopted by the resolutions in writing of all the shareholders passed on August 26, 2018 for the primary purpose of providing incentives to directors of the Company, eligible employees and individual consultants who render services to the Group.

Under the Pre-IPO Scheme and Post-IPO Scheme, the directors of the Company may grant options to eligible employees, including the directors of the Company, to subscribe for shares of the Company. The fair value of the services provided by employees are measured at the fair value of options at the grant date. Additionally, the Company may, from time to time, grant share options to individual consultants for settlement in respect of research and development advisory services provided to the Group. The fair value of the services from individual consultants is determined by the fair value of the services received on the services receipt date.

The directors of the Company approved up to 109,577,025 shares of the Company in which options may be granted under the Pre-IPO Scheme and approved up to 105,191,330 shares of the Company in which options may be granted under the Post-IPO Scheme.

(1) Details of specific categories of options under the Pre-IPO Scheme are as follows:

Categories	**Date of grant**	**Number of options**	**Exercise price per share**
Directors:			
Dr. Li CHEN	December 4, 2014 ~ August 26, 2018	12,921,725	US$0.07 ~ 0.49
Mr. George Chien Cheng LIN	April 3, 2018	25,592,405	US$0.47
Employees	March 25, 2013 ~ August 26, 2018	54,412,889	US$0.07 ~ 0.47
Individual consultants	September 12, 2013 ~ June 1, 2018	7,016,000	US$0.07 ~ 0.47

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

(2) Details of specific categories of options under the Post- IPO Scheme are as follows:

Category	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	June 25, 2019	12,079,000	HK$8.866
Mr. George Chien Cheng LIN	May 17, 2019	300,000	HK$8.866
Employees	September 28, 2018 ~ September 19, 2019	8,885,300	HK$6.8 ~ 8.866
Individual consultants	May 15, 2019	200,000	HK$8.866

(3) Options granted under the Pre-IPO Scheme and the Post-IPO Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 25% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments except for the options granted to non-employees individual consultants on September 12, 2013 and March 15, 2016. The options granted to individual consultants on September 12, 2013 have a contractual term of 10 years and generally vest over a three year period, with 33% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 67% vesting in 24 substantially equal monthly instalments. The options granted to individual consultants on March 15, 2016 have a contractual term of 10 years and vest in 12 equal monthly instalments. The vesting commencement date of 10,519,300 shares of options granted to Dr. Li CHEN on June 25, 2019 was subject to the positive HMM0301 Phase III results as determined in the directors of the Company's sole discretion (without the participation of the chief executive officer). On November 11, 2019, the directors of the Company approved the 10,519,300 shares of options granted to Dr. Li CHEN should commence the vesting period on November 11, 2019 based on the positive HMM0301 Phase III topline trial results being announced by the Company.

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2019:

Category	Option type	Outstanding as of January 1, 2019	Granted during year	Exercised during year	Forfeited during year	Outstanding as of December 31, 2019
Category 1: Director						
Dr. Li CHEN	**Pre-IPO Scheme**					
	December 4, 2014	2,700,000	–	(1,000,000)	–	1,700,000
	January 11, 2016	750,000	–	–	–	750,000
	July 19, 2016	750,000	–	–	–	750,000
	March 6, 2017	1,500,000	–	–	–	1,500,000
	January 7, 2018	1,362,975	–	–	–	1,362,975
	April 3, 2018	4,608,750	–	–	–	4,608,750
	August 26, 2018	2,250,000	–	–	–	2,250,000
	Post-IPO Scheme					
	June 25, 2019	–	12,079,000	–	–	12,079,000
		13,921,725	12,079,000	(1,000,000)	–	25,000,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**					
	April 3, 2018	25,980,405	–	(388,000)	–	25,592,405
	Post-IPO Scheme					
	May 17, 2019	–	300,000	–	–	300,000
		25,980,405	300,000	(388,000)	–	25,892,405
	Total directors	39,902,130	12,379,000	(1,388,000)	–	50,893,130

