歌礼
ascletis

Ascletis Pharma Inc.
歌禮製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1672

ANNUAL REPORT **2019**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Jinzi Jason WU
(Chairman and Chief Executive Officer)
Mrs. Judy Hejingdao WU
(Vice President)

Independent Non-executive Directors

Dr. Ru Rong JI
Dr. Yizhen WEI
Mr. Jiong GU
Ms. Lin HUA

AUDIT COMMITTEE

Mr. Jiong GU *(Chairman)*
Dr. Yizhen WEI
Ms. Lin HUA

REMUNERATION COMMITTEE

Ms. Lin HUA *(Chairman)*
Dr. Yizhen WEI
Dr. Ru Rong JI

NOMINATION COMMITTEE

Dr. Jinzi Jason WU *(Chairman)*
Dr. Ru Rong JI
Ms. Lin HUA

AUTHORISED REPRESENTATIVES

Dr. Jinzi Jason WU
Mrs. Judy Hejingdao WU

COMPANY SECRETARY

Mr. Lok Kwan YIM

REGISTERED OFFICE

c/o Walkers Corporate Limited
Cayman Corporate Centre
27 Hospital Road
George Town
Grand Cayman KY1-9008
Cayman Islands

CORPORATE HEADQUARTER

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Hangzhou
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Walkers Corporate Limited
Cayman Corporate Centre
27 Hospital Road
George Town
Grand Cayman KY1-9008
Cayman Islands

HONG KONG SHARE REGISTRAR

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183 Queen's Road East
Wanchai
Hong Kong

Corporate Information

HONG KONG LEGAL ADVISER

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
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1 Tim Mei Avenue
Central
Hong Kong

COMPLIANCE ADVISER

Somerley Capital Limited
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29 Queen's Road Central
Hong Kong

STOCK CODE

1672

COMPANY WEBSITE

www.ascletis.com

Chairman's Statement

Dear Shareholders,

2019 was a challenging but exciting year for the Company as we made significant progresses across all aspects of our business, especially building first/best-in-class R&D pipeline.

We have built over 2019 and will continue to improve our HBV Franchise, which will lead to Clinical Cure of Hepatitis B which impacts 86 million individuals in China and more than 250 million people in the world. Since Clinical Cure needs combination therapies, our marketed Pegasys® and phase II, subcutaneously injected PD-L1 antibody ASC22 can be used as cornerstones in combination with in-house developed drug candidates against novel targets as well as drug candidates of industrial leaders such as therapeutic vaccines, siRNA etc.

As a metabolic disease, there are no effective treatments for NASH in the world. We have built a leading NASH portfolio over 2019 and will continue to strengthen NASH portfolio. As multiple targets and mechanisms are indicated in NASH, combination therapies may lead to better control of NASH. ASC41 is an oral THR-ß agonist, while ASC40 is an oral fatty acid synthase (FASN) inhibitor. Combination of ASC40 and ASC41 is expected to lead better treatment of NASH, compared to single drug treatment.

At the beginning of Corona Virus Disease 2019 (COVID-19) outbreak, Ascletis' special task force responded immediately. To date there are three investigator-initiated, hospital-ethics committee approved clinical trials: one with Ganovo® (Danoprevir)/Ritonavir; and two with ASC09/Ritonavir fixed-dose combination (FDC). On March 10, 2020, the Company announced that all of 11 COVID-19 patients receiving oral Ganovo® (Danoprevir) and Ritonavir combination therapy in a small-sample clinical study have been discharged as they are satisfied with the discharge standards under the "Diagnosis and Treatment Program for Novel Coronavirus Infection (Trial Version 6)" issued by the National Health Commission of the People's Republic of China.

Although the Company had challenges at the end of 2019 for Ganovo® (Danoprevir) medical reimbursement, we are confident that our sustainable HCV Franchise will do everything possible to maximize sales, especially after the approval of Ravidasvir/Ganovo® (Danoprevir) all oral regimen.

We would like to give our sincere thanks to our patients, doctors and shareholders. The trust you place in the Company is what keeps us innovating every day for unmet medical needs in China and globally. We must also thank our dedicated employees, who make the impossible possible.

Dr. Jinzi Jason WU
Chairman & Chief Executive Officer

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four* financial years, as extracted from the audited financial information and financial statements is set out below:

	For the year ended December 31,			
	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Revenue				
Sale of products	–	–	72,273	**124,419**
Promotion service revenue	–	–	3,474	**47,638**
Collaboration revenue	32,976	53,202	90,578	**1,386**
Total	32,976	53,202	166,325	**173,443**
Gross profit	32,976	53,202	153,946	**124,283**
Loss before tax	(31,873)	(80,441)	(19,870)	**(95,969)**
Loss for the year	(31,873)	(86,931)	(19,745)	**(95,969)**
Loss attributable to the owner of the Group	(26,807)	(53,935)	(7,258)	**(95,969)**
Net loss margin	(96.7%)	(163.4%)	(11.9%)	**(55.3%)**

	RMB	*RMB*	*RMB*	***RMB***
Loss per share – Basic and diluted	N/A	(9.03 cents)	(0.84 cents)	**(9.10 cents)**

	As at December 31,			
	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Non-current assets	70,257	115,636	164,267	**233,813**
Current assets	466,008	875,618	3,363,336	**3,192,574**
Non-current liabilities	53,782	22,195	6,786	**14,518**
Current liabilities	73,399	99,228	93,405	**87,652**
Non-controlling interests	136,725	272,870	–	**–**
Total equity	409,084	869,831	3,427,412	**3,324,217**

* The shares of the Company were listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rule on August 1, 2018.

Corporate Profile

OUR MISSION

Ascletis' mission is to become a world-class innovative R&D driven biotechnology company addressing unmet medical needs in three therapeutic areas: viral, cancer and fatty liver diseases.

OVERVIEW

Ascletis is an innovative R&D driven biotechnology company focusing on developing and commercializing innovative, first/best-in-class drugs against HCV, HBV, HIV, NASH and liver cancer. Led by a management team with deep expertise and a proven track record, Ascletis has developed a fully integrated platform covering the entire value chain from discovery and development to manufacturing and commercialization. As at the date of this report, Ascletis has commercialized two drugs, Ganovo® (Danoprevir), the first direct-acting anti-viral agent for Hepatitis C developed domestically for China, and Pegasys® (Peginterferon alfa-2a), a well-established pegylated interferon for Hepatitis B and C partnered with Shanghai Roche Pharmaceuticals Ltd. ("**Shanghai Roche**"). Another drug candidate of Ascletis, Ravidasvir, is a Hepatitis C virus (HCV) drug at near commercial stage, the NDA of which was accepted by the NMPA in August 2018 and was granted priority review in October 2018. The Center for Food and Drug Inspection of NMPA announced on March 16, 2020 the on-site manufacturing inspection for Ravidasvir NDA. Ascletis has also developed the tablet formulation of Ritonavir and has completed bioequivalence (BE) studies of the tablets on healthy volunteers. ANDA of Ritonavir was accepted by NMPA on August 22, 2019. During Corona Virus Disease 2019 (COVID-19) outbreak, to date there are three investigator-initiated, hospital-ethics committee approved clinical trials with Ganovo® (Danoprevir), Ritonavir and ASC09.

Ganovo® (Danoprevir) has generated sales of approximately RMB124.4 million in 2019. Compared to the year of 2018, Ganovo® (Danoprevir) sales growth is 72.2% in the year of 2019. Pegasys® has generated promotion revenue of approximately RMB47.6 million in 2019. Compared to the year of 2018, promotion revenue growth is 1,271.3% in the year of 2019.

In addition to two commercialized drugs, Ascletis' R&D pipeline consists of first/best-in-class drug candidates from antibody-based immunotherapy, small molecules and siRNA at various preclinical and clinical development stages, addressing unmet medical needs in three therapeutic areas: viral, cancer and fatty liver diseases. 7 out of 12 R&D drug candidates are in-house developed and the other 5 are licensed from Big Pharma and leading biotech.

For anti-viral therapeutic area, ASC22 is a first-in-class, Phase II programmed cell death ligand-1 (PD-L1) monoclonal antibody to treat Hepatitis B and other viral diseases. IND of ASC22 was approved on January 22, 2020 by NMPA to conduct clinical trials in Hepatitis B patients. During Corona Virus Disease 2019 (COVID-19) outbreak, to date there are three investigator-initiated, hospital-ethics committee approved clinical trials: One with Danoprevir/Ritonavir; and two with ASC09/Ritonavir fixed-dose combination (FDC).

For non-alcoholic steatohepatitis (NASH) therapeutic area, ASC40 is a first-in-class, small molecule fatty acid synthase (FASN) inhibitor for NASH and is currently in its Global Phase II Clinical Trial whose data is expected in the third quarter 2020.

Other than Ganovo® (Danoprevir) and Pegasys®, to date, we have not commercialized any products, and we cannot guarantee that we will be able to successfully develop and commercialize our drug candidates.

Corporate Profile

Our product pipeline is set out below as at the date of this annual report:

HCV

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From/ In-house	Commercial Rights
NS3/4A	Ganovo® (Danoprevir)								Roche	Greater China
NS5A	Ravidasvir								PRESIDIO	Greater China
Dual Targeted FDC	ASC18								In-house	Greater China
NS5B	ASC21								Medivir	Greater China

HBV

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From/ In-house	Commercial Rights
Interferon receptor	Pegasys® (Peginterferon alfa-2a)								Roche	Mainland China
PD-L1	ASC22								康宁杰瑞 ALPHAMAB	Greater China
Undisclosed	Candidate identified								In-house	Global
Undisclosed	Candidate identified								In-house	Global

HIV

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From/ In-house	Commercial Rights
Protease	Ritonavir								In-house	Global
Protease	ASC09/Ritonavir FDC								In-house	Mainland China and Macau

NASH

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From/ In-house	Commercial Rights
FASN	ASC40								SAGIMET	Greater China
THR-beta	ASC41								In-house	Global
Undisclosed	Candidate identified								In-house	Global

Liver Cancer

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From/ In-house	Commercial Rights
VEGF&KSP	ASC06								Alnylam	Greater China

Note: The Group is also developing the tablet formulation of Ritonavir and has completed bioequivalence (BE) studies of the tablets on healthy volunteers. ANDA of Ritonavir was accepted by NMPA on August 22, 2019.

Management Discussion and Analysis

BUSINESS REVIEW

During the year of 2019, the Group made significant progress with respect to its business.

- **Ganovo® (Danoprevir) sales of RMB124.4 million**

  During the Reporting Period, the Group recorded approximately RMB124.4 million sales of products through the commercialization of Ganovo® (Danoprevir) in Mainland China. Compared to the year of 2018, sales growth is 72.2% in the year of 2019. To date, Ganovo® is covered by the Basic Medical Insurance of Zhejiang Province.

- **Pegasys® promotion income of RMB47.6 million**

  On November 20, 2018, we obtained exclusive promotion right in Mainland China for Pegasys®, a leading pegylated interferon as a first-line treatment for Hepatitis B, from Shanghai Roche. We have been promoting Pegasys® since December 1, 2018. During the Reporting Period, the Group recorded approximately RMB47.6 million promotion income through the commercialization of Pegasys® in Mainland China. Compared to the year of 2018, promotion revenue growth is 1,271.3% in the year of 2019.

- **Ravidasvir, our all-oral interferon-free, NDA-accepted regimen for Hepatitis C**

  Ravidasvir is our next generation and pan-genotypic NS5A inhibitor with a high genetic barrier to resistance. Ravidasvir, when administered in combination with Ganovo® (Danoprevir) and ribavirin, forms an all-oral and interferon-free cure for Hepatitis C (the "RDV/DNV Regimen"). Phase II/III clinical trial has shown that 12-week RDV/DNV Regimen demonstrated a superior cure rate of 99% (SVR12) and a good safety profile. For patients with baseline NS5A resistance mutations, our Phase II/III clinical trial showed that RDV/DNV Regimen demonstrated a cure rate of 100% (SVR12). The NDA acceptance and priority review for Ravidasvir was granted by the NMPA on August 1, 2018 and October 17, 2018, respectively. The Center for Food and Drug Inspection of NMPA announced on March 16, 2020 the on-site manufacturing inspection for Ravidasvir NDA.

- **Commercial capability**

  With the successful launch of Ganovo®, the Group has demonstrated strong development capability and established a solid commercial presence in China in the area of hepatitis. As of December 31, 2019, the Group has built a commercialization team of approximately 155 members, covering approximately 1,000 hospitals and pharmacies strategically located in regions where Hepatitis C and B are prevalent in China. Our commercial team has identified and educated approximately 6,000 specialists and KOLs in the hepatitis field. We have entered into 20 distribution agreements with different distributors that cover approximately 400 direct-to-patient (DTP) pharmacies, hospital-linked pharmacies and other pharmacies through our distributors, either directly or through their sub-distributors.

Management Discussion and Analysis

- **Advancing our innovative first/best-in-class R&D pipeline**

  The Group has focused on building and advancing our first/best-in-class R&D pipeline after successfully launching Ganovo® (Danoprevir). Besides ASC22 and ASC40 (described below under *Selected drug candidates in the pipeline*), other drug candidates include but not limited to: (1) ASC41: an orally bioavailable, small molecule thyroid hormone receptor ß (THR-ß) agonist whose IND filing was accepted by NMPA on February 13, 2020; (2) ASC18: IND- approved HCV dual-targeted FDC of which the Group has developed one-pill once-a-day FDC as the complete treatment of Hepatitis C; (3) ASC21: IND-approved NS5B polymerase nucleot(s)ide inhibitor; (4) ASC09/Ritonavir FDC: an HIV protease inhibitor whose IND approval has been granted by the NMPA.

Commercialized products

- **Ganovo®**

  Hepatitis C is one of the leading causes of chronic liver diseases, including cirrhosis and liver cancer in China. Hepatitis C had a prevalence rate of 1.82% in China in 2017 with 25.2 million estimated HCV-infected patients. Ganovo® is a direct-acting anti-viral agent (DAA) and NS3/4A protease inhibitor, which, when administered in combination with pegylated interferon and ribavirin, demonstrated a far higher cure rate of 97% (SVR12), a shorter treatment duration of 12 weeks and a superior safety and tolerability profile, compared with the current primary regimen of pegylated interferon and ribavirin in China.

  Ganovo® (Danoprevir) is our first commercialized product. We obtained the NDA approval from NMPA on June 8, 2018, and have begun commercialization of Ganovo® in Mainland China since then. The Group recorded approximately RMB124.4 million sales of products through the commercialization of Ganovo® (Danoprevir) in Mainland China during the Reporting Period. Compared to the year of 2018, sales growth is 72.2% in the year of 2019.

- **Pegasys®**

  The Group has exclusive rights to promote Pegasys® in Mainland China pursuant to a partnership agreement entered into with Shanghai Roche.

  Pegasys® is a long-acting modified form of interferon (IFN), a naturally occurring protein produced by the body to fight viruses, approved to treat Hepatitis B and C. Shanghai Roche had sold and promoted Pegasys®, a leading pegylated interferon treatment for more than 15 years in China and is well recognized and accepted by the clinical community. Pegasys® demonstrated strong immune modulation with resultant higher HBeAg and HBsAg seroclearance or even seroconversion, in comparison to Nucleos(t)ide Analogues (NAs). We began our exclusive sales and promotion of Pegasys® in Mainland China from December 1, 2018 and recorded RMB47.6 million income from the marketing promotion of Pegasys® during the Reporting Period. Compared to the year of 2018, promotion revenue growth is 1,271.3% in the year of 2019.

Management Discussion and Analysis

Near Commercial-stage product

- **Ravidasvir**

  We filed the NDA for Ravidasvir on July 31, 2018 and received the acceptance letter from the NMPA on August 1, 2018. In October 2018, Ravidasvir was granted priority review by the NMPA. The Center for Food and Drug Inspection of NMPA announced on March 16, 2020 the on-site manufacturing inspection for Ravidasvir NDA.

  We have developed Ravidasvir to be a best-in-class, pan-genotypic inhibitor targeting the HCV NS5A protein. Ravidasvir offers superior anti-viral activity, a higher genetic barrier to resistance and a better safety profile compared to our competitors' NS5A inhibitors approved in China.

Drug candidates in the pipeline

- **ASC22**

  Phase II PD-L1 antibody for Hepatitis B cure. ASC22, as a PD-L1 single domain antibody fragment crystallizable (Fc) fusion, has the advantages of subcutaneous injection and good stability at room temperature. ASC22 is differentiated from other PD-1 or PD-L1 antibodies since it is the only late-stage monoclonal antibody, against PD-1 or PD-L1, which is subcutaneously administered and room temperature stable with clinical safety data from more than 500 patients of oncology indications. These characteristics would be of great value to improve patients' compliance to treatment and quality of life. ASC22 is a potential global first-in-class immunotherapy to offer clinical cure for chronic Hepatitis B infections. IND of ASC22 was approved by NMPA on January 22, 2020 to conduct clinical trials in Hepatitis B patients.