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2019	Granted during year	Exercised during year	Forfeited during year	Outstanding as of December 31, 2019
Category 2: Employees						
	Pre-IPO Scheme					
	March 25, 2013	3,000,000	–	(592,000)	–	2,408,000
	September 12, 2013	2,250,000	–	(750,000)	–	1,500,000
	December 4, 2014	7,050,000	–	(2,570,000)	–	4,480,000
	January 11, 2016	8,490,615	–	(614,064)	–	7,876,551
	July 19, 2016	375,000	–	(242,197)	–	132,803
	March 6, 2017	5,783,115	–	(211,435)	(59,680)	5,512,000
	July 24, 2017	2,250,000	–	(74,500)	–	2,175,500
	January 7, 2018	8,047,500	–	(782,774)	(339,992)	6,924,734
	April 3, 2018	13,205,535	–	(277,894)	(589,031)	12,338,610
	June 1, 2018	5,250,000	–	–	–	5,250,000
	August 26, 2018	6,215,130	–	(34,189)	(366,250)	5,814,691
	Post-IPO Scheme					
	October 29, 2018	75,000	–	–	–	75,000
	November 26, 2018	500,000	–	–	–	500,000
	December 31, 2018	500,000	–	–	(500,000)	–
	May 15, 2019	–	8,540,300	–	(730,000)	7,810,300
	September 19, 2019	–	500,000	–	–	500,000
	Total employees	62,991,895	9,040,300	(6,149,053)	(2,584,953)	63,298,189

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2019	Granted during year	Exercised during year	Forfeited during year	Outstanding as of December 31, 2019
Category 3: Individual consultants						
	Pre-IPO Scheme					
	September 12,2013	1,800,000	–	(500)	–	1,799,500
	December 4, 2014	150,000	–	–	–	150,000
	January 11, 2016	3,450,000	–	(33,500)	–	3,416,500
	March 15, 2016	1,050,000	–	(525,000)	–	525,000
	May 11, 2018	1,125,000	–	–	–	1,125,000
	Post-IPO Scheme					
	May 15, 2019	–	200,000	–	–	200,000
	Total individual consultants	7,575,000	200,000	(559,000)	–	7,216,000
	Total all categories	110,469,025	21,619,300	(8,096,053)	(2,584,953)	121,407,319
	Exercisable at the beginning and end of the year	39,232,575				60,864,074
	Weighted average exercise price (HK$)	2.46	8.82	1.09	5.11	3.58

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme during the year ended December 31, 2018:

Category	Option type	Outstanding as of January 1, 2018	Granted during year	Exercised during year	Forfeited during year	Transferred to/from other categories (note)	Outstanding as of December 31, 2018
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Scheme**						
	December 4, 2014	2,700,000	–	–	–	–	2,700,000
	January 11, 2016	750,000	–	–	–	–	750,000
	July 19, 2016	750,000	–	–	–	–	750,000
	March 6, 2017	1,500,000	–	–	–	–	1,500,000
	January 7, 2018	–	1,362,975	–	–	–	1,362,975
	April 3, 2018	–	4,608,750	–	–	–	4,608,750
	August 26, 2018	–	2,250,000	–	–	–	2,250,000
		5,700,000	8,221,725	–	–	–	13,921,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**						
	April 3, 2018	–	25,980,405	–	–	–	25,980,405
		–	25,980,405	–	–	–	25,980,405
Dr. John J. BALDWIN (note)	**Pre-IPO Scheme**						
	December 4, 2014	150,000	–	–	–	(150,000)	–
	January 11, 2016	750,000	–	–	–	(750,000)	–
	May 11, 2018	–	225,000	–	–	(225,000)	–
		900,000	225,000	–	–	(1,125,000)	–
	Total directors	6,600,000	34,427,130	–	–	(1,125,000)	39,902,130