- **ASC40**

  Phase II NASH drug candidate. ASC40 is an orally bioavailable, first-in-class inhibitor of FASN. FASN is a key enzyme in the DNL pathway and catalyzes the biosynthesis of palmitate, which can then undergo further modifications into other fatty acids and complex lipids. Dysregulation of FASN activity is found in a number of different diseases, including liver diseases and cancer. Non-alcoholic fatty liver disease (NAFLD) and the more advanced disease of NASH can progress to significant liver diseases, including cirrhosis and hepatocellular carcinoma. The first patient was dosed in April 2019 in Global Phase II Clinical Trial whose data is expected in the third quarter 2020.

- **ASC41**

  An orally bioavailable, highly selective small molecule THR-ß agonist for the treatment of NASH is developed in-house by the Group. In mice NASH model, ASC41 can reduce up to 45% NAS score and 25% liver fibrosis score. The IND filling for ASC41 was accepted by NMPA on February 13, 2020. ASC41 is expected to be used in combination with ASC40, another innovative drug of the Company, for treatment of NASH.

Management Discussion and Analysis

- **ASC09**

  Phase IIa-completed HIV drug candidate. ASC09 is a potential best-in-class protease inhibitor to treat HIV type-1 infections. ASC09 has an unprecedented high genetic barrier to resistance and has completed Phase I and Phase IIa clinical trials, which have shown potent anti-viral activity. Our studies have shown that ASC09 requires seven mutations before HIV develops resistance to ASC09, indicating ASC09 to have high genetic barrier to resistance compared to other approved protease inhibitors. Lopinavir, a HIV protease inhibitor, is approved and marketed in China. Lopinavir has a relatively low genetic barrier to resistance, and therefore has lower efficacy for protease-inhibitor resistant HIV patients. In addition, compared to Darunavir, a best-in-class protease inhibitor among approved protease inhibitors globally, virological studies suggest that ASC09 is a promising candidate for 72% clinical isolates resistant to Darunavir. The clinical trials have also shown that ASC09 is safe and well-tolerated. These characteristics make ASC09 a promising HIV drug therapy candidate for both treatment-naïve and treatment-experienced patients. The IND approval of ASC09/ Ritonavir FDC has been granted by the NMPA.

- **ASC06**

  Phase I-completed liver cancer drug candidate. We aim to develop ASC06 as the first systemically delivered therapeutic drug to treat liver cancer in China by using RNA interference (RNAi), a breakthrough approach to drug discovery and development. ASC06 has been designed to silence two genes critical for growth of liver cancer cells – vascular endothelial growth factor (VEGF) and kinesin spindle protein (KSP). ASC06 has completed Phase I and Phase I extension clinical trials, which have shown that 50% of patients who received 0.7 mg/kg dose achieved stable disease and one patient achieved a complete response.

- **Pre-clinical development programs**

  We have three wholly-owned, in-house developed pre-clinical programs. Two of them aim to achieve high functional cures for Hepatitis B. One is to develop breakthrough therapies for NASH.

Management Discussion and Analysis

The Group's Subsidiaries and Manufacturing Facilities

We have one manufacturing facility located in Shaoxing, Zhejiang Province with a total gross floor area of 17,000 square meters. Our manufacturing facility has one production line with a designed annual production capacity of 130 million tablets. As substantially all of our drug candidates are administered in tablet form, we are able to manufacture our drugs using the same production line. We have obtained the drug production license for our manufacturing facility. Our manufacturing facility is equipped with state-of-the-art production equipment with cutting-edge technology capabilities such as hot-melt extrusion and high-speed press to ensure the high quality of our products. Most of our equipment was purchased since 2015 from leading international manufacturers, such as Leistritz and Fette.

As of December 31, 2019, we had 9 subsidiaries, all of which are wholly owned by us. Our business was mainly conducted in China through 3 of our 5 onshore operating subsidiaries, being Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司), Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司) and Gannex Pharma Co., Ltd (甘萊製藥有限公司).

Future and Outlook

In 2020 and beyond, we are focused on

(1) Sustainable HCV Franchise to maximize sales, especially after the approval of Ravidasvir/Danoprevir all oral regimen. ASC18 as one-pill once-a-day oral regimen will further support Ascletis as an HCV market leader in China.

(2) In December 2019 Hepatitis B Guidance, clinical (functional) cure is set as one of major goals for the management of Hepatitis B patients. Pegasys® is an immunotherapy which can achieve clinical cure, especially in selected Hepatitis B patients. We expect significant promotion revenue growth of Pegasys® as the paradigm of Hepatitis B patients management is pursuing clinical cure.

(3) Building HBV Franchise Leading to Clinical Cure: Since Clinical cure needs combination therapies, marketed Pegasys® and subcutaneously injected PD-L1 antibody ASC22 can be used as Cornerstones. The potential combination therapies might include but not limited to:

   (i) Pegasys® in combination with in-house developed drug candidates against novel targets;

   (ii) PD-L1 antibody ASC22 in combination with in-house developed drug candidates against novel targets; and

   (iii) Pegasys® or PD-L1 antibody ASC22 maybe partnered with drug candidates of industrial leaders such as Therapeutic Vaccines, siRNA and HBV Entry inhibitors etc.

(4) Building a leading NASH portfolio: As NASH is a complicated metabolic disease which involves multiple targets and mechanisms, combination therapies may lead to better control of NASH. ASC41 is an oral THR-ß agonist, while ASC40 is an oral fatty acid synthase (FASN) inhibitor. Combination of ASC40 and ASC41 is expected to lead better treatment of NASH, compared to single drug treatment. The Group's in-house developed pre-clinical programs against novel targets may offer more combination therapies for NASH.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group has begun commercialization of Ganovo® (Danoprevir) in China on June 8, 2018 and Pegasys® since December 1, 2018. The revenue generated during the Reporting Period consists of (i) sales of products from Ganovo® (Danoprevir); (ii) Pegasys®'s promotion services; and (iii) collaboration revenue.

The revenue of the Group on sales of products and promotion services increased 127.1% from approximately RMB75.7 million for the year ended December 31, 2018 to approximately RMB172.1 million for the year ended December 31, 2019. The increase was mainly attributed to (i) RMB52.2 million from the sales of products on Ganovo® (Danoprevir) in China during the Reporting Period; and (ii) RMB44.2 million received from Shanghai Roche for the promotion of Pegasys® during the Reporting Period. Despite of the large increase in the revenue from sales of products and promotion services, the overall revenue of the Group increased by 4.3% from approximately RMB166.3 million for the year ended December 31, 2018 to approximately RMB173.4 million for the year ended December 31, 2019, primarily because the last instalment of upfront and milestone payments from Roche in relation to the commercialization of Ganovo® (Danoprevir) has been paid in July 2018, and therefore no such milestone payment was received by us during the Reporting Period. We expect that our revenue for the next few years will be generated mainly from our sales of Ganovo® (Danoprevir), the promotion services for Pegasys® and sales of Ravidasvir upon its approval.

Cost of Sales

The cost of sales of the Group increased by 297.1% from approximately RMB12.4 million for the year ended December 31, 2018 to approximately RMB49.2 million for the year ended December 31, 2019. The increased cost of sales was attributed to the commercialization of Ganovo® (Danoprevir) in China and the cost of rendering promotion services for Pegasys®.

The cost of sales of the Group consists of direct labor costs, cost of raw materials, overhead, the royalty fee to Roche, the cost of rendering promotion services and the write-down of inventories to net realisable value.

Direct labor costs primarily consist of salaries, bonus and social security costs for the employees.

Cost of raw material primarily consists of costs incurred for the purchase of raw materials, such as APIs for Danoprevir. We have engaged the contracting manufacturing organizations to manufacture APIs for Danoprevir on our behalf, and currently do not contemplate to manufacture APIs in-house in order to maintain continuity in our source of APIs in the production of Ganovo® (Danoprevir). We own the technologies and intellectual properties to manufacture APIs for Danoprevir, and any new intellectual properties developed by the contracting manufacturing organizations.

Overhead primarily consists of depreciation charges of the facility and equipment and other manufacturing expenses.

We have agreed to pay Roche tiered royalties in the mid-single digits based on net sales of Ganovo® (Danoprevir) in any and all regimens in Greater China.

Management Discussion and Analysis

Gross Profit

The gross profit of the Group decreased by 19.3% from approximately RMB153.9 million for the year ended December 31, 2018 to approximately RMB124.3 million for the year ended December 31, 2019. The decrease in the gross profit was mainly because the gross profit of the collaboration revenue decreased by 98.5% from approximately RMB90.6 million for the year ended December 31, 2018 to approximately RMB1.4 million for the year ended December 31, 2019.

Other Income and Gains

The other income and gains of the Group increased by 1.4% from approximately RMB124.8 million for the year ended December 31, 2018 to approximately RMB126.6 million for the year ended December 31, 2019, primarily because (i) bank interest income was RMB72.2 million for the year ended December 31, 2019, compared with RMB25.0 million for the year ended December 31, 2018. The increase was primarily due to the interest earned on the proceeds of the Company's IPO on the Stock Exchange; (ii) the Group recorded RMB49.9 million in government grants for the year ended December 31, 2019 and RMB73.0 million for the year ended December 31, 2018, respectively; and (iii) net foreign exchange gain was RMB4.5 million for the year ended December 31, 2019 and RMB23.6 million for the year ended December 31, 2018.

The government grants mainly represent subsidies received from the local governments for the purpose of compensation for expenses arising from research activities and clinical trials, award for new drug approval and capital expenditure incurred on certain projects.

The following table sets forth the components of our other income and gains for the period indicated:

	Year ended December 31,			
	2019		2018	
	RMB'000	**%**	*RMB'000*	*%*
Bank interest income	**72,239**	**57.1**	25,006	20.0
Dividend income from financial assets at fair value through profit or loss	**–**	**–**	3,191	2.6
Government grants	**49,869**	**39.4**	73,018	58.5
Foreign exchange gain, net	**4,485**	**3.5**	23,598	18.9
Total	**126,593**	**100**	124,813	100

Selling and Distribution Expenses

The selling and distribution expenses of the Group consisted of staff cost for our sales personnel and the expenses for marketing promotion activities.

The selling and distribution expenses of the Group represented 57.9% of the overall revenue of the Group for the year ended December 31, 2019, primarily because of the launch of more marketing activities for the commercialization of our products in the reporting year 2019.

Management Discussion and Analysis

Administrative Expenses

The administrative expenses of the Group decreased significantly by 42.9% from RMB85.8 million for the year ended December 31, 2018 to RMB49.0 million for the year ended December 31, 2019, primarily due to no listing expenses incurred during the Reporting Period.

Our administrative expenses primarily consist of staff salary and welfare costs, utilities, rent and general office expenses and agency and consulting fees.

The following table sets forth the components of our administrative expenses for the period indicated:

	Year ended December 31,			
	2019		2018	
	RMB'000	**%**	*RMB'000*	*%*
Staff salary and welfare	**24,419**	**49.9**	22,745	26.5
Utilities, rent and general office expenses	**19,159**	**39.1**	18,600	21.7
Agency and consulting fee	**4,411**	**9.0**	5,524	6.4
Listing expenses	**–**	**–**	37,027	43.2
Others	**973**	**2.0**	1,893	2.2
Total	**48,962**	**100**	85,789	100

Research and Development Expenses

The Group's research and development expenses primarily consist of clinical trial expenses, staff costs and third-party contracting costs.

The research and development expenses of the Group decreased by 12.2% from approximately RMB143.5 million for the year ended December 31, 2018 to approximately RMB126.0 million for the year ended December 31, 2019, for developing our drug candidates.

The following table sets forth the components of our research and development costs for the period indicated:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Clinical trial expenses	**62,711**	60,338
Staff costs	**30,559**	49,474
Depreciation and amortization	**15,893**	9,196
Third-party contracting costs	**4,012**	17,433
Others	**12,787**	7,011
Total	**125,962**	143,452

Management Discussion and Analysis

The following table sets forth the components of our research and development costs by product pipeline for the period indicated:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Ravidasvir	**47,767**	114.569
ASC09	**10,010**	2,881
Danoprevir	**5,218**	8,467
Others *(Note)*	**62,967**	17,535
Total	**125,962**	143,452

Note: "Others for the year ended December 31, 2019" includes research and development costs of ASC22, ASC40, ASC18, ASC21, and pre-clinical programs.

"Others for the year ended December 31, 2018" includes research and development costs of ASC21, and pre-clinical programs.

Finance costs

The Group recorded finance costs to approximately RMB0.2 million for the year ended December 31, 2019, as a result of the interest on the lease liabilities.

The following table sets forth the components of our finance costs for the period indicated:

	Year ended December 31,			
	2019		2018	
	RMB'000	***%***	*RMB'000*	*%*
Interest on lease liabilities	**182**	**100**	–	–
Total	**182**	**100**	–	–

Other Expenses

Other expenses primarily include donations and loss on disposal of items of property, plant and equipment. The other expenses of the Group increased by 455.2% from approximately RMB10.8 million for the year ended December 31, 2018 to approximately RMB59.7 million for the year ended December 31, 2019, mainly due to donations of RMB57.9 million for the year ended December 31, 2019.

Management Discussion and Analysis

The following table sets forth the components of other expenses for the period indicated:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Donation	**57,871**	9,227
Loss on disposal of items of property, plant and equipment	**1,388**	–
Impairment of trade receivables	**88**	–
Changes in fair value of financial assets at fair value through profit or loss	**–**	831
Write-off of items of property, plant and equipment	**–**	551
Others	**369**	146
Total	**59,716**	10,755

Income Tax

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

The Group calculates the income tax expense by using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the annual condensed consolidated statement of profit or loss are:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	**–**	–
Deferred tax	**–**	(125)
Total tax credit for the year	**–**	(125)

For the year ended December 31, 2018 and 2019, the Group did not incur any income tax credit as the Group did not generate taxable income in both periods. We recorded loss before tax of RMB19.9 million for the year ended December 31, 2018, and loss before tax of RMB96.0 million for the year ended December 31, 2019, respectively.

We have tax losses arising in the PRC of RMB388.7 million and RMB563.6 million for the year ended December 31, 2018 and 2019, respectively, which are expected to expire in one to five years for offsetting our future taxable profits.

Management Discussion and Analysis

Inventories

The inventories of the Group consist of raw materials used in the manufacturing of Ganovo® (Danoprevir), work in progress, finished goods and research materials. The inventories increased by 2.6% from approximately RMB83.9 million as at December 31, 2018 to approximately RMB86.0 million as at December 31, 2019, primarily as a result of the increased starting material reserves for Ganovo® (Danoprevir) and the Ravidasvir upcoming commercialization.

The following table sets forth the inventory balances as of the dates indicated:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Raw material	**60,468**	47,889
Work in progress	**20,408**	32,138
Finished goods	**5,163**	3,850
Total	**86,039**	83,877

Trade Receivables

The Group had RMB56.1 million trade receivables as at December 31, 2018 and RMB68.4 million as at December 31, 2019.

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Trade receivables	**68,485**	56,123
Less: Impairment of trade receivables	**88**	–
Total	**68,397**	56,123

The Group's trading terms with its customers are mainly on credit. The credit period is generally from 30 days to 180 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. In view of the before mentioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the dates indicated, based on the invoice date and net of loss allowance, is as follows:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Less than 3 months	**68,397**	56,123

Management Discussion and Analysis

Prepayments, Other Receivables and Other Assets

The following table sets forth the components of prepayment, other receivables and other assets as at the dates indicated:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Interest receivable	**18,899**	10,418
Value-added tax recoverable	**13,225**	18,160
Prepayments	**7,686**	13,721
Deposits and other receivables	**4,788**	1,664
Prepaid expenses	**1,885**	3,261
Prepaid income tax	**1,363**	1,363
Total	**47,846**	48,587

We had RMB10.4 million and RMB18.9 million interest receivable as of December 31, 2018 and December 31, 2019, respectively, which represent the expected interest to be received on time deposits.

Our value-added tax recoverable represented value-added taxes paid with respect to our procurement that can be credited against future value-added tax payables. Our value-added tax recoverable decreased from RMB18.2 million as of December 31, 2018 to RMB13.2 million as of December 31, 2019, as a result of the sales growth during the Reporting Period.

Our prepayments represented the amounts mainly relating to our purchase of inventory. Our prepayments decreased by 44.0% from RMB13.7 million as of December 31, 2018 to RMB7.7 million as of December 31, 2019. Prepayments to supplier as at the end of December 31, 2019 are due within one year. None of the above assets is past due or impaired.

Other receivables and prepaid expenses are miscellaneous expenses including other administrative related expenses.

Fair Value and Fair Value Hierarchy of Financial Instruments

We did not have financial instruments other than those with carrying amounts that reasonably approximate to fair values, as at December 31, 2018 and December 31, 2019.

Cash and Cash Equivalents

The following table sets forth the components of the Group's cash and cash equivalents and time deposits as of the dates indicated:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Cash and bank balances	**167,982**	1,301,468
Time deposits	**2,821,182**	1,871,781
Total	**2,989,164**	3,173,249

Management Discussion and Analysis

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods between one day and twelve months depending on our immediate cash requirements, and earn interest at the respective time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Trade and Other Payables

Trade and bills payables of the Group primarily consist of payments to raw materials suppliers. The following table sets forth the components of trade payables as at the dates indicated:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Trade payables	**3,961**	7,635
Bills payable	**2,682**	6,556
Total	**6,643**	14,191

An aging analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
– Within 1 month	**3,933**	6,913
– 1 to 3 months	**28**	3,984
– 3 to 6 months	**2,682**	3,294
	6,643	14,191

The following table sets forth the components of other payables and accruals outstanding as at the dates indicated:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Other payables	**33,276**	40,071
Payroll payable	**23,387**	15,030
Accrued expenses	**14,347**	17,354
Refund liabilities	**4,432**	–
Taxes other than income tax	**1,617**	371
Contract liabilities	**–**	230
Total	**77,059**	73,056

Management Discussion and Analysis

Our other payables decreased by 17.0% from RMB40.1 million as of December 31, 2018 to RMB33.3 million as of December 31, 2019 as payment term in contract.

The payroll payable are the bonus of 2019 accrued and December 2019 salary accrued, which are due within one year.

The accrued expenses as at December 31, 2019 mainly represented the accrued R&D expenses actually incurred but not yet invoiced, which are non-interest-bearing and due within one year.

Deferred Income

The deferred income of the Group represents government grants which have been awarded, but we have yet to meet the conditions of the grants as of the relevant dates. The following table sets forth the deferred income as of the dates indicated:

	December 31, 2019 ***RMB'000***	December 31, 2018 *RMB'000*
Government grants		
– Current	**1,724**	6,158
– Non-current	**12,931**	6,786
Total	**14,655**	12,944

Other Intangible Assets

The other intangible assets acquisition cost of the Group increased by 11.0% from approximately RMB88.9 million as at December 31, 2018 to approximately RMB98.7 million for as at December 31, 2019, due to new acquisition IP payment.

Our other intangible assets primarily represent a patent that was transferred from Presidio to us in relation to the Presidio Licensing Agreement, under which we made upfront and/or milestone payments to Presidio. The useful economic lives of these intangible assets are 10 to 17 years, which we consider to be reasonable considering that the duration of the patent right is shorter than the anticipated duration of sales of product. The amortization of intangible assets begins on the transfer date of patent because it is the date from which the intangible assets are available for use by us.

We did not recognize any impairment loss despite the losses incurred throughout the Reporting Period, because our intangible assets primarily represent a patent transferred to us from Presidio, which related to the development, manufacture and commercialization of Ravidasvir in Greater China. We have filed the NDA for Ravidasvir in the third quarter of 2018. Therefore, we did not foresee any indicators of impairment for intangible assets.

Management Discussion and Analysis

Liquidity and Capital Resources

The primary uses of cash of the Group are to fund research and development, clinical trials, purchase of equipment and raw materials and other recurring expenses. During the Reporting Period, the Group funded its working capital and other capital expenditure requirements through capital injections from Shareholders. In connection with the Company's initial public offering, 224,137,000 ordinary shares of US$0.0001 each were issued at a price of HK$14.00 per share for a total cash consideration, before expenses, of approximately HK$3,137,918,000 (equivalent to RMB2,730,284,000). Dealings in these shares on the Stock Exchange commenced on August 1, 2018.

The following table sets forth a condensed summary of the Group's consolidated statement of cash flows for the periods indicated and analysis of balances of cash and cash equivalents for the periods indicated:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Net cash used in operating activities	**(74,341)**	(96,590)
Net cash from/(used in) in investing activities	**602,269**	(817,471)
Net cash (used in)/from financing activities	**(48,217)**	2,560,142
Net increase in cash and cash equivalents	**479,711**	1,646,081
Cash and cash equivalents at the beginning of year	**1,781,892**	123,697
Effect of foreign exchange rate changes, net	**33,441**	12,114
Cash and cash equivalents at the end of year	**2,295,044**	1,781,892

As at December 31, 2019, cash and cash equivalents were mainly denominated in Renminbi, United States dollars and Hong Kong dollars.

Operating Activities

Our cash inflows from operating activities mainly consisted of trade and bills receivables from customers, government grants and bank interests. Our cash outflow from operating activities mainly consisted of selling and distribution expenses, research and development costs, and administrative expenses.

For the year ended December 31, 2019, we had net cash flows used in operating activities of RMB74.3 million, primarily as a result of operating loss before changes in working capital of RMB129.7 million. The negative changes in working capital are mainly due to (i) an increase in bank interest received of RMB63.8 million; (ii) an increase of RMB11.9 million in trade and bills receivables in relation to our product sales; and (iii) a decrease in trade and bills payables of RMB7.5 million.

Investing Activities

Our cash used in investing activities mainly consisted of our cash in time deposits with original maturity of over three months, investment in an associate, purchase of property, equipment and construction in progress and purchase of intangible assets.

For the year ended December 31, 2019, our net cash from investing activities was RMB602.3 million, primarily attributable to: (i) a decrease in time deposits with original maturity of over three months of RMB697.2 million; and (ii) investment in an associate of RMB67.4 million.

Management Discussion and Analysis

Financing Activities

Our cash inflow from financing activities primarily related to our corporate financings during the Reporting Period.

For the year ended December 31, 2019, our net cash flows used in financing activities was RMB48.2 million, primarily attributable to repurchase of shares of RMB46.3 million.

Capital Expenditures

The principal capital expenditures of the Group primarily consisted of plant and machinery, expenditures for construction in progress, leasehold improvements and the purchase of office equipment. The following table sets forth our net capital expenditures as at the dates indicated:

	December 31, 2019 *RMB'000*	December 31, 2018 *RMB'000*
Plant and machinery	**4,348**	6,854
Motor vehicles	**121**	2,146
Office equipment	**2,383**	951
Leasehold improvements	**1,284**	–
Construction in progress	**11,006**	5,912
Total	**19,142**	15,863

Significant Investments, Material Acquisitions and Disposals

On January 30, 2019, AP11 Limited, a wholly-owned subsidiary of the Company, entered into a capital increase agreement with 3-V Biosciences (currently known as Sagimet Biosciences Inc.), pursuant to which AP11 Limited agreed to invest US$8,100,000.00 in cash at the initial closing and US$1,899,999.95 in cash at the second closing into Sagimet Biosciences Inc.. As at the date of this report, AP11 Limited holds approximately 15.16% of the equity interest in Sagimet Biosciences Inc.. The Group recognizes such investment as an investment in an associate to which the equity method is applied.

Indebtedness

Borrowings

As of December 31, 2019, the Group did not have any borrowings, and the undrawn bank facilities was RMB200.0 million as of the same date.

Lease Liabilities

The Group had lease liabilities in the amount of approximately RMB3.8 million as at December 31, 2019.

Saved as aforesaid, the Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities as at December 31, 2019.

Management Discussion and Analysis

Contingent Liabilities, Charges of Assets and Guarantees

As of December 31, 2019, the Group was not involved in any material legal, arbitration or administrative proceedings or any contingent liabilities or charges of assets and guarantees, that, if adversely determined would materially adversely affect our business, financial position or results of operations.

Contractual Commitments

We lease certain of our properties and warehouse under operating lease arrangements. Leases for properties and warehouse are negotiated for terms ranging mainly from one to five years.

The Group had nil operating lease commitments as at December 31,2019 and RMB7.1 million as at December 31, 2018, respectively.

The Group had the capital commitments in the amount of approximately RMB3.5 million and RMB11.5 million as at December 31, 2019 and December 31, 2018, respectively.

Gearing Ratio

Gearing ratio is calculated using total liabilities divided total assets and multiplied by 100%. As at December 31, 2019, the gearing ratio of the Group was 3.0% (as at December 31, 2018: 2.8%).

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

	December 31, 2019	December 31, 2018
Current ratio(1)	**36.4**	36.0
Quick ratio(2)	**35.4**	35.1

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

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

Our current ratio increased from 36.0 as of December 31, 2018 to 36.4 as of December 31, 2019, and our quick ratio increased from 35.1 as of December 31, 2018 to 35.4 as of December 31, 2019, primarily due to a decrease in current liabilities.

Foreign Exchange

Foreign currency risk refers to the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between Renminbi and other currencies in which our Group conducts business may affect our financial condition and results of operation.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi from foreign currencies, including the USD, has been based on rates set by the People's Bank of China. The Group seeks to limit our exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. During the Reporting Period, the Group did not enter into any currency hedging transactions. The revenue denominated in USD represented 54.5% and 0.8% of the total revenue of the Company for the year ended December 31, 2018 and 2019, respectively.

Management Discussion and Analysis

Employees and Remuneration Policies

As at December 31, 2019, the Group had a total of 327 employees, 325 of which were located in the PRC and 2 consultants were located abroad, and over 65% of our employees obtained a bachelor's degree or higher. The table below sets forth the Group's employees by function as disclosed:

	Numbers of employees	% of total
Management	5	2
Research and development	58	18
Commercialization	155	47
Manufacturing	61	19
Operations	48	14
Total	327	100

The Group's total staff costs for the year ended December 31, 2019 was RMB115.1 million, compared to RMB101.6 million for the year ended December 31, 2018.

The Group recruits employees through recruitment websites, recruiters, internal referral and job fairs. The Group conducts new employee training, as well as professional and compliance training programs for employees of the commercialization team.

The Group enters into employment contracts with employees to cover matters such as wages, benefits and grounds for termination. The remuneration package of our employees includes salary and bonus, which are generally determined by the qualifications, industry experience, position and performance. The remunerations for the Directors are determined with reference to the duties and responsibilities assumed by each Director as well as their individual performance. The Group makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

The Group also has adopted a Restricted Stock Unit Scheme, a Restricted Stock Unit Option Incentive Scheme and a Share Option Scheme.

Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Jinzi Jason WU (吳勁梓), aged 57, is the Founder of our Group. Dr. Wu was appointed as a Director on February 25, 2014 and was appointed as the chairman of the Board on March 30, 2018. Dr. Wu was re-designated as an executive Director on April 27, 2018. Dr. Wu has served as the chief executive officer of our Group since April 2013. Dr. Wu is primarily responsible for overall management of the business strategy and corporate development of our Group. Dr. Wu is also involved in research and development of Ravidasvir, ASC40, ASC41, ASC22, ASC21, ASC18, ASC09 and ASC06. Dr. Wu also holds the following positions with other members of our Group:

- a director of PowerTree since January 2011;
- a director and chief executive officer of Ascletis BioScience since April 2013;
- a director and chief executive officer of Ascletis Pharmaceuticals since September 2014;
- a director of Ascletis Pharma (China) since March 2018;
- a director and chief executive officer of Ascletis Biopharma since April 2018;
- a director and chief executive officer of Ascletis Xinnuo Medicine since July 2018;
- a director of AP11 Limited since November 2018;
- a director of SoundRidge Pharmaceuticals (Hong Kong) Co., Limited since April 2019; and
- a chief executive officer of Gannex Pharma Co., Ltd. Since September 2019.

Dr. Wu has more than 21 years of experience in pharmaceutical research and development. From June 2008 to February 2011, he served as a vice president of HIV Drug Discover Performance Unit at GSK in the U.S., a global pharmaceutical company whose shares are listed on the New York Stock Exchange (ticker symbol: GSK), where he was mainly responsible for discovery and development of multiple pre-clinical and clinical stage drug candidates. From June 2004 to June 2008, Dr. Wu served as a vice president of Pre-clinical and Basic Research at Ambrilia (formerly known as Procyon), a global biotech company headquartered in Montreal Canada, whose shares were listed on the Canada Stock Exchange (ticker symbol: AMB) and were later delisted on March 4, 2011, where he was mainly responsible for overseeing research and development in areas of anti-viral and anti-cancer drugs. From 2002 to 2004, Dr. Wu also served at PhageTech Inc., an antibiotic discovery company, as a vice president of research and development. Dr. Wu also worked at Immunex Corporation as a group leader of small molecule drug discovery in 2002 prior to joining PhageTech Inc. From 1997 to 2000, Dr. Wu served as a senior scientist at Novartis Pharmaceuticals Corporation, a global pharmaceutical company whose shares are listed on New York Stock Exchange (ticker symbol: NVS), where he was mainly responsible for drug screening.

Dr. Wu received his bachelor's degree in physiology from Nanjing University (南京大學) in the PRC in July 1985, his master's degree in physiology from Nanjing University in the PRC in June 1988 and his doctorate degree in cancer biology from University of Arizona in the U.S. in August 1996.

Directors and Senior Management

Mrs. Judy Hejingdao WU (何淨島), aged 46, was appointed as a Director on March 30, 2018 and was re-designated as an executive Director on April 27, 2018. Mrs. Wu also served as a Director of our Company from September 9, 2015 to September 26, 2016. Mrs. Wu is the spouse of Dr. Jinzi Jason WU. Mrs. Wu has served as a vice president of our Group since January 2014. Since joining our Group, Mrs. Wu has actively participated in the daily operations of our Group and she is primarily responsible for overseeing operations of our Group, including management of our human resource and general affairs of our Group, among others. Mrs. Wu also holds the following positions with other members of our Group:

- a director and a vice president of Ascletis BioScience, where she is mainly responsible for operations of the company since January 2014; and

- a vice president of Ascletis Pharmaceuticals where she is mainly responsible for operations of the company since September 2014;

Mrs. Wu received her bachelor's degree in industrial design from Zhejiang University (浙江大學) in the PRC in July 1996.

Note: Dr. Wu and Mrs. Wu are spouses.

Independent Non-executive Directors

Dr. Ru Rong JI, aged 56, was appointed as an independent non-executive Director on April 27, 2018. Dr. Ji is primarily responsible for supervising and providing independent judgement to our Board.

Dr. Ji has over 21 years of experience in neuroscience, pain, and anaesthesiology research. Dr. Ji has been employed by Duke University as a professor in anaesthesiology and neurobiology, with tenure since April 2012. He was also appointed as professor of Cell Biology in 2018. Before joining Duke University, Dr. Ji worked at Harvard University Medical School where he was first appointed as an instructor since July 1998, then promoted to assistant professor in January 2002 and promoted to associate professor in 2007. Prior to 1998, Dr. Ji also conducted postdoctoral research in neurobiology at Beijing Medical University (北京醫科大學) in the PRC, which is currently known as Peking University Health Science Center (北京大學醫學部), at Karolinska Institute in Sweden and at Johns Hopkins University in the United States.

Dr. Ji received his bachelor's degree in science from Nanjing University in the PRC in July 1985 and a doctorate degree in science focusing on neurobiology at Shanghai Institute of Physiology, Chinese Academy of Sciences (中國科學院上海生理研究所) in the PRC in October 1990. Dr. Ji was appointed as the co-director of Center for Translational Pain Medicine at Duke University School of Medicine in December 2017.

Dr. Yizhen WEI (魏以楨), aged 45, was appointed as an independent non-executive Director on April 27, 2018. Dr. Wei is primarily responsible for supervising and providing independent judgement to our Board.

Dr. Wei has over 18 years of experience in clinical medicine industry. Since December 1999, Dr. Wei has served several positions at Fuwai Hospital – China Academy of Medical Science (中國醫學科學院阜外醫院), including resident physician from December 1999 to September 2003, attending physician from September 2003 to July 2009 and consultant physician then. Dr. Wei was appointed as a medical appraisal expert of Beijing Medical Association (北京市醫學會) in December 2013. Dr. Wei has served as a member of the Cardiovascular Committee of the National Cardiovascular Disease Center since August 2016.

Directors and Senior Management

Dr. Wei received his bachelor's degree in clinical medicine in English (英文醫學) from China Medical University (中國醫科大學) in the PRC in July 1998 and his doctorate degree in Surgery from Chinese Academy of Medical Science & Peking Union Medical College (中國醫學科學院北京協和醫學院) in the PRC in January 2008.