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2018	Granted during year	Exercised during year	Forfeited during year	Transferred to/from other categories (note)	Outstanding as of December 31, 2018
Category 2: Employees							
	Pre-IPO Scheme						
	March 25, 2013	3,000,000	–	–	–	–	3,000,000
	September 12, 2013	2,250,000	–	–	–	–	2,250,000
	December 4, 2014	7,050,000	–	–	–	–	7,050,000
	January 11, 2016	9,195,000	–	(375,000)	(329,385)	–	8,490,615
	July 19, 2016	375,000	–	–	–	–	375,000
	March 6, 2017	6,150,000	–	–	(366,885)	–	5,783,115
	July 24, 2017	2,250,000	–	–	–	–	2,250,000
	January 7, 2018	–	9,600,000	–	(1,552,500)	–	8,047,500
	April 3, 2018	–	13,826,250	–	(620,715)	–	13,205,535
	June 1, 2018	–	5,250,000	–	–	–	5,250,000
	August 26, 2018	–	6,275,130	–	(60,000)	–	6,215,130
	Post-IPO Scheme						
	September 28, 2018	–	150,000	–	(150,000)	–	–
	October 29, 2018	–	75,000	–	–	–	75,000
	November 26, 2018	–	500,000	–	–	–	500,000
	December 31, 2018	–	500,000	–	–	–	500,000
	Total employees	30,270,000	36,176,380	(375,000)	(3,079,485)	–	62,991,895

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2018	Granted during year	Exercised during year	Forfeited during year	Transferred to/from other categories (note)	Outstanding as of December 31, 2018
Category 3: Individual consultants							
	Pre-IPO Scheme						
	September 12,2013	1,800,000	–	–	–	–	1,800,000
	December 4, 2014	600,000	–	–	(600,000)	150,000	150,000
	January 11, 2016	3,000,000	–	–	(300,000)	750,000	3,450,000
	March 15, 2016	1,050,000	–	–	–	–	1,050,000
	May 11, 2018	–	900,000	–	–	225,000	1,125,000
	June 1, 2018	–	675,000	–	(675,000)	–	–
	Total individual consultants	6,450,000	1,575,000	–	(1,575,000)	1,125,000	7,575,000
	Total all categories	43,320,000	72,178,510	(375,000)	(4,654,485)	–	110,469,025
	Exercisable at the beginning and end of the year	25,598,745					39,232,575
	Weighted average exercise price (US$)	0.23	0.36	0.23	0.20	0.26	0.31

Note: As disclosed in Note 12, Dr. John J. BALDWIN resigned and was removed from the list of the directors of the Company on August 26, 2018. And his share options granted under the Pre-IPO Scheme were reclassified as category 3 individual consultants in 2018. The terms of share options granted to Dr. John J. BALDWIN was unchanged.

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme of the Company (Continued)

These fair values were calculated using the Black-Scholes pricing model. These fair values of the options at grant dates and corresponding inputs into the model were as follows:

	January 7, 2018	April 3, 2018	May 11, 2018	June 1, 2018	August 26, 2018	October 29, 2018	November 26, 2018	December 31, 2018	May 15&17, 2019	June 25, 2019	September 19, 2019
Grant date option fair value per share	US$0.14	US$0.15~ US$0.18	US$0.35	US$0.35~ US$0.39	US$0.87~ US$0.9	HK$4.44	HK$5.43	HK$5.4	HK$3.96	HK$3.96~ HK$4.16	HK$4.30
Grant date share price	US$0.15	US$0.24	US$0.49	US$0.49	US$1.05	HK$6.68	HK$7.95	HK$8.3	HKD$7.01	HK$6.96	HK$6.85
Exercise price	US$0.07	US$0.25~ US$0.47	US$0.47	US$0.25~ US$0.47	US$0.37~ US$0.49	HK$7.192	HK$7.97	HK$8.3	HK$8.866	HK$8.866	HK$6.800
Expected volatility	84.45%	86.0%~ 86.3%	84.60%	84.60%	84.70%	75.50%	76.10%	71.50%	68.40%	70.10%~ 71.90%	70.00%
Expected life	10 years	5.8 years~ 6.1 years	5.9 years	6 years	6 years	6.1 years	6.1 years	6.1 years	5.9 years	5.8 years~ 6.2 years	6.1 years
Risk-free rate	2.26%	2.60%~ 2.63%	2.77%	2.77%	2.75%	2.96%	2.94%	2.55%	1.56%	1.43%	1.33%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Expected volatility was determined by using the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioural considerations. The Group recognized the total expense of RMB68,905,000 and RMB56,222,000 for the years ended December 31, 2019 and 2018, respectively, in relation to share options granted by the Company.