Mr. Jiong GU (顧炯), aged 47, was appointed as an independent non-executive Director on April 27, 2018. Mr. Gu is primarily responsible for supervising and providing independent judgement to our Board. Mr. Gu is also the chairman of the audit committee of our Board.

Since September 2013 and October 2015, Mr. Gu has served as the chief financial officer of CMC Capital Partners (華人文化產業投資基金), an investment fund specializing in media and entertainment investment in the PRC and globally, and CMC Holdings Limited (華人文化有限責任公司), an investment platform focusing on media and entertainment investments, respectively. From January 2010 to August 2013, Mr. Gu served as the chief financial officer in BesTV New Media Co., Ltd.(百視通新媒體股份有限公司), a PRC company principally engaged in the provision of technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through a media source platforms, whose shares are listed on Shanghai Stock Exchange (stock code: 600637). From April 2004 to December 2009, Mr. Gu successively worked at UTStarcom Telecom Co., Ltd. (UT斯達康通訊有限公司) and its holding company, UTStarcom Inc. a global telecom infrastructure provider specialized in the provision of packet optical transport and broadband access products to network operators, whose shares are listed on Nasdaq (ticker symbol: UTSI), where he was responsible for accounting and financial matters. From July 1995 to April 2004, Mr. Gu had worked for Ernst & Young's Shanghai office and was the senior manager of the audit department when he left the firm. From June 2015, Mr. GU has been appointed as the independent non-executive director of Xinming China Holdings Limited (新明中國控股有限公司) (HK2699) and Chen Xing Development Holdings Ltd (辰興發展控股有限公司) (HK2286). From March 2017, he has been appointed as the independent non-executive director of Amlogic (Shanghai) Co., Ltd (晶晨半導體(上海)股份有限公司) (Stock code: 688099). From September 2018, he has been appointed as the independent non-executive director of Dafa Properties Group Limited (大發地產集團有限公司) (HK6111). From May and June 2019, Mr. GU has been appointed as the independent non-executive director of Mulsanne Holding Limited (慕尚集團控股有限公司) (HK1817) and Tu Yi Holding Company Limited (途屹控股有限公司) (HK1701), respectively.

Mr. Gu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since April 2004. Mr. Gu received his bachelor's degree in finance management from Fudan University (復旦大學) in the PRC in July 1995.

Directors and Senior Management

Ms. Lin HUA (華林), aged 46, was appointed as an independent non-executive Director on April 27, 2018. Ms. Hua is primarily responsible for supervising and providing independent judgement to our Board.

Since May 2016, Ms. Hua has served as the managing director of Beijing Highgrove Cultural Communication Co., Ltd. (北京海格羅府文化傳播有限公司), a company primarily conducted cultural communication activities including organizing exhibitions and introducing and marketing foreign brands into PRC, where she was mainly responsible for overall management of its Greater China operations. From April 2010 to April 2016, Ms. Hua had worked for Yang Guang Xin Ye Real Property Co., Ltd. (陽光新業地產股份有限公司), a real estate development and management company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000608) and served as a vice president of commercial management department when she left. From May 2003 to March 2010, Ms. Hua worked at Verakin Group Company Ltd. (同景集團有限公司), a company primarily conducted real estate development, education, healthcare and tourism and served as board secretary and head of Beijing headquarter when she left. From October 2002 to April 2003, Ms. Hua served as an assistant to producer and program director at China Central Television. From September 1996 to June 2000, Ms. Hua worked at Daiko Pacific International Advertising Inc. (大廣太平洋國際廣告有限公司), an international advertising company, and she served as a creative director when she left.

Ms. Hua received her bachelor's degree in industrial design from Zhejiang University in July 1996 and her master degree in distributed computing system from the University of Greenwich in the U.K in June 2002.

SENIOR MANAGEMENT

For the biographies of Dr. Jinzi Jason WU and Mrs. Judy Hejingdao WU, please refer to "Directors – Executive Directors".

Dr. Handan HE (何菡萏), aged 58, was appointed as the Chief Scientific Officer of the Group on October 8, 2019. Prior to joining our Group, Dr. He was a former Global Head of Computational, Biopharmaceutics and Translational PK/PD at Novartis Pharmaceutical Corporation, New Jersey, USA. Dr. He joined Novartis, New Jersey in 1997. She managed scientific teams across Novartis global sites in USA and Switzerland. Her main responsibilities included in silico ADME predictions, human PK/PD projections, translational PK/PD, in vitro and in vivo correlations, and clinical Physiologically Based Pharmacokinetic modeling for drug absorption, drug interaction, organ impairment and pediatrics.

Directors and Senior Management

Dr. He was a recipient of the 2009 Outstanding 50 Asian Americans in Business Award. Dr. He served as the 20th President of Sino-American Pharmaceutical Professionals Association (SAPA), an organization of over 4000 pharmaceutical scientists. She obtained Ph.D. in Drug Metabolism and Pharmacokinetics from University of Saskatchewan, Canada in May, 1995.

Ms. (Helen) Yuemei YAN (言月梅), aged 50, was appointed as the Sales Director of the Group on November 8, 2016 and was appointed as Vice President of the Company in April 2018. Ms. Yan has over 18 years of experience in sales management. Prior to joining our Group, Ms. Yan served several roles at Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司) including sales managers and national sales director from November 2005 to October 2016, where she mainly in charge of sales for products of cardiovascular and virology therapeutic area. From June 2001 to October 2005, Ms. Yan served as Medicine Representative in Hangzhou Merck Sharp & Dohme Pharmaceuticals Limited (杭州默沙東製藥有限公司). From August 1988 to June 2001, Ms. Yan served as a nurse at Ningbo No. 1 Hospital (寧波市第一醫院). Ms. Yan obtained her master degree in business administration from Asia Metropolitan University in Malaysia in June 2018 and obtained her college degree in nursing from Zhejiang University (浙江大學) in the PRC in December 1999 through part-time study.

Dr. (Vivian) Yi CHEN (陳怡), aged 56, was appointed as Vice President of our Group in charge of general corporate affairs on March 12, 2018. Prior to joining our Group, Dr. Chen worked as a director at Abbott Diabetes Trading (Shanghai) Co., Ltd. (雅培貿易(上海)有限公司) from July 2015 to December 2017 where she was mainly responsible for market access affairs. From August 2012 to August 2014, Dr. Chen serves as a vice president at Shanghai Branch of Eli Lilly and Company (Suzhou) Limited (禮來蘇州製藥有限公司上海分公司) where she was mainly responsible for corporate affairs and government relations. From May 2011 to July 2012, Dr. Chen worked as a director of public policy and government relations in the PRC at Becton Dickinson Medical Device (Shanghai) Co., Ltd. (碧迪醫療器械(上海)有限公司). From March 2006 to May 2011, Dr. Chen served as a director at the R&D based Pharmaceutical Association Committee of China Association of Enterprises with Foreign Investment (中國外商投資企業協會藥品研製和開發行業委員會). From 1995 to 2003, Dr. Chen successively served as an economist at Department of Labor of the United States and a consultant at the World Bank in Washington D.C in the United States. Dr. Chen received her bachelor's degree in world economy from Fudan University (復旦大學) in the PRC in July 1985, her master's degree in economics from the University of Utah in the U.S. in August 1990 and her doctorate degree in economics from University of Utah in the U.S. in June 1998. Dr. Chen was also appointed as a director of the China Health Economics Association (中國衛生經濟學會) in May 2017.

COMPANY SECRETARY

Mr. Lok Kwan YIM (嚴洛鈞), was appointed as our company secretary on June 4, 2018. Mr. Yim currently serves as a manager of SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司), a professional services provider specializing in corporate services. He has over eight years of experience in corporate services industry. Mr. Yim obtained his bachelor's degree in accounting from Hong Kong Shue Yan University and his master degree in corporate governance from Hong Kong Polytechnic University. Mr. Yim is an associate member of both of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute, formerly known as the Institute of Chartered Secretaries and Administrators.

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 principal activity of the Company is investment holding and the Group is principally engaged in research and development, production, marketing and sale of pharmaceutical products.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in Note 1 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group during the year, a discussion and analysis on the Group's future business development and the financial and operational key performance indicators employed by the Directors in measuring the performance of the Group's business are set out in the sections headed "Financial Summary" on page 5 of this annual report, "Corporate Profile" on pages 6 to 7 and "Management Discussion and Analysis" on pages 8 to 25 of this annual report.

Environmental Policies and Performance

The Group is subject to national and local environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes in China. The Group has established detailed internal rules regarding environmental protection. The Group tests effluent water to ensure compliance with national emission standards. Solid waste is sorted for proper disposal. Hazardous waste is sent to qualified third parties for treatment. When a new construction project is proposed, the Group conducts comprehensive analysis and testing on the environmental issues involved in the manufacturing processes. The Group's production team and environment, health and safety department are primarily responsible for ensuring compliance with applicable environmental rules and regulations. All of the Group's properties, plants and equipment meet the standards required for compliance with applicable environmental rules and regulations, and the Group believes it has maintained a good relationship with the communities surrounding the Group's production facilities.

To the best knowledge of the Group, during the year ended December 31, 2019, the Group has complied with the relevant environmental and occupational health and safety laws and regulations in China and we did not have any incidents or complaints which had a material and adverse effect on our business, financial condition or results of operations during the Reporting Period.

Report of Directors

BUSINESS REVIEW (Continued)

Compliance with Relevant Laws and Regulations

For the year ended December 31, 2019, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations which have significant impact on the Group. The Board and senior management within their respective duties in conjunction with internal and external professional advisors monitored the Group's policies and practices on compliance with legal and regulatory requirements. Changes in the applicable laws, rules and regulations which have significant impact on the Group (if any) were brought to the attention of relevant employees and relevant operation units from time to time. During the Reporting Period, various works of the Board and senior management were in compliance with the relevant applicable laws and regulations, the articles of association of the Company, charters of the board committees, internal policies and the relevant provisions of various internal control systems. Decision-making process was legitimate and effective. Directors and senior management performed in a diligent and responsible manner and the resolutions of the board meetings were implemented faithfully. Meanwhile, the Company has timely performed its disclosure obligations which were in strict compliance with the requirements of the listing rules or manuals of the Hong Kong Stock Exchange.

In accordance with the requirements of the laws, regulations and related policies in China and relevant other jurisdictions in which the Group operates, the Group provides and maintains statutory benefits for its staff, including but not limited to pension schemes, mandatory provident fund, basic medical insurance, work injury insurance, etc. Further, the Group has been committed in complying relevant laws and regulations on work and occupational safety of employees of the Group. The Group has implemented work safety guidelines setting out safety practices, accident prevention and accident reporting. Our employees responsible for manufacturing and quality control and assurance are required to hold relevant qualifications, as well as wear the proper safety gear when working. We conduct safety inspections for our manufacturing facility twice every month.

To the best knowledge of the Group, during the year ended December 31, 2019, there were no material breaches of the Group's internal rules or applicable laws and regulations relating to the promotion and distribution of the Group's pharmaceutical products by its employees or distributors and the Group has complied with all relevant rules and regulations that have significant impact on it.

Report of Directors

BUSINESS REVIEW (Continued)

Key Relationship with Stakeholders

The Group recognizes that various stakeholders including employees, medical experts, distributors, and other business associates are key to Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

The Group believes that it is vital to attract, recruit and retain quality employees. To maintain the quality, knowledge and skill levels of Group's workforce, the Group provide the employees with periodic training, including introductory training for new employees, technical training, professional and management training and health and safety training. The Group believes that it maintains a good relationship with its employees and the Group did not experience any significant labor disputes or any difficulty in recruiting staff for its operations.

The Group conducts academic marketing activities to establish and maintain relationships with key opinion leaders in the national medical system. The Group provides these experts with detailed information on its products and helps them make independent comparisons among competing products in the market. The Group also maintains long-term cooperative relationships with several national academic associations. The Group believes that its relationships with medical experts help to raise Group's profile, enhance awareness of Group's products in the medical community and among patients, and provide it with valuable clinical data to improve the Group's products, all of which help the Group more effectively market and sell its products.

A significant amount of Group's sales is attributable to a limited number of distributors. The Group selects the distributors based on their qualifications, reputation, market coverage and sales experience. The Group generally seeks to have long time business relationship with its large distributors.

Report of Directors

BUSINESS REVIEW (Continued)

Key Risks and Uncertainties and Risk Management

The Group is a biotechnology company listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules. There are unique challenges, risks and uncertainties associated with companies such as our Company, including:

- our financial prospects for the next couple of years are substantially dependent upon the successful sales of Ganovo® (Danoprevir) and successful approval and sales of Ravidasvir;
- we may face intense competition in the market for anti-viral drugs;
- we may be unable to obtain regulatory approval for our drug candidates;
- our financial prospects depend on the successful development and approval of our clinical-stage and pre-clinical stage product pipeline;
- our drug candidates may fail to achieve the degree of market acceptance by physicians, patients, third-party payers and others in the medical community necessary for commercial success;
- we have in-licensed, and may continue to seek strategic alliances or enter into additional licensing arrangements in the future, a number of drug candidates for development and commercialization, which is subject to risks;
- we could be unsuccessful in obtaining or maintaining adequate patent protection for one or more of our drug candidates; and
- we may be unable to attract and retain senior management and key scientific employees.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc, and proactively setting up appropriate risk management and internal control mechanism which is embedded in daily operation management. The Group's financial risk management objectives and policies are set out in Note 34 to the consolidated financial statements in this annual report.

Events after Reporting Period

Significant events that have an effect on the Group subsequent to the financial year ended December 31, 2019 are set out in note 35 to the consolidated financial statements in this annual report.

Report of Directors

DIRECTORS

The Directors during the Reporting Period and up to the date of this Directors' Report were:

Executive Directors

Dr. Jinzi Jason WU *(Chairman and Chief Executive Officer)*
Mrs. Judy Hejingdao WU *(Vice President)*

Independent Non-executive Directors

Dr. Ru Rong JI
Dr. Yizhen WEI
Mr. Jiong GU
Ms. Lin HUA

Biographies of the Directors and Senior Management

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 26 to 30 of this annual report.

Service Contracts of the Directors

Each of the executive Directors has entered into a three-year service contract with the Company dated July 11, 2018 and effective from their respective appointment dates, subject to termination before expiry by either party giving not less than 30 days' notice in writing to the other. Each of the independent non-executive Directors has entered into a letter of appointment with the Company dated July 11, 2018 which commenced from their respective appointment dates for an initial term of three years.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Remuneration of the Directors and Five Highest Paid Individuals

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in Note 8 and 9 to the consolidated financial statements in this annual report.

Employees and Remuneration Policies

A review of the employees and remuneration policies of the Group during the year are set out in the section headed "Management Discussion and Analysis" on pages 8 to 25 of this annual report.

Report of Directors

DIRECTORS (Continued)

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her 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.

NON-COMPETE UNDERTAKING

As disclosed in the Prospectus, our controlling shareholders, Dr. Wu, Mrs. Wu, Lakemont Holding LLC and the Lakemont 2018 GRAT (the "**Controlling Shareholders**"), provided a non-compete undertaking in favour of the Group (the "**Non-compete Undertaking**"), pursuant to which our Controlling Shareholders undertook not to, and to procure their respective close associate(s) (as appropriate) (other than our Group) not to, either directly or indirectly, compete with our business, which includes development and commercialization of innovative drugs against HCV, HIV, HBV, liver cancer and fatty liver ("**Restricted Activities**") and granted our Group the option for new business opportunities. Our Controlling Shareholders have further irrevocably undertaken in the Non-Compete Undertaking that, during the term of the Non-Compete Undertaking, they will not, and will also procure their respective close associate(s) (as appropriate) (other than our Group) not to, alone or with a third party, in any form, directly or indirectly, engage in, participate in, support to engage in or participate in any business that competes, or is likely to compete, directly or indirectly, with the Restricted Activities.

Our Controlling Shareholders have confirmed in writing to the Company of their compliance with the Non-compete Undertaking during the year ended December 31, 2019. No new business opportunity was informed by the Controlling Shareholders as at December 31, 2019.

The independent non-executive Directors have reviewed the implementation of the Non-compete Undertaking based on the information and confirmation provided by or obtained from the Controlling Shareholders, and are of the view that the Non-compete Undertaking has been complied with by our Controlling Shareholders for the year ended December 31, 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed in this annual report, as at December 31, 2019, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance subsisted in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, during or at the end of the Reporting Period.

CONNECTED TRANSACTIONS

Details on related party transactions for the year ended December 31, 2019 are set out in note 31 to the consolidated financial statements. There was no connected transaction nor continuing connected transaction of the Group which has to be disclosed in accordance with the Chapter 14A of the Listing Rules during the Reporting Period.

Report of Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at the date of this annual report, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares/ underlying Shares[1]	Approximate percentage of shareholding interest
Dr. Wu	Interest in controlled corporation[2]	552,393,664 (L)	49.93%
	Interest of spouse	44,827,414 (L)	4.05%
	Interest held jointly with another person[3]	2,311,000 (L)	0.21%
Mrs. Wu	Beneficiary of a trust[4]	44,827,414 (L)	4.05%
	Interest of spouse	552,393,664 (L)	49.93%
	Interest held jointly with another person[3]	2,311,000 (L)	0.21%

Notes:

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

(2) 552,393,664 Shares were held by Dr. Wu through JJW12 Limited, a company incorporated in the BVI and wholly owned by Dr. Wu.

(3) 2,311,000 Shares were held by Dr. Wu and Mrs. Wu in a joint account.

(4) Mrs. Wu is the manager of Lakemont 2018 GRAT, a trust set up by Dr. Wu on April 26, 2018 under the laws of Delaware for the benefit of his family members. As of the date of this annual report, Lakemont Holding LLC was controlled by Lakemont 2018 GRAT as to 86.47% and Dr. Wu as to 13.53% (together with Lakemont 2018 GRAT, the "Family Trust"). Mrs. Wu exercises the voting rights of the Shares held through the Family Trust and is a beneficiary of the Family Trust.

Save as disclosed above, as at the date of this annual report, so far as it was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations as recorded in the register required to be kept, pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the date of this annual report, so far as it was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Report of Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Interests in shares or underlying shares of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares(1)	Approximate percentage of shareholding interest
JJW11 Limited(2)	Beneficial owner	64,945,019 (L)	5.87%
CBC Investment Twelve Limited(3)	Beneficial owner	50,729,518 (L)	4.59%
CBC Investment Fifteen Limited(4)	Beneficial owner	25,570,542 (L)	2.31%

Notes:

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

(2) The only one issued share of JJW11 Limited was held by Dr. Wu on behalf of the participants under the RSU Scheme adopted by JJW11 Limited. Dr. Wu has irrevocably appointed Ms. Heying YANG (楊荷英) (being a supervisor of Ascletis BioScience and the sole director of JJW11 Limited) as proxy to exercise all voting rights on such shares in her absolute discretion. Dr. Wu does not enjoy and disclaim any beneficial interest in JJW11 Limited.

(3) Each of CBC Investment Ascletis Limited (as the sole shareholder of CBC Investment Twelve Limited ("**CBC 12**")), CBC Investment Eleven Limited ("**CBC 11**", holding approximately 95.24% equity interest in CBC Investment Ascletis Limited), C-Bridge Healthcare Fund II. L.P. (as the sole shareholder of CBC 11), C-Bridge Healthcare Fund GP II. L.P. (as general partner of C-Bridge Healthcare Fund II. L.P.), C-Bridge Capital GP, Ltd., (as general partner of C-Bridge Healthcare Fund GP II. L.P.), TF Capital II, Ltd. (holding approximately 38.34% equity interest in C-Bridge Capital GP, Ltd.), Kang Hua Investment Company Limited and Nova Aqua Limited (holding approximately 52.17% and 47.83% respectively equity interest in TF Capital II, Ltd.), Dan YANG (as the sole shareholder of Kang Hua Investment Company Limited) and Wei FU (as the beneficial owner of Nova Aqua Limited) is deemed to be interested in the Shares held by CBC 12 under the SFO.

(4) Each of CBC Investment Seven Limited ("**CBC 7**", as the sole shareholder of CBC Investment Fifteen Limited ("**CBC 15**")), C-Bridge Healthcare Fund, L.P. (holding approximately 75.47% equity interest in CBC 7), C-Bridge Healthcare Fund GP, L.P. (as general partner of C-Bridge Healthcare Fund L.P.), C-Bridge Capital GP, Ltd., (as general partner of C-Bridge Healthcare Fund GP, L.P.), TF Capital II, Ltd. (holding approximately 38.34% equity interest in C-Bridge Capital GP, Ltd.), Kang Hua Investment Company Limited and Nova Aqua Limited (holding approximately 52.17% and 47.83% respectively equity interest in TF Capital II, Ltd.), Dan YANG (as the sole shareholder of Kang Hua Investment Company Limited) and Wei FU (as the beneficial owner of Nova Aqua Limited) is deemed to be interested in the Shares held by CBC 15 under the SFO.

Save as disclosed above, as at the date of this annual report, the Directors and the chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Report of Directors

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no Controlling Shareholders or their subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2019, the Group's sales to its five largest customers accounted for 80.5%, as compared to 77.2% of the Group's total revenue for the year ended December 31, 2018. The Group's sales to the largest customer accounted for 27.5%, as compared to 54.5% of the Group's total revenue for the year ended December 31, 2018.

Major Suppliers

For the year ended December 31, 2019, the Group's five largest suppliers accounted for 61.0%, as compared to 58.5% of the Group's total purchase amounts for the year ended December 31, 2018. The Group's single largest supplier accounted for 23.8%, as compared to 21.0% of the Group's total purchases for the year ended December 31, 2018.

During the year ended December 31, 2019, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACTS

During the Reporting Period, the Company has not entered into any contract with any individuals, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts or otherwise in relation thereto in accordance with the Articles of Association. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group during the year ended December 31, 2019.

RESULTS AND DIVIDENDS

The Group's loss for the year ended December 31, 2019 and the Group's financial position at that date are set out in the consolidated financial statements on pages 97 to 164. The Board does not recommend any payment of final dividend for the year ended December 31, 2019. Details of dividend declared prior to the Listing during the Reporting Period are set out in note 11 to the consolidated financial statements in this annual report.

Report of Directors

SHARE CAPITAL

Details of movements in share capital of the Company during the Reporting Period are set out in note 25 to the consolidated financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements in this annual report.

The Company's reserves available for distribution to the shareholders of the company as at December 31, 2019 amounted to RMB3.1 billion.

CHARITABLE DONATIONS

During the Reporting Period, charitable and other donations made by the Group amounted to RMB57,871,000 (2018: RMB9,227,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements in this annual report.

USE OF PROCEEDS FROM LISTING

In connection with the Company's initial public offering, 224,137,000 ordinary shares of US$0.0001 each were issued at a price of HK$14.00 per share for a total cash consideration, before expenses, of approximately HK$3,137,918,000 (equivalent to RMB2,730,284,000).

Report of Directors

USE OF PROCEEDS FROM LISTING (Continued)

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2019:

Use of proceeds	Planned applications *(HK$ million)*	Percentage of total net proceeds *(%)*	Actual usage up to December 31, 2019 *(HK$ million)*	Unutilized net proceeds as at December 31, 2019 *(HK$ million)*
For the Core Products				
For the continued research and development of the Core Product pipeline, consisting of approximately (i) 4% for initiating and conducting a number of phase IV clinical trials for Ganovo® and Ravidasvir; (ii) 6.0% for initiating and conducting bridging studies, a phase IIb clinical trial and a phase III clinical trial (if needed), for ASC09; (iii) 6.0% for initiating and conducting bridging studies, a phase II clinical trial and a phase III clinical trial for ASC06; (iv) 10.0% for other research and development costs and to supplement funding for the research and development of the Core Product as necessary; and (v) 4.0% for staff compensation	892.6	30.0	182.6	710.0
For commercialization of Ganovo® and Ravidasvir, consisting of approximately (i) 12.0% for hiring additional commercialization personnel and providing in-house and external training and (ii) 13.0% for marketing activities	743.9	25.0	260.5	483.4
For the other assets and other purposes				
For pursuing in-licensing of new drug candidates	446.3	15.0	24.7	421.6
For research and development of ASC21	297.5	10.0	11.2	286.3
For supporting the research and development infrastructure and the early development of the two in-house drug programs at discovery stage for HBV and NASH	297.5	10.0	40.7	256.8
For the working capital and other general corporate purposes	297.5	10.0	68.2	229.3
Total	2,975.3[1]	100.0	587.9	2,387.4

Note:

(1) The net proceeds planned for applications is approximately HK$2,975.3 million, which equals to the amount of actual proceeds from the Listing excluding Listing expenses payable.

Report of Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

At the Company's annual general meeting held on June 6, 2019, the shareholders of the Company approved a general mandate to authorise the directors of the Company to repurchase the Company's shares of up to 10% of the issued shares of the Company as at the date of June 6, 2019. During the year ended December 31, 2019, the Company repurchased 14,349,000 shares on the Stock Exchange for an aggregate consideration of approximately HKD51,324,018.4 before expenses. The repurchased shares were subsequently cancelled. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

		Purchase consideration per share		
Month of purchase in 2019	**No. of shares purchase**	**Highest price paid** *HKD*	**Lowest price paid** *HKD*	**Aggregate consideration paid** *HKD*
November	6,000,000	4.35	3.26	21,911,100
December	8,349,000	3.73	3.24	29,412,918.4
Total:	14,349,000			51,324,018.4

Save as disclosed above, neither the Company nor its subsidiaries have purchased, redeemed or sold any of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

The Company has adopted a share option scheme (the "Share Option Scheme") on June 6, 2019 and is subject to the requirements under Chapter 17 of the Listing Rules.

1. PURPOSE

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time.

2. WHO MAY JOIN

Eligible Persons include:

(a) any employee (whether full-time or part-time) of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity");

(b) any director (including executive, non-executive and independent non-executive directors) of the Group or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity;

Report of Directors

EQUITY-LINKED AGREEMENTS (Continued)

2. WHO MAY JOIN (Continued)

(e) any advisory (professional or otherwise), consultant or agent that provides design, research, development or other technological support to any member of the Group or any Invested Entity; and

(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The basis of eligibility of any of the above classes of Eligible Persons to the grant of any Options shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

3. DURATION OF THE SHARE OPTION SCHEME

The Share Option Scheme shall be valid and effective for a period of 10 years and until June 5, 2029, after which period no further Options shall be granted. Subject to the above, in all other respects, in particular, in respect of Options remaining outstanding on the expiry of the 10-year period referred to in this paragraph, the provisions of the Share Option Scheme shall remain in full force and effect.

4. MAXIMUM NUMBER OF SHARES

At the time of adoption of the Share Option Scheme or any new share option scheme (the "New Scheme"), the aggregate number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the "Existing Scheme(s)") of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the date of adoption of the Share Option Scheme or the New Scheme (as the case may be) (the "Scheme Mandate Limit"). For the purposes of calculating the Scheme Mandate Limit, Shares which are the subject matter of any Options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted. The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:

(a) the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of Shares in issue as at the date of Shareholders' approval of the refreshing of the Scheme Mandate Limit;

(b) Options previously granted under any Existing Scheme(s) (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and

(c) a circular regarding the proposed refreshing of the Scheme Mandate Limit has been despatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must contain the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4).

Report of Directors

EQUITY-LINKED AGREEMENTS (Continued)

4. MAXIMUM NUMBER OF SHARES (Continued)

The Company may seek separate approval from the Shareholders in the general meeting for granting Options which will result in the Scheme Mandate Limit being exceeded, provided that:

(a) the grant is to Eligible Persons specifically identified by the Company before the approval is sought; and

(b) a circular regarding the grant has been despatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must contain a generic description of the specified participants who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting Options to the specified participants with an explanation as to how the terms of the Options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4).

Notwithstanding the foregoing, the maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

5. MAXIMUM ENTITLEMENT OF EACH ELIGIBLE PERSON

No Option shall be granted to any Eligible Person (the "Relevant Eligible Person") if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all Options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period up to and including the date of such grant would exceed 1% of the total number of Shares in issue at such time, unless:

(a) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules in force from time to time, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his close associates (or his associates if the Relevant Eligible Person is a Connected Person) abstained from voting;

(b) a circular regarding the grant has been despatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must disclose the identity of the participant, the number and terms of the Options to be granted (and Options previously granted to such participant), the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4); and

(c) the number and terms (including the Subscription Price) of such Options are fixed before the general meeting of the Company at which the same are approved.

Report of Directors

EQUITY-LINKED AGREEMENTS (Continued)

6. EXERCISE OF OPTION

The Share Option Scheme does not stipulate either a minimum period for which an Option must be held or any performance targets a Grantee is required to achieve before an Option may be exercised. The Board may specify in the Offer Letter any conditions which must be satisfied before the Option may be exercised, including without limitation such performance targets (if any) and minimum periods for which an Option must be held before it can be exercised and any other terms in relation to the exercise of the Option, including without limitation such percentages of the Options that can be exercised during a certain period of time, as the Board may determine from time to time.

7. SUBSCRIPTION PRICE AND CONSIDERATION FOR THE OPTION

The price at which each Share subject to an Option may be subscribed for on the exercise of that Option (the "Subscription Price") shall be a price solely determined by the Board and notified to an Eligible Person and shall be at least the highest of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a Business Day;

(b) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the Offer Date; and

(c) the nominal value of the Shares.

No consideration is required upon acceptance of the grant of Options.

As at December 31, 2019, no Option had been granted under the Share Option Scheme.

Save as disclosed above and in our Prospectus, there was no other equity-linked agreement entered into by the Company during the year ended December 31, 2019.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on June 15, 2020 (Monday). A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from June 10, 2020 (Wednesday) to June 15, 2020 (Monday) (including the above mention date), both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on June 9, 2020 (Tuesday).

Report of Directors

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 47 to 58 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available and within the knowledge of the Directors, the Company maintained the prescribed public float as required under the Listing Rules as at the date of this annual report.

TAX RELIEF AND EXEMPTION

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

PRE-EMPTIVE RIGHTS

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

AUDITORS

The Company has appointed Ernst & Young as the auditor of the Company for the year ended December 31, 2019. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

By order of the Board
Ascletis Pharma Inc.
歌禮製藥有限公司
Jinzi Jason WU
Chairman

Hangzhou, the People's Republic of China, March 24, 2020

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code during the Reporting Period, except for a deviation from the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Dr. Wu. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Written Guidelines on no less exacting terms than the Model Code as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the Reporting Period and to the date of this report. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

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

The Board of the Company currently comprises the following Directors:

Executive Directors

Dr. Jinzi Jason WU *(Chairman and Chief Executive Officer) (Note)*
Mrs. Judy Hejingdao WU *(Vice President) (Note)*

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Independent Non-executive Directors

Dr. Ru Rong JI
Dr. Yizhen WEI
Mr. Jiong GU
Ms. Lin HUA

Note: Dr. Wu and Mrs. Wu are spouses.

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 26 to 30 of this annual report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Save as disclosed above, the Directors do not have any other financial, business, family or other material/relevant relationships with one another.

Board Meetings and Directors' Attendance Records

Code provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication.

During the Reporting Period the Company convened two General Meetings and the Board convened seven Board meetings and the attendances of Board Meetings and General Meetings are listed below:

Name of Directors	Attendance/ Number of Board Meeting(s)	Attendance/ Number of General Meeting(s)
Dr. Jinzi Jason WU	7/7	2/2
Mrs. Judy Hejingdao WU	7/7	2/2
Dr. Ru Rong JI	7/7	2/2
Dr. Yizhen WEI	7/7	0/2
Mr. Jiong GU	7/7	2/2
Ms. Lin HUA	7/7	0/2

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of Executive Director during the year.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

In view of Dr. Wu's experience, personal profile and his roles in our Group as mentioned above and that Dr. Wu has assumed the role of chief executive officer of our Group since our commencement of business, the Board considers it beneficial to the business prospect and operational efficiency of our Group that, Dr. Wu acts as the chairman of the Board and continues to act as the chief executive officer of our Company. While this deviates from Code Provision A.2.1 of the Code as set out in Appendix 14 to the Hong Kong Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises four independent non-executive directors out of six Directors, which is more than half of the Board composition and the Hong Kong Listing Rules requirement of one-third, and we believe that there is sufficient check and balance in the Board; (ii) Dr. Wu and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing not less than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

Each of the Directors is engaged on a service contract (in the case of the executive Directors) or a letter of appointment (in the case of the non-executive Directors and independent non-executive Directors) for a specific term of three years, which is renewable by mutual consent and subject to the Articles of Association of the Company.

The Articles of Association provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to election by shareholders at the next following general meeting of the Company.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Every Director (including those appointed for a specific term) shall also be subject to retirement and re-election by rotation at least once every three years at the annual general meetings of the Company under the Articles of Association of the Company.

Responsibilities of the Directors

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

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

All Directors, including 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 judgment 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 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 coordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

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

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Besides, meetings with senior management of the Company were also arranged.