Restricted stock units of the Company

Restricted stock units

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement including equity incentives of options and restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 shares of the Company have been granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme. Such shares were vested after a qualified IPO is achieved in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. The grant date fair value of the restricted stock units of the Company was US$0.24 per share which was determined by the fair value of ordinary shares on the grant date.

The number of unvested restricted stock units was 5,103,285 and 6,959,037 as of December 31, 2019 and 2018, respectively, and was disclosed in treasury shares held in trust.

The Group recognized RMB5,479,000 and RMB2,134,000 of share-based payment expense in relation to the grants of the above restricted stock units for the year ended December 31, 2019 and 2018, respectively.

27. Operating leases

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As of December 31, 2018 RMB'000
Within one year	3,991
In the second to the third year inclusive	2,065
	6,056

28. Related party transactions

(a) Related party transactions

Purchase of research and development services from related parties:

	Year ended December 31 RMB'000	From January 1, 2018 to the Listing Date RMB'000
WuXi AppTec (Shanghai) Co., Ltd.	N/A	5,633
Shanghai STA Pharmaceutical R&D Co., Ltd.	N/A	11,665
Shanghai MedKey Med-Tech Development Co., Ltd..	N/A	8,438
WuXi Clinical Development Services (Shanghai) Co., Ltd.	N/A	10,338
WuXi HD Biosciences Co., Ltd	N/A	2

All of the related parties in 2018 are subsidiaries of Wuxi AppTec Co., Ltd. ("WXAT"). Wuxi Pharmatech Healthcare Fund I L.P., an investor of the Company, is a subsidiary of WXAT. In addition, WXAT is indirectly owned as to more than 20% by Dr. Ge LI and his concert parties. Dr. Ge LI served as a director of the Company from August 2010 to December 2017 and is also an investor of the Company. Wuxi Pharmatech Healthcare Fund I L.P, and Dr. Ge LI together held over 10% equity interests in the Company before the Listing Date. Therefore, WXAT and its subsidiaries were considered as related parties of the Company prior to the Listing Date. After the Listing Date, WXAT's and Dr. Ge LI's interests in the Company in aggregate were diluted below 10% and the Company evaluated that WXAT and its subsidiaries were no longer related parties since then.

28. Related party transactions (Continued)

(b) Related party balances

Details of the outstanding balance as of December 31, 2018 with a related party are set out in Note 20.

(c) Compensation of key management personnel

The remuneration of key management personnel of the Group, who are the directors of the Company during the reporting period, were as follows:

	Year ended December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Short term benefits	19,787	21,942
Post-employment benefits	130	56
Share-based payment	36,499	20,926
	56,416	42,924

29. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to investors through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of net debts and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

30. Financial instruments

(a) Categories of financial instruments

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Amortized cost (including cash and cash equivalents)	1,115,484	1,443,310
Financial liabilities		
Amortized cost	51,601	56,514

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include other receivables, bank balances and cash, trade and other payables. Details of these financial assets and liabilities are disclosed in respective notes.

The risks associated with these financial assets and liabilities include market risks (currency risk and interest rate risk), credit risk and liquidity risk. 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.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

Certain bank balances and cash, trade and other payables are denominated in foreign currencies of respective group entities which are exposed 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.

30. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Assets		
US$	849,680	1,008,788
TWD	3	3
HK$	52,681	408,764
Liabilities		
US$	(1,024)	(570)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US$ and HK$, the foreign currency with which the Group may have a material exposure. No sensitivity analysis has been disclosed for the TWD denominated assets as the impact on profit or loss is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative number below indicates an increase in loss where RMB strengthens 5% against US$ and HK$. For a 5% weakening of RMB against US$ and HK$, there would be an equal and opposite impact on loss for the year.

	As of December 31,	
	2019	**2018**
	RMB'000	**RMB'000**
Impact on profit or loss		
US$	(42,433)	(50,411)
HK$	(2,634)	(20,438)

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

30. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Credit risk

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities and lease 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.

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As of December 31, 2019							
Trade and other payables	N/A	51,601	–	–	–	51,601	51,601
Lease liabilities	5.25%	16,338	13,764	56,932	18,753	105,787	89,978
As of December 31, 2018							
Trade and other payables	N/A	56,514	–	–	–	56,514	56,514

30. Financial instruments (Continued)

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

There are no financial assets and liabilities measured at fair value as of December 31, 2019 and 2018.

(ii) Reconciliation of Level 3 fair value measurements

	Financial liabilities at FVTPL RMB'000
As of January 1, 2018	1,138,789
Issues during the year	744,461
Changes in fair value	3,266,216
Converted to ordinary shares	(5,149,466)
As of December 31, 2018	–

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amounts of the Group's financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

31. Retirement benefit plans

The employees of the Group's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organized by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The Group contributions to the retirement benefit scheme are expensed as incurred and not reduced by contribution forfeited by those employee who leave the plan. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are RMB9,066,000 for the year ended December 31, 2019 (2018: RMB6,177,000).

32. Particulars of subsidiaries of the company

As of December 31, 2019 and 2018, the Company's subsidiaries are as follows:

Name of company	Place of incorporation/ establishment/ operation and nature of the legal entity	Issued and fully paid share capital/ Registered capital	Attributable equity interest held by the Company 2019	2018	Principal activities
Directly held					
Hua Medicine Technology (Hong Kong) Limited ("Hua HK") 華領醫藥技術(香港)有限公司 (formerly known as Hua Medicine Limited)	Hong Kong Limited Liability Company	Registered capital of US$1.00	100%	100%	Investment holding company
Indirectly held					
Hua Shanghai 華領醫藥技術(上海)有限公司	The PRC Limited Liability Company	Registered capital of US$45,218,839 and paid-in capital of US$45,218,495	100%	100%	Development of innovative medicines
Indirectly held					
華領藥業有限公司	The PRC Limited Liability Company	Registered capital of RMB50,000,000 and paid-in capital of 0	100%	N/A	Commercialization of innovative medicines

None of the subsidiaries had issued any debt securities at the end of the year.

33. Reconciliation of assets and liabilities arising from financing activities

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and 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.

	Financial liabilities at FVTPL RMB'000	Advance from shareholders for the issue of Preferred Shares RMB'000	Payable for issue costs RMB'000	Lease liabilities RMB'000 (Note 24)	Other receivables for considerations of options exercised RMB'000 (Note 19)	Total RMB'000
As of January 1, 2018	1,138,789	18,994	–	–	–	1,157,783
Financing cash flows	725,444	–	(38,068)	–	–	687,376
Non-cash charges						
Transfer of advance from shareholders upon issuance of preferred shares	19,017	(19,017)	–	–	–	–
Transaction costs for the issue of Preferred Shares	–	–	3,534	–	–	3,534
Transaction costs for the issue of new Shares	–	–	34,534	–	–	34,534
Loss on changes in fair value of financial liabilities at FVTPL	3,266,216	–	–	–	–	3,266,216
Converted into ordinary shares	(5,149,466)	–	–	–	–	(5,149,466)
Net foreign exchange loss	–	23	–	–	–	23
As of December 31, 2018	–	–	–	–	–	–
Adjustment upon application of IFRS 16	–	–	–	4,232	–	4,232
As of January 1, 2019 (restated)	–	–	–	4,232	–	4,232
Financing cash flows	–	–	–	(7,856)	6,620	(1,236)
Non-cash changes						
New leases entered	–	–	–	92,695	–	92,695
Interest expenses	–	–	–	907	–	907
Exercise of options by employees	–	–	–	–	(8,018)	(8,018)
As of December 31, 2019	–	–	–	89,978	(1,398)	88,580

34. Information of financial position of the company and movements in the company's reserves

The statement of financial position of the Company is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Non-current Asset		
Investments in a subsidiary	1,315,601	839,194
Current Assets		
Other receivables	5,342	214
Prepayment to related parties	–	6,863
Bank balances and cash	749,767	1,190,026
	755,109	1,197,103
Current Liabilities		
Trade and other payables	5,634	3,683
Amounts due to a subsidiary	5,976	5,624
	11,610	9,307
Net Current Assets	743,499	1,187,796
Total Assets Less Current Liabilities	2,059,100	2,026,990
Net Assets	2,059,100	2,026,990
Capital and Reserves		
Share capital	7,209	7,209
Reserves	2,051,891	2,019,781
Total Equity	2,059,100	2,026,990