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

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

During the Reporting Period, relevant reading materials including directors' manual, legal and regulatory updates and seminar handouts have been provided to the directors for their reference and studying. They also received from the Company from time-to-time updates on laws, rules and regulations which may be relevant to their roles, duties and functions as director of a listed company. The table below summarises the participation of each of the Directors in continuous professional development during the Reporting Period:

Name of Director	Reading Legal and Regulatory Updates and other Reference Materials
Executive Directors	
Dr. Jinzi Jason WU	√
Mrs. Judy Hejingdao WU	√
Independent Non-executive Directors	
Dr. Ru Rong JI	√
Dr. Yizhen WEI	√
Mr. Jiong GU	√
Ms. Lin HUA	√

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination 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 posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of the Remuneration Committee, Audit Committee and Nomination Committee are independent non-executive Directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Jiong GU, Dr. Yizhen WEI and Ms. Lin HUA. Mr. Jiong GU, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

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 review and supervise the financial reporting process, risk management and internal controls system of the Group, assist the Board to fulfill its responsibility over the audit, and review and approve connected transactions and to advise the Board.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

The Audit Committee is also responsible for performing the functions set out in code provision D.3.1 of the CG Code. These include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

The Audit Committee held 4 meetings during the Reporting Period to review and consider the interim financial results and reports for the six months ended June 30, 2019, the annual financial results and reports for the year ended December 31, 2018 and review the appropriateness and effectiveness of the risk management and internal control systems.

The Audit Committee also met the external auditors twice during the Reporting Period without the presence of the executive Directors and the management.

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

Name of Directors	Attendance/ Number of Meeting(s)
Mr. Jiong GU *(Chairman)*	4/4
Dr. Yizhen WEI	4/4
Ms. Lin HUA	4/4

The Company's annual results for the year ended December 31, 2019 have been reviewed by the Audit Committee.

Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors, namely Ms. Lin HUA, Dr. Yizhen WEI and Dr. Ru Rong JI. Ms. Lin HUA is the chairman of the committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management.

The Remuneration Committee held 1 meeting during the Reporting Period to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive Directors and senior management, and other related matters.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended December 31, 2019 is as follows:

	Number of employee(s)
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	1
HK$2,500,001 to HK$3,000,000	–

Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements in this annual report.

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

Name of Members of the Remuneration Committee	Attendance/ Number of Meeting(s)
Ms. Lin HUA *(Chairman)*	1/1
Dr. Yizhen WEI	1/1
Dr. Ru Rong JI	1/1

Nomination Committee

The Nomination Committee consists of three Directors, namely Dr. Jinzi Jason WU, Dr. Ru Rong JI and Ms. Lin HUA. Dr. Jinzi Jason WU is the chairman of the committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Nomination Committee are to make recommendations to our Board regarding the appointment of Directors and Board succession.

The Board has adopted a board diversity policy on December 27, 2018. A summary of the Board Diversity Policy is set out below:

Purpose:	The Board Diversity Policy aims to set out the approach to achieve diversity of the Board.
Board Diversity Policy statement:	With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.
Measurable Objectives:	Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

The Nomination Committee has adopted a nomination policy which set out a set of nomination procedures and selection criteria for directors. The Nomination Committee shall evaluate and select candidates based on the criteria by reference to character and integrity, business experience relevant and beneficial to the Company, qualifications including professional qualifications, skills and knowledge that are relevant to the Company's business and corporate strategy, willingness to devote adequate time to discharge duties as a member of the Board and other significant commitments, present needs of the Board for particular expertise, skills or experience and whether the candidates would satisfy those needs, requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates for independent directors would be considered independent with reference to the independence guidelines set out in the Listing Rules and the board diversity policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board.

The Nomination Committee held 1 meeting during the Reporting Period to review, among others, the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of our Company, to assess the independence of the independent non-executive Directors, and to discuss the Directors who retired by rotation in accordance with the Articles of Association, being eligible, had offered themselves for re-election at the 2019 AGM of the Company.

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

Name of Members of the Nomination Committee	Attendance/ Number of Meeting(s)
Dr. Jinzi Jason WU *(Chairman)*	1/1
Dr. Ru Rong JI	1/1
Ms. Lin HUA	1/1

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 delegated the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covers all material controls, including financial, operational and compliance controls. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements. The Group's risk management and internal control systems provide a comprehensive and organized structure with clearly defined scopes of responsibilities, authorities and procedures. Each department of the Group is also required to adhere strictly to the Group's internal control procedures and report to the risk management and internal control team of any risks or internal control issues. The Group would conduct self-assessment each year to confirm that all departments and the Group have properly complied with the risk management and internal control policy.

The Group has established an internal audit department, which carries out analysis and independent appraisal of relevant internal policies, including risk management and internal control policies to access operating risks and identify measures to minimize those risks; monitors and assesses the adequacy and effectiveness of the risk management system and internal control system of the Group regularly including the financial, operational and compliance controls; and reports to the Audit Committee and the Board on the audit results regularly and makes recommendations to the Board and the management to address the significant deficiencies of the system or problems that identified during the monitoring process.

Any internal control defects identified by the internal audit department will be communicated to the department in question with advice for correction and remediation. Before the end of year, the status will be reviewed. The compliance department will also assist in the correction and remediation. Any unresolved control defects at the end of the year will be informed to the management. For the year ended December 31, 2019, no material internal control defect was detected.

Arrangements are in place to facilitate employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be led by the Board. Unless duly authorized, all staff members of the Company shall not disseminate inside information relating to the Group to any external parties and shall not respond to media report or market speculation which may materially affect the trading price or volume of the Shares.

During the year ended December 31, 2019, the Board, as supported by the Audit Committee as well as the management and internal audit department of the Group, reviewed the risk management and internal control systems of the Group and considered that such systems are effective and adequate. Audit Committee has reviewed and considered that the internal audit department of the Group had adequate resources to carry out the assessment and the effectiveness of the risk management and internal control systems for the Reporting Period. The annual review also covered the financial reporting and staff qualifications, experience and relevant resources.

Corporate Governance Report

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 Auditor's Report on pages 92 to 96 of this annual report.

DIVIDEND POLICY

The Company has adopted a dividend policy on December 27, 2018 which is in accordance with the relevant provisions of the Articles of Association. Pursuant to the dividend policy, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. The Board may also pay half-yearly or at other suitable intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the financial conditions and the profits available for distribution justify the payment. The Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of the Company as it thinks fit. Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In case of the Board elects to pay the dividend in shares, the Company shall abide by the provisions of the Articles of Association of the Company on scrip dividends.

Corporate Governance Report

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company, Ernst & Young, 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	2,180
Non-audit Services	–
TOTAL	2,180

COMPANY SECRETARY

The Company has engaged SWCS Corporate Services Group (Hong Kong) Limited, external service provider, and Mr. Lok Kwan YIM has been appointed as company secretary. Its primary contact person at the Company is Lingjie JIANG, the senior supervisor of the Company.

During the Reporting Period, Mr. Lok Kwan YIM attended sufficient professional training as required under the Listing Rules for the year ended December 31, 2019 to update his skills and knowledge.

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

Pursuant to article 64 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the written requisition of one or more members deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) 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.

Corporate Governance Report

SHAREHOLDERS' RIGHTS (Continued)

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person other than a Retiring Director for Election as a Director" of the Company which is posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. 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:	12/F, Building 3, No. 371 Mingxing Road, HIPARK, Xiaoshan District, Hangzhou, Zhejiang Province, PRC
Fax:	+86 571-85389730
Email:	ir@ascletis.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 INVESTORS

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.

The Company maintains a website at www.ascletis.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

CONSTITUTIONAL DOCUMENTS

During the Reporting Period, there is no change in the Company's constitutional documents.

Environmental, Social and Governance Report

1. ABOUT THE REPORT

This Environmental, Social and Governance Report (the "**ESG Report**" or the "**Report**") aims to present the environmental, social and governance performance of Ascletis Pharma Inc. (hereinafter the "**Ascletis**") and its subsidiaries (collectively the "**Group**" or "**we**") during the year of 2019. This is the second ESG report published by Ascletis.

Basis for Preparation

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**Guide**") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with scope and contents that comply with the disclosure principles under the Guide.

Reporting Period and Scope

The content of the Report mainly focuses on the core businesses of the Group, embodies the Group's fulfillment of ESG principles from January 1, 2019 to December 31, 2019 (the "**Year**" or the "**Reporting Period**") and fulfill the overall performance of CSR. Unless otherwise specified, the Report covers the directly controlled businesses.

Languages for the Report

The Report is available in both Chinese and English. If there are inconsistencies between the English and Chinese versions, the English version shall prevail.

Report Publications

The report is available online. The online edition of the Report is available for review and downloading at the website of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the official website of the Company (www.ascletis.com).

Contact Details

Shareholders may send their enquiries to the following:

Address of the Corporate Headquarter: 12/F, Building 3, No. 371 Mingxing Road, HIPARK, Xiaoshan District, Hangzhou, Zhejiang Province, PRC
Fax: +86 571-85389730
Email: ir@ascletis.com

Environmental, Social and Governance Report

2. GOVERNANCE SYSTEM

2.1 About the Group

Ascletis is an innovative R&D driven biotechnology company with two commercial products and listed on Hong Kong Stock Exchange (Ascletis, 1672.HK). Ascletis is committed to developing and commercializing antiviral, steatohepatitis, and tumor-related innovative drugs for unmet medical needs in China and globally. Led by a management team with deep expertise and a proven track record, Ascletis has developed into a fully integrated platform covering the entire value chain from discovery and development to manufacturing and commercialization. Ascletis' pipeline is focused primarily on three therapeutic areas: (1) HCV: one commercial stage product, one near commercial stage drug and two R&D stage drug candidates. Ganovo® (Danoprevir) is the first direct-acting anti-viral agent for Hepatitis C, developed by a domestic firm in China. (2) HBV: one commercial stage product and three R&D stage drug candidates. Pegasys® (Peginterferon alfa-2a) is a leading marketed pegylated interferon for Hepatitis B&C partnered with Roche. (3) NASH (non-alcoholic steatohepatitis): three R&D stage drug candidates against three different targets for combination treatments.

2.2 Corporate Culture

The Group establishes our own corporate culture to show our devotion in fulfilling corporate social responsibility and to drive the success of our business development in a sustainable way. In 2019, we developed our new version of mission, vision and core values to guide us in driving the sustainable growth of our business and how we work together with our domestic and global partners in adhering to the concept of corporate social responsibility.

Mission	• Innovative cures liberate life to the fullest
Vision	• To become the most innovative world-class biomedical company
Core values	• Integrity, Courage, Excellence, Collaboration

To focus on our core values build-up and the derivative actions, the Group organized a series of workshops and activities for our management and our staff this year to make commitment in practicing our core values with actions. We organized "Courtesy Achievement Camp" (禮致營) for our management to discuss the formulation of core values. All of our employees participated in our MVV workshop to learn, discuss and practise our core values.

Environmental, Social and Governance Report

MVV workshop

Awards and Honors of the Year

The innovative and outstanding performance of the Group in developing and commercializing new drugs are highly recognized by various organizations and media. In 2019, we won a series of awards and honors in view of our innovation development and influence on the industry. Our awards and honors received in 2019 are listed below.

Awards and Honors	Awarded Entity	Awarded by	Awarding Time
China's Top Ten Innovative Companies in 2019 (2019年度中國創新傑出企業)	Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司)	Economic Media Association of China (中國經濟傳媒協會)	December 2019
Outstanding Public Welfare Enterprise Award of 2019 Healthy China (2019健康中國優秀公益企業獎)	Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司)	2019 Organizing Committee of Big Health Forum – Chinese Patient Assistance Union (2019大健康論壇組委會中國患者援助聯盟)	November 2019
The 10th Science and Technology New Zhejiang Merchants (第十屆科技新浙商)	Dr. Jinzi J. Wu, Founder, Chairman and CEO of Ascletis	Science Technology Department of Zhejiang Province (浙江省科技廳), Chinese Academy of Science and Technology for Development (中國科技發展戰略研究院), Local Financial Regulatory Bureau of Zhejiang Province (浙江省地方金融監管局), Hangzhou Customs (杭州海關), Banking and Insurance Regulatory Bureau of Zhejiang Province (浙江省銀保監局)	November 2019

Environmental, Social and Governance Report

Awards and Honors	Awarded Entity	Awarded by	Awarding Time
2019 Top 100 Pharmaceutical Innovative Enterprises in China (2019中國醫藥創新企業100強)	Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司)	Healthcare Executive Research Centre (E藥經理人研究院)	October 2019
Leading Company in Pharmaceutical Industry during 70 Years since PRC Establishment (新中國成立70周年醫藥產業驕子企業)	Ascletis Pharma Inc. (歌禮製藥有限公司) and Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司)	20 Associations of Chinese Pharmaceutical Industry (中國醫藥行業20家協(學)會)	October 2019
Medicine Technology Innovative Platform (藥物技術創新平台)	Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司)	Major Project Implementation Management Office of National Major New Drug Innovation Technology (國家重大新藥創制科技重大專項實施管理辦公室)	September 2019
Top 10 IPO in Zhejiang Province (浙江省十大IPO)	Ascletis Pharma Inc. (歌禮製藥有限公司)	Zhejiang Investment and M&A Association (浙江省併購聯合會)	July 2019
New Drug Industry Adjunct Researcher of Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所新藥產業兼職研究員)	Dr. Jinzi J. Wu, Founder, Chairman and CEO of Ascletis	Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所)	February 2019

Environmental, Social and Governance Report

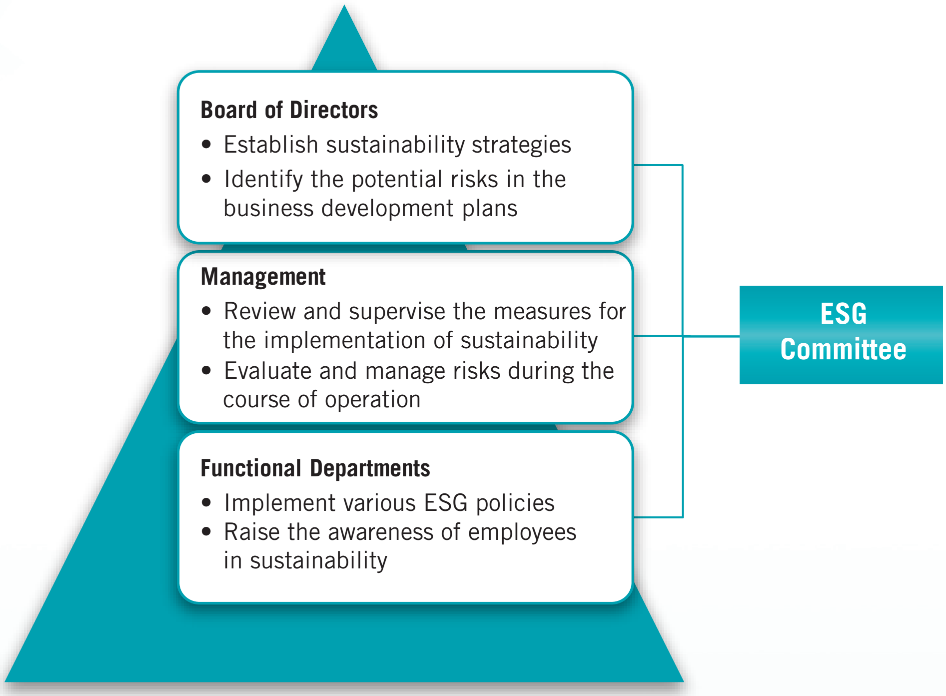
Awards and Honors	Awarded Entity	Awarded by	Awarding Time
Top 10 Medicine technology News in 2018: Danoprevir (Category 1 new drug) Received NDA Approval 達諾瑞韋獲批成為年底上市一類新藥的相關報道為2018年度中國十大醫學科技新聞	Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司)	Health News《健康報》社	January 2019
Development and Construction Award of Shaoxing Binhai New City (紹興濱海新城開發建設獎)	Dr. Jinzi J. Wu, Founder, Chairman and CEO of Ascletis	CPC Shaoxing Binhai New City Work Committee (中共紹興濱海新城工作委員會), Shaoxing Binhai New City Administrative Committee (紹興濱海新城管理委員會)	January 2019
New Economic Figure of 2018 (2018年度新經濟人物)	Dr. Jinzi J. Wu, Founder, Chairman and CEO of Ascletis	Qianjiang Evening News (錢江晚報)	January 2019

2.3 Governance Structure

While developing and commercializing our innovative and best-in-class drugs, we devote ourselves to driving our success in CSR. We have established the Environmental, Social and Governance ("**ESG**") committee since 2018 to better identify and manage relevant risks in ESG and drive the efficient implementation of various ESG policies across the various departments. Ascletis makes great effort to incorporate the ideas of sustainable development into the overall strategy, policy and business plans of the Group.