34. Information of financial position of the company and movements in the company's reserves (Continued)

The movements in the Company's reserves of the Company for the year ended December 31, 2019 and 2018 are as follows:

	Share premium RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As of January 1, 2018	–	15,750	(649,081)	(633,331)
Loss and total comprehensive expense for the year	–	–	(3,289,796)	(3,289,796)
Options exercised to purchase ordinary shares	549	–	–	549
Shares issued upon initial public offerings and over-allotment	776,193	–	–	776,193
Conversion of redeemable convertible preferred shares into ordinary shares	5,149,139	–	–	5,149,139
Transaction costs attributable to issue of new shares	(34,534)	–	–	(34,534)
Capitalization Issue	(6,043)	–	–	(6,043)
Recognition of equity-settled payment for subsidiary	–	58,500	–	58,500
Repurchase of vested share options to satisfy withholding tax obligation	–	(896)	–	(896)
As of December 31, 2018	5,885,304	73,354	(3,938,877)	2,019,781
Loss and total comprehensive expense for the year	–	–	(50,288)	(50,288)
Options exercised to purchase ordinary shares under the trust	8,014	–	–	8,014
Recognition of equity-settled payment for subsidiary	–	74,384	–	74,384
As of December 31, 2019	5,893,318	147,738	(3,989,165)	2,051,891

35. Events after the reporting period

As of the date of the consolidated financial statements being authorised to issue, business operations in China have been impacted by an outbreak of the novel coronavirus (COVID-19) since the latter half of January 2020. Despite these challenging circumstances, the Group have been able to achieve the major clinical trial milestones during this period without any delay. Throughout this period, the Group have operated in strict adherence with national guidelines in conducting clinical trials, and also enforced additional trial management guidelines in pharmacovigilance and quality control to ensure the clinical trials remain on track and conducted in high quality. The management of the Group currently does not foresee significant disruption in the current ongoing trials, however, potential delays are expected in the release of top-line results and some New Drug Application-enabling work in 2020, which could lead to a delay in the filing of the New Drug Application with the National Medical Products Administration of the People's Republic of China.

FOUR YEAR FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSE

	For the year ended 31 December			
	2016	2017	2018	**2019**
	(RMB'000)	(RMB'000)	(RMB'000)	**(RMB'000)**
Other income	1,030	11,706	10,355	**29,574**
Other gains and losses	10,295	(6,557)	63,778	**16,275**
Administrative expenses	(19,482)	(31,086)	(100,398)	**(146,584)**
Listing expenses	–	–	(38,918)	**–**
Other expenses	–	–	–	**(1,724)**
Finance cost	(4,562)	(2,958)	(3,534)	**(907)**
Research and Development expense	(75,272)	(125,337)	(269,065)	**(321,904)**
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	(274,417)	(126,456)	(3,266,216)	**–**
Loss and total comprehensive expense for the year	(362,408)	(280,688)	(3,603,998)	**(425,270)**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	For the year ended 31 December			
	2016	2017	2018	**2019**
	(RMB'000)	(RMB'000)	(RMB'000)	**(RMB'000)**
Current assets	224,541	232,288	1,474,510	**1,120,452**
Prepayments and other receivables	1,306	23,364	24,337	**14,852**
Prepayments to related parties	334	20,090	6,863	**–**
Other financial assets	30,000	16,101	–	**–**
Bank balances and cash	192,901	172,733	1,443,310	**1,105,600**
Current liabilities	25,281	42,997	77,633	**108,786**
Trade and other payables	5,307	12,377	76,033	**88,317**
Amounts due to related companies	9,690	23,320	–	**–**
Lease liabilities	–	–	–	**12,019**
Deferred income	10,284	7,300	1,600	**8,450**
Net current assets	199,260	189,291	1,396,877	**1,011,666**
Non-current assets	2,191	13,496	15,739	**134,161**
Non-current liabilities	867,647	1,145,317	9,128	**85,207**
Net assets	(666,196)	(942,530)	1,403,488	**1,060,620**
Total equity	(666,196)	(942,530)	1,403,488	**1,060,620**

DEFINITIONS

In this annual result, the following expressions have the meanings set out below unless the context requires otherwise.

"API"	active pharmaceutical ingredient
"Board"	the board of Directors of the Company
"Company"	Hua Medicine (華領醫藥), an exempt limited liability company incorporated under the laws of the Cayman Islands on November 10, 2009 and whose Shares are listed on the Stock Exchange
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"CMC"	chemistry, manufacturing and control
"CMO"	a contract manufacturing organization, which provides support to the pharmaceutical industry in the form of manufacturing services outsourced on a contract basis
"CRO"	a contract research organization, which provides support to the pharmaceutical industry in the form of research services outsourced on a contract basis
"Director(s)"	the director(s) of the Company
"DPP-4"	an enzyme that rapidly degrades GLP-1, thereby reducing the normal effect of GLP-1 in enhancing the secretion of insulin. DPP-4 inhibitors have been successfully developed as orally administered anti-diabetic therapies and are approved in both China and the United States, among other countries
"first-in-class"	drugs that use a new and unique mechanism of action for treating a medical condition
"GLP-1"	glucagon-like peptide-1, a peptide hormone with the ability to decrease blood glucose levels in a glucose-dependent manner by enhancing the secretion of insulin. GLP-1 agonists have been successfully developed as injectable anti-diabetic therapies and are approved in both China and the United States, among other countries
"glucose homeostasis"	an intricate physiological process within the human body that regulates blood glucose levels within an acceptable range or threshold. This process is dependent on the balance of insulin (which normally facilitates uptake of glucose after meal), glucagon (which facilitates the production of glucose by the body when glucose levels are low), and other hormones
"GMP"	good manufacturing practice
"Group"	the Company and its subsidiaries

"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HK IPO"	the global offering of the Shares, comprising the Hong Kong public offering of 10,476,000 Shares and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company
"Hua HK"	Hua Medicine Technology (Hong Kong) Limited (華領醫藥技術(香港)有限公司), formerly known as Hua Medicine Limited (華醫藥有限公司), a limited liability company incorporated under the laws of Hong Kong on August 12, 2010, being a wholly-owned subsidiary of the Company
"Hua Shanghai"	Hua Medicine (Shanghai) Ltd. (華領醫藥技術(上海)有限公司), a limited liability company incorporated under the laws of PRC on June 22, 2011, being an indirect wholly-owned subsidiary of the Company
"insulin"	a hormone produced by the β-cells in the pancreas that is critical in promoting the absorption of glucose from the blood into the liver, skeletal muscle and adipose cells (or fat), among other cells
"KOL"	key opinion leader
"Listing"	listing of our Shares on the Stock Exchange
"Listing Date"	September 14, 2018, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MAH"	Market Authorized Holder, a certification granted by the CFDA, which allows certain license holders to use a qualified CMO to manufacture pharmaceutical products
"mGLUR5"	metaotropic glutamate receptor 5
"monotherapy"	the use of one type of treatment alone to treat a certain disease or condition
"Model Code"	the Model Code for the Securities Transactions by Directors of Listed Issue's contained in Appendix 10 to the Listing Rules
"NMPA"	National Medical Products Administration (國家藥品監督管理局), and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"NDA"	New drug application

"PRC"	the People's Republic of China, excluding, for the purposes of this report, the Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Pre-IPO Share Incentive Scheme"	the share incentive scheme approved and adopted by the Company on March 25, 2013 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
"Post-IPO Share Option Scheme"	the post-IPO share option scheme approved and adopted by our Company on August 26, 2018 for the benefit of any director, employee, adviser or consultant of the Company or any of our subsidiaries; a summary of the principal terms is set forth in "Appendix IV – Statutory and General Information – D. Share Incentive Schemes – 2. Post-IPO Share Option Scheme" of the Prospectus
"Prospectus"	the prospectus issued by the Company on August 31, 2018 in connection with the Hong Kong public offering of the Shares
"R&D"	research and development
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance
"SGLT-2"	Sodium-glucose co-transporter-2
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	ordinary share(s) with nominal value of US$0.001 each in the share capital of the Company
"SMO"	Site management organizations
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"U.S."	The United States of America