The Board of Directors of Ascletis takes the full responsibility for ESG strategies and reporting and leads the ESG Committee comprised of the executive directors, the person-in-charge of ESG and representatives from all major departments of the Group. The ESG Committee is responsible for coordinating and determining the ESG risk management and internal monitoring systems within the Group.

Environmental, Social and Governance Report



ESG Structure

The major responsibilities of the ESG Committee are clearly stated in the rules governing the ESG Committee which include:

- Identifying the ESG issues which have significant impact on our operations, shareholders and other major stakeholders of the Group, including but not limited to quality of working environment, environmental protection, operating practices, community activities and welfare, as well as developing corresponding control initiatives;
- Identifying stakeholders' major ESG concerns in appropriate ways and responding in a timely manner;
- Preparing annual working report of the Committee and submitting to Chairman for Group's ESG performance improvements;
- Responsible for formulating and refining the Group's ESG policies and promoting implementation across all departments;
- Ensuring that the Group is in compliance with the relevant legal and regulatory requirements so that it can monitor and respond to latest ESG policies and issues;
- Maintaining the operation of the Group's management system for social responsibility and raising the social awareness of employees.

Environmental, Social and Governance Report

Sustainable Development Policy

To enhance our performance and measures in environmental and social aspects and exhibit our devotion in providing sustainable development services, the Group develops the Sustainable Development Policy. This policy integrates the concept of sustainable development into our business decision making and daily operations. It covers our sustainable development management approach towards five aspects, including environmental management, operational practices, employee rights, community investment and stakeholder engagement. To ensure the implementation of this policy in a proper way, our ESG Committee continues to monitor and review the actual execution status of this policy and the implementation progress of each sustainable development measure. Our ESG Committee is responsible for assessing the environmental and social impact of the Group's business operations and setting sustainable development goals to continuously improve our sustainability performance and minimize potential negative impacts on the environment and society. Through various internal communication channels and the ESG report published each year, we disseminate the information related to this policy to our employees and the external stakeholders and report our environmental and social performance.

Environmental, Social and Governance Report

2.4 Managing Corruption Risks and Promoting Integrity

The Group is highly concerned about operation compliance, managing corruption risks and promoting integrity. We are committed to complying with the relevant laws and regulations of the places where we operate, including the Criminal Law of the People's Republic of China (《中華人民共和國刑法》) and the Anti-unfair Competition Law (《反不正當競爭法》). We have established Anti-Corruption Policy (《反腐敗政策》), Expense Reimbursement Management System (《費用報銷管理制度》) and Employee Code of Conduct (《員工行為準則》) to ensure strict compliance with the relevant laws and regulations by all of our employees and agents. We prohibit any payment to government officials by our employees and agents for obtaining or retaining business or conducts. To further ensure our agents, business partners and suppliers to adhere to ethical practices in our business and not attempt to improperly influence others by paying or accepting bribes or kickbacks in any form, we require them to sign the anti-bribery commitments (《反賄賂承諾》) and annual compliance letter (《年度合規函》) when they are doing business with us.

We implement zero-tolerance policy towards any illegal act such as bribery, blackmail, fraud and money laundering to prevent business corruption. To promote the code of conduct of our employees, we provided various anti-corruption related trainings to our new and existing employees in 2019, including anti-corruption knowledge and prevention, our compliance policy, internal audit knowledge and commercial compliance provisions of the new drug management law.

In addition, we have developed a whistleblowing and reporting channel with a dedicated e-mail address for employees to report any illegal acts such as money laundering and corruption of employees, business partners and suppliers. During the year, there was no record of illegal acts such as corruption, bribery, extortion, fraud and money laundering involving the Group or our employees.

2.5 Stakeholder Engagement

The Group acknowledges the importance of various stakeholders, including employees, medical experts, distributors and other business partners, investors/shareholders, customers, government and regulatory bodies, suppliers and the general public, in achieving our success. The Group considers that effective communication with stakeholders is essential and endeavors to maintain on-going and proactive dialogues with stakeholders. We determine the scope that falls within ESG in the Report.

Key stakeholders	Expectations and needs	Main communication channels
Shareholders and Investors	Compliant and sound operation Good return on investment Effective risk management Protection of intellectual property right	General meetings Interim and annual report Investor meetings Senior management meetings Corporate communications Results announcement

Environmental, Social and Governance Report

Key stakeholders	Expectations and needs	Main communication channels
Government and regulatory bodies	Facilitating economic development Supporting communities and livelihood Efficient corporate governance Resources utilization Waste management	Forums Pharmaceutical development policy consultation Communications with medical department Written response to enquiries On-site visits Compliance report Meetings
Patients	Quality control Protection of patients' safety Protection of patients' privacy	Patient satisfaction survey and feedback forms Customer service Daily operation/ communications Company website Email and hotline of the Company
Employees	Job stability Benefits and remuneration Safe working environment Career progression	Staff opinion survey Channels for staff to express opinions Performance assessment Group discussions Publications for staff communication Staff communication meetings Staff intranet
Suppliers	Fair procurement	Regular meetings On-site visits Supplier management procedure Supplier assessment system
Community and the public	Promoting social harmony Supporting charitable activities Promoting energy conservation and emission reduction	Charity activities Community activities Seminars/workshops/ meetings

Materiality Assessment

To identify the key areas of ESG implementation and disclosure, enhance the focused points and responsiveness of the report, we appointed an independent consultant to carry out the materiality assessment of ESG issues. Different points of view and key concerns of both internal and external stakeholders towards our ESG works are collected in the form of questionnaire, together with the results of different stakeholders through various communication channels, we conduct a materiality analysis and the results of materiality matrix are showed as follows:

Environmental, Social and Governance Report

ESG Materiality Matrix

High materiality topics:

	ESG related topic	Category
1	Innovative R & D	Innovation-Driven and Collaborative Cooperation
2	Operation compliance	Commitment to Quality and Integrity
3	Anti-corruption	Commitment to Quality and Integrity
4	Product quality management	Commitment to Quality and Integrity
5	Intellectual property protection	Innovation-Driven and Collaborative Cooperation
6	Product safety assurance	Commitment to Quality and Integrity
7	Risk management	Commitment to Quality and Integrity
8	Production safety management	Commitment to Quality and Integrity
9	Protection of patients' interests	Commitment to Quality and Integrity
10	Employee's health and safety	Talent Management

Environmental, Social and Governance Report

Medium materiality topics:

	ESG related topic	Category
11	Supply chain management	Commitment to Quality and Integrity
12	Waste management	Environmental Protection for a Green World
13	Emissions reduction	Environmental Protection for a Green World
14	Customer service and communication	Commitment to Quality and Integrity
15	Monitoring on product information and advertising	Commitment to Quality and Integrity
16	Employment equality	Talent Management
17	Training and development of employees	Talent Management
18	Protection of environment and natural resources	Environmental Protection for a Green World
19	Employees' rights	Talent Management
20	Greenhouse gas emissions	Environmental Protection for a Green World
21	Water resources management	Environmental Protection for a Green World
22	Prevention on child and forced labor	Talent Management
23	Energy saving	Environmental Protection for a Green World

Low materiality topics:

	ESG related topic	Category
24	Climate change mitigation	Environmental Protection for a Green World
25	Participating in charity	Commitment to Quality and Integrity

From the above results of materiality matrix, Ascletis works out our direction in ESG key concerns, consisting of "Innovation-Driven and Collaborative Cooperation", "Commitment to Quality and Integrity", "Talent Management" and "Environmental Protection for a Green World". This report will focus on these four aspects to reflect our focuses and contributions in ESG.

Environmental, Social and Governance Report

3. INNOVATION-DRIVEN AND COLLABORATIVE COOPERATION

3.1 Innovative R&D Activities

Ascletis' R&D pipeline consists of first/best-in-class drug candidates from antibody-based immunotherapy, small molecules and siRNA at various preclinical and clinical development stages, addressing unmet medical needs in three therapeutic areas: viral, cancer and fatty liver diseases. Among 12 R&D drug candidates, 7 of them are in-house developed and the other 5 are licensed from Big Pharma and leading biotechnology company.

For anti-viral therapeutic area, ASC22 is a first-in-class, Phase II-ready programmed cell death ligand-1 (PD-L1) monoclonal antibody to treat Hepatitis B and other viral diseases. IND of ASC22 was approved on January 22, 2020 by NMPA to conduct clinical trials in Hepatitis B patients. During Corona Virus Disease 2019 (COVID-19) outbreak, to date there are three investigator-initiated, hospital-ethics committee approved clinical trials: One with Danoprevir/ Ritonavir; two with ASC09/Ritonavir fixed-dose combination (FDC).

Environmental, Social and Governance Report

For non-alcoholic steatohepatitis (NASH) therapeutic area, ASC40 is a first-in-class, small molecule fatty acid synthase (FASN) inhibitor for NASH and is currently in its Global Phase II Clinical Trial whose data is expected in the third quarter 2020. Another drug candidate, ASC41, an orally bioavailable, highly selective small molecule THR-ß agonist for the treatment of NASH is developed in-house by the Group, which is expected to be used in combination with ASC40.

In addition, we have three wholly-owned, in-house developed pre-clinical programs. Two are to aim to achieve high functional cures for Hepatitis B. One is to develop breakthrough therapies for NASH.

3.2 Intellectual Property Protection

As an innovative-driven company, Ascletis values the protection of intellectual property and is zero-tolerant of any infringement on intellectual property rights. The Group strictly complies with laws and regulations in relation to intellectual property such as the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》). We formulate the Administrative Measurements for Intellectual Property (《知識產權管理辦法》) and the Rules for Research and Development Management (《研發管理制度》) with reference to the relevant laws and regulations to standardize and strengthen our internal management on intellectual properties with our rules and systems.

We rely on employees and various regulations, confidentiality agreements and applications for patents in protecting our intellectual property rights such as confidential data, professional know-how and other proprietary information. In R&D activities and business activities, we protect proprietary information with our confidentiality agreements and patents. For example, every employee is required to sign a confidentiality agreement and an invention assignment agreement. Our confidentiality agreements and invention assignment agreements are carefully drafted to protect our proprietary interests.

In addition, we require that all publicly available products and business information shall be examined strictly. We also ensure that all advertisements used for brand promotion shall deliver complete, true and accurate information to the public without any false or misleading product descriptions and acts such as infringement upon others' rights such as intellectual property rights, patent rights, and copyrights.

In addition to requirements for intellectual property rights, we also strictly standardize the code of operation for external suppliers. In our cooperation with external suppliers, we will enter into confidentiality agreements. In addition, suppliers shall guarantee that all the technological and development achievements obtained during the cooperation will not infringe upon legitimate rights of any third party such as the legal patent rights, trademarks and copyrights.

Environmental, Social and Governance Report

4. COMMITMENT TO QUALITY AND INTEGRITY

4.1 Product Quality Management

4.1.1 Product Quality

The Group strictly complies with the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), Good Manufacturing Practices for Pharmaceutical Products (《藥品生產質量管理規範》) and Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範》), which provide the legal framework for compliant operations of enterprises engaged in manufacturing, sales and quality management of drugs.

Our Wide Dimensions in Quality Assurance

Industry Norms

- Our production base strictly complies with the most stringent cGMP regulations in all stages from design, construction and operation

Quality Assurance

- We have adopted a wide range of high-end equipment and advanced production technologies at global level to ensure that all of our pharmaceutical products are of high quality

International Standards

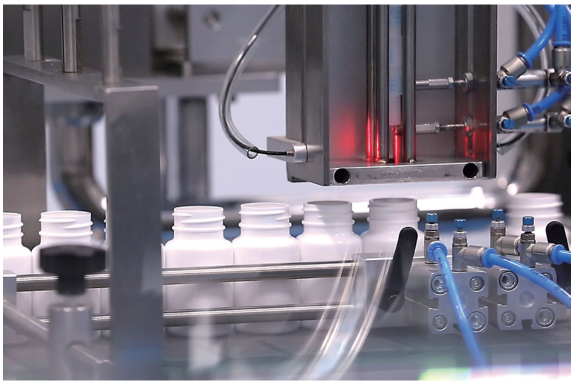
- To ensure our production quality and management system to maintain international standard with the equivalent standard requirements of international pharmaceutical companies

Ensure Production Capacity

- Sufficient production capacity to ensure consistent supply of our drugs for clinical treatments

The Group considers product quality and safety as key elements of our business, we establish various quality management procedures and systems from suppliers, manufacturing process, laboratory test to finished goods to manage the quality throughout the whole product life cycle to ensure our product quality. We make improvements continuously to our product quality and optimizing the quality control management system.

Environmental, Social and Governance Report



Our GMP Manufacturing Facilities

Excellent Quality Assurance

中华人民共和国

药品经营质量管理规范认证证书

证书编号：A-ZJ19-208

企业名称：歌礼欣诺医药（杭州）有限公司

地　　址：浙江省杭州市萧山区经济技术开发区明星路371号3幢1101室

认证范围：药品批发

经审查，符合《药品经营质量管理规范》要求，特发此证。

发证机关：浙江省药品监督管理局

有效期至 2024 年 10 月 28 日　　　2019 年 10 月 29 日

国家食品药品监督管理总局制　№ 00694163

Certificate of GSP for Pharmaceuticals Products

In November 2019, one of our subsidiaries, Ascletis XinNuo Medicine (Hangzhou) Co., Ltd. obtained the Pharmaceutical Business License (《藥品經營許可證》) and the Certificate of Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範認證證書》) (referred to GSP certificate for drugs) issued by Zhejiang Medical Products Administration.

Environmental, Social and Governance Report

4.1.2 *Monitoring on Product Information and Advertising*

As integrity is one of our core values, the Group prohibits any fraud, false or hidden of information. For packaging, labelling and advertising of drugs, we strictly comply with relevant laws and regulations to ensure the safety of patients.

Pharmaceutical Packaging

The Group complies with the Measures for The Administration of Pharmaceutical Packaging (《直接接觸藥品的包裝材料和容器管理辦法》) to ensure that the packaging for all of our drugs is in compliance with national and professional standards. When national or professional standards are not available for reference, we will develop our corporate standards which will be implemented upon approval by the food and drug authorities at provincial level and the relevant regulatory authorities. We will file the application with the relevant authorities for approval when changes to the standards for packaging are required.

The Group complies with the Provisions on the Administration of Pharmaceutical Directions and Labels (藥品說明書和標籤管理規定), which stipulates that the pharmaceutical directions and labels of drugs should be reviewed and approved by the National Medical Products Administration. Our pharmaceutical directions include the scientific data, conclusions and information concerning drug safety and effectiveness according to relevant provisions, in order to ensure the safe and rational use of drugs. We strictly follow the relevant provisions, to make sure the inner labels of drugs include information such as the drug's name, indication or function, specification, dose and usage, production date, batch number, expiry date and drug manufacturer, and the outer labels of drugs indicate information such as the drug's name, ingredients, indication or function, specification, dose and usage, adverse reaction, batch number, expiry date and drug manufacturer.

Drug Advertisements

The Group complies with the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and the Measures for the Examination of Drug Advertisements (《藥品廣告審查辦法》). We obtain approval document numbers for all advertisements relating to our drugs upon approval by competent authorities to ensure all the contents shown in the drug advertisement are true and legal. We will file new applications for approval to obtain approval document numbers for advertisements for our drugs relating to approval when alteration to the content of such advertisements is required.

Environmental, Social and Governance Report

4.2 Product Safety Assurance

As the Group highly values the health and safety of our patients, product safety assurance is one of our utmost concerns in our business. In accordance with the Measures for the Administration on Reporting and Monitoring of Side Effect of Pharmaceuticals (《藥品不良反應報告和監測管理辦法》), the Inspection Guidelines for the Administration on Reporting and Monitoring of Side Effect of Pharmaceuticals (Trial) (《藥品不良反應報告和監測檢查指南(試行)》) and the Announcement on the Direct Reporting of Adverse Reactions by the Licensee of Marketed Drugs issued by China Drug Administration (2018 No. 66) (《國家藥品監督管理局關於藥品上市許可持有人直接報告不良反應事宜的公告(2018年第66號)》), we formulate the Management Procedure of Drug's Safety Information Report (《藥品安全性信息報告管理制度》) to strengthen the safety management of products at various clinical stages and in the market.

For any medical case in relation to adverse reactions suffered by patients or clinical subjects who received drug treatment, we carry out the procedures as specified by our management system for adverse reactions to the drugs to determine if the side effects are related to the use of the drug. Employees of our Group are required to report such case of adverse reactions to the pharmacovigilance department in a timely manner within one business day when they become aware of any adverse reactions as a result of use of the Group's products (and any case of death and group adverse reactions to a drug must be reported to the pharmacovigilance department immediately). The pharmacovigilance department will complete preliminary investigation and inspection, data entry, quality control of data, conduct medical assessment and evaluation for the case and handle procedures such as appealing and reporting.

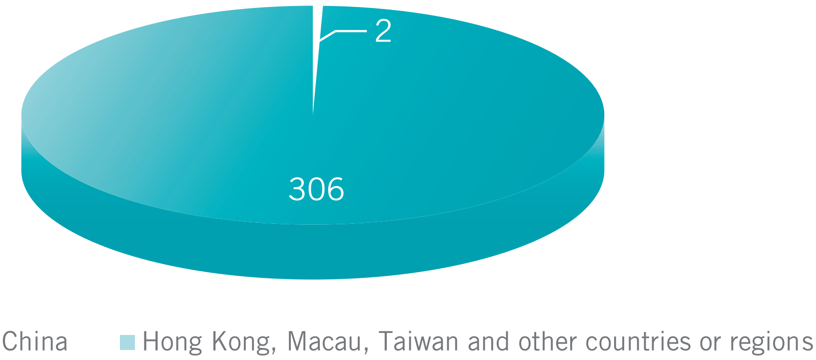
To ensure the quality and safety of our products and to safeguard the rights and interests of our patients, we develop the management procedures for rejected materials, returned goods and emergency recall. We carry out quality assessment of the returned goods and determine the handling methods in order to improve our product quality and safety continuously. During the reporting year, the Group did not record any recall of products sold or delivered by us due to safety and health issues.

4.3 Supply Chain Management

As a group focusing on developing and commercializing innovative and best-in-class drugs, it is our top priority to have excellent supply chain management to guarantee the quality of our suppliers and products. To standardize and manage effectively our selection procedure of suppliers, the Group formulates Procurement Management Measurements (《採購管理制度》), Tender Management Standard Operating Procedure (《招標管理標準操作流程》) and Supplier Quality Management Procedure (《供應商質量管理程序》) and Distributor and Pharmacy Management Standard Operating Procedure (《經銷商及藥店管理標準操作流程》).In addition to factors such as product and service quality, technology standard, reputation and cost, there are important considerations for the suppliers and distributors to have commitment to environmental and social responsibilities, such as environmental, health and safety status. To continue monitoring the performance of our supply chain in an all-round manner, we also established Supplier Quality Audit Procedure (《供應商質量審計程序》). Furthermore, to ensure the ethical standard of our supply chain, all of our vendors, suppliers, subcontractors and distributors that have significant business relations with any company of the Group are required to make the Anti-bribery Commitments and issue us the Annual Compliance Letter. We also enter into confidentiality agreements with suppliers for technical cooperation.

Environmental, Social and Governance Report

Number of Suppliers*



*Note: The number of suppliers includes those of producers, distributors, purchasing agents, traders and suppliers for indirect procurement.

4.4 Protection of Patients' Interests

4.4.1 Protection of Patients' Privacy

The Group places high importance to information security and privacy protection of the patients and trial subjects. To enhance information security, we establish Computer Active Directory (AD) Network User Management Regulation (《計算機AD網絡用戶管理規範》) to manage the user access authority of specific data and information, data security and intranet security. Only the relevant departments may have the authority of access to the information of the patients and our employees are required to obtain approval from their supervisors for accessing to the information of the patients.

We specify with the collection, use and disclosure of information of patients and trial subjects and the ways of maintaining such information are carefully monitored and controlled. Every trial subject needs to sign the informed consent form before trial to make sure that they recognize the purpose, details and risks of the trials. Each of our employees is required to enter into a confidentiality agreement at the time of joining the Group to protect the privacy of the patients.

4.4.2 Emphasis on Patients' Interests

The Group treasures patients' opinions and interests. We have established various channels for patients or their families to express opinions or complaints, such as email, hotline and letter. To standardize our customer service procedure, we formulate the Product Complaints and Consultation Management Measurements (《產品投訴和諮詢的管理制度》), Operation Procedure of Dealing with Complaints (《產品投訴處理操作規程》) and the Operation Procedure of Dealing with Medical Consulting (《醫學諮詢處理操作規程》) and we follow the established procedures of handling complaints, enquiries and opinions. Upon receipt of inquiries, complaints or issues on drug adverse reaction, the relevant departments will contact the patients in time to follow through on the situation, claims, key facts and reasons of the complaint, and ensure that the opinions and complaints received are responded and followed up properly and in a timely manner. We review and optimize the product complaints and consultation management system on a regular basis in order to protect patients' interests and maintain the reputation of the Group.

Environmental, Social and Governance Report

4.5 Repaying Community

The Group spares no effort to promote community services and perform its corporate social responsibilities. We organize, promote and support our employees in engaging voluntary services, and provide drug donations to patients. During the year, the Group made total donations of RMB57,871 thousand through RAH Charity Foundation to Hepatitis C patients for them to get effective and timely treatment and relieve patients' burden on their family and society.

We communicate and interact with various social sectors through organizing and participating in numerous activities to build, grow and sustain social communities. We are committed to promoting the development of new innovative drugs in China and continue to make contributions towards sustainable social communities. Moving onwards, we will explore more community services and charitable activities for helping more people in need through various channels.

5. TALENT MANAGEMENT

We understand that employees are our most valuable assets and the cornerstone for the success of our Group. We adhere to the "Human-Based" management philosophy to allow for career advancement considerations with our employees. The Group strictly complies with the relevant laws and regulations in the places where we operate, including but not limited to the Employment Ordinance (《僱傭條例》) in Hong Kong and the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) in Mainland China.

5.1 Talent Employment

We have adopted policies to provide and ensure a harmonious, tolerant, fair and non-discriminatory working environment. We strictly comply with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other relevant laws and regulations, and formulate our human resources policies in accordance with the relevant laws and regulations related to employment.

As of December 31, 2019, the Group had a total of 327 employees, over 65% of our employees were holders of bachelor's degree or higher level of academic qualifications and over 14% of our employees were holders of master's degree or higher level of academic qualifications. The details of our employees are set out in Appendix I: Sustainability Data Statement.

Recruitment Management System

To recruit suitable talents effectively for our business development strategy, we formulate the Recruitment Management System (《招聘管理制度》). Our Human Resources Department implements the recruitment process based on the recruitment plan for the year. The Group recruits employees through various channels such as recruitment websites, newspapers advertisement, recruiters, internal referrals and job fairs. No matter it is external or internal recruitment, we follow the basic principles of "openness, justice and fairness" regardless of gender, nationality and race to select appropriate candidates by considering their education background, experience and skills of the applicant. For every successful candidate, our human resources department carries out background check and examines carefully their age, identity and qualifications of candidates before signing employment contract to prevent employment of child labor. The Group enters into employment contracts with the employees which cover remuneration, benefits, basis of termination and other matters to ensure no forced labor. During the year, no child and forced labor was found in the Group.

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Stability of Employees

As we treasure, respect and take care of every employee, any discrimination or harassment is strictly prohibited in the Group. In order to reduce the employee turnover rate, we proactively conduct face-to-face interviews with departing employees to understand relevant reasons to enable corporate management improvements.

5.2 Employee's Health and Safety

We adhere to providing a safe and healthy working environment to our employees. We strictly comply with the relevant laws and regulations related to occupational health and safety, including but not limited to the Fire Control Law of the People's Republic of China (《中華人民共和國消防法》) and the Provisions on the Supervision and Administration of Fire Protection of Construction Projects (《建設工程消防監督管理規定》).

Clean and Safe Working Environment

We dedicate to protecting the health and safety of our employees and formulate the Environmental, Health and Safety (EHS) Handbook to manage the health and safety aspects of the Group. All-round health and safety aspects, including fire safety, occupational disease prevention, handling measures of dangerous goods and chemicals, hidden danger checking and emergency measures, are well controlled and monitored.

To ensure a safe working environment for our employees, we establish Fire Safety Management Regulation and set up a series of guidelines to regulate the safety use and management of fire, electricity, dangerous goods and gas and electrical appliances. We use construction materials with fire-proof performance that meet the standards specified by the Fire Control Law of the People's Republic of China(《中華人民共和國消防法》) and the Provisions on the Supervision and Administration of Fire Protection of Construction Projects (《建設工程消防監督管理規定》). We carried out regular fire drill in accordance with the requirement of the fire-control authorities to enhance the fire prevention awareness of all employees and continuously improve our fire evacuation equipment. In addition, smoking is prohibited in the working places of the Group for a safe and clean working environment for our employees.

Fire drill – fire fighting practice

Fire drill – on-site rescue

Environmental, Social and Governance Report

Safety Trainings and Handling Occupational Health Accidents

To enhance the safety awareness of employees, we offer various safety trainings to our employees this year. In June 2019, we organized a series of safety month activities including fire knowledge training, fire safety training with case studies and safety knowledge competition. Besides, we develop the response plans for emergency cases and provided lightning safety training and accident case studies training, communicate with our employees on the potential risks in the workplace and provide relevant education and training on safety, including safety rules and contingency measures.

Quality and safety training

Free Physical Health Examination

To ensure health of the employees, all employees are entitled to free physical health examination in a regular basis.

Workplace Safety Track Record

During the year, the Group did not have any accident involving work-related death or injury of employees.

5.3 Benefits of Employees

To attract and retain talents of high caliber, the Group is committed to providing fair and competitive remuneration and benefits to employees. We formulate the Employee Handbook and update the policy of benefits and remuneration on a regular basis to keep the benefits and remuneration at an appropriate and market competitive level. The Group makes contributions to social insurance and housing provident fund for its employees as required by the laws of the People's Republic of China, including pension insurance, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing provident fund.

We pay great attention to benefits for employees and strictly comply with the Labor Law of the PRC in making arrangements such as working hours and overtime pay for employees. We provide employees with benefits which are better than the minimum standard provided under the laws. We provide all employees with paid annual leave, sick leave, casual leave, maternity leave, wedding leave, bereavement leave and work-related injury leave. For general benefits, we provide employees with meal allowance, summer hot weather allowance, birthday and festival benefits, etc. The Group also organized festival activities for employees such as Women's Day theme activity and Christmas party.

Environmental, Social and Governance Report

Women's Day Theme Activity

Christmas Party

5.4 Cultural Events for Employees

The Group concerns about both mental and physical health of employees. We organize recreational events for our employees on a regular basis to alleviate work pressure and to develop the spirit of teamwork and cohesiveness. The Group organizes indoor events such as Corporate event for sixth anniversary and photography event in Mid-Autumn Festival, and outdoor events such as trips and outreaching activities to recognize outstanding performance of our employees, enhance their sense of achievement and sense of belonging to the Group.

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5.5 Training and Development of Employees

The Group is committed to employees' training and development for excellent team building and maintaining competitiveness of the Group. To expand horizons and enhance expertise, technical knowhow, quality and skills of the employees, we offer various types of training program to our employees, including internal training, external training, personal training, exchanges with fellows and site-visits. In 2019, we organized 583 trainings for our employees.

Internal Training

The Group attaches great importance to employees' training and development, in order to build an excellent team and maintain competitiveness of the Group. To maintain quality, expertise and skills of the employees, the Group provides employees with regular training, which includes introductory training for new employees, skill training, professional and general skills training, compliance training, and training on health and safety.

Exchanges with Fellows

We also encourage our employees to participate in seminars and sharing sessions held by external organizations to enrich their expertise. In addition, we provide employees with outstanding performance and great potential with opportunities for advanced studies and industry conferences. The Group conducts academic marketing activities to establish and maintain relationships with medical experts and key opinion leaders. We also maintain long-term cooperative relationships with several national academic associations. Through various activities, our employees may have exchanges with industry talents, which will help the Group to develop, market and sell its products more effectively.

Annual Performance Assessment

To drive business results, develop employee ability and ensure their quality, we develop an annual performance appraisal system. We appraise the performance of our employees annually on objective considerations such as business performance, management capabilities and cultural values in deciding year-end bonus, salary adjustment and promotion. Adopting the principle of "suitable talent fits for suitable job", we promote the employees with outstanding performance and strong ability.

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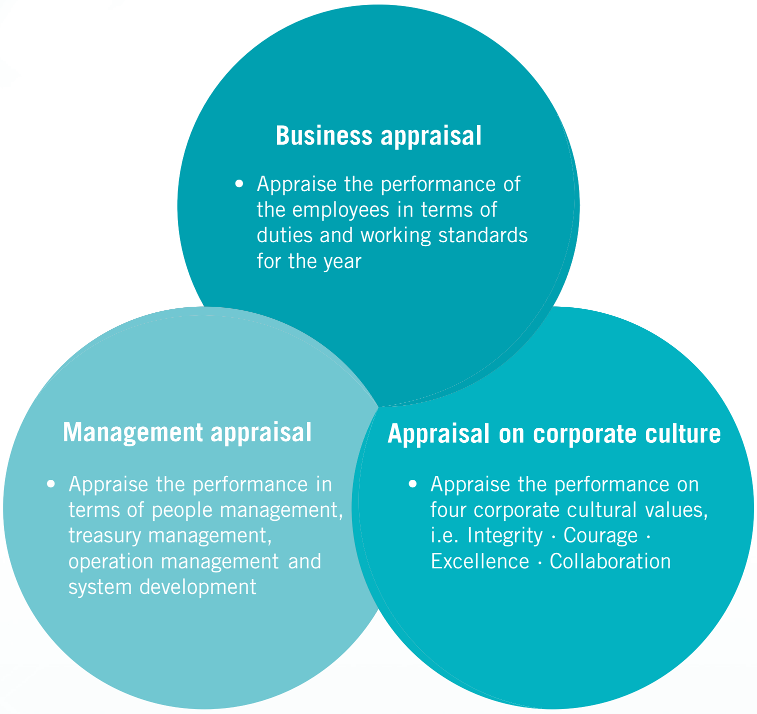

Annual Performance Appraisal System

6. ENVIRONMENTAL PROTECTION FOR A GREEN WORLD

6.1 Environmental Protection System Establishment

To assure proper implementation of environmental management system in the Group, apart from establishing the ESG Committee, the Group establishes the Sustainable Development System and related policy to continuously improve environmental management measures. Our Sustainable Development Policy regulates the environmental management measures of the Group in controlling and reducing its air emissions, greenhouse gas (GHG) emissions, effluent, use of resources and waste production. An annual review is conducted to assess the environmental performance and make appropriate adjustments or revisions to the related environmental policy if necessary. We establish an EHS Handbook to regulate the handling and controlling measures of air emissions, effluent and waste produced from the Group.

The Group strictly abides by relevant laws and regulations of the regions where the Group operates, such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》). In order to maintain good relationships with communities in the surroundings of the production base, the Group strives to save energy as much as possible in business operations, implements measures for water management and waste recycling, reduces greenhouse gas emissions and improves energy efficiency. During the year, there was no material incident affecting the environmental and natural resources nor any punishment and litigation in respect to environmental regulations.

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6.2 Emissions Management

Greenhouse Gas Emissions Inspection

In fulfilling China's responsibilities under the Paris Agreement and other related important policies such as the National Policies and Actions for Addressing Climate Change 2019 (《中國應對氣候變化的政策與行動2019年度報告》) and National Strategies on Adaptation to Climate Change (《國家適應氣候變化戰略》), the Group is also committed to minimizing the impacts arising from the risk of global warming. We carry out the inspection of greenhouse gas emissions of the Group's headquarters in accordance with the Greenhouse Gas Protocol jointly developed by the World Resources Institute and the World Business Council for Sustainable Development and ISO14064-1 developed by the International Standardization Organization. At the same time, we also refer to the suggestions of Task Force on Climate-related Financial Disclosures (TCFD) to disclose the status GHG emissions and energy usage transparently. We are committed to reducing the carbon footprint during the operations of the Group and implementing low carbon business.

Following the inspection, the Group's greenhouse gas emissions are divided into direct GHG emissions (Scope 1) and indirect GHG emissions (Scope 2 and Scope 3). Scope 1 refers to direct GHG emissions from sources that are owned or controlled by the Group. Scope 2 refers to indirect GHG emissions resulting from the generation of electricity, heating and cooling, or steam generated off site but purchased by the Group. Scope 3 refers to emissions that include indirect GHG emissions from sources not owned or directly controlled by the Group but related to our activities. GHG emissions in all scopes were originated from the fuel consumption of the Group and the fuel oil used by its vehicles (Scope 1), electricity consumption during operation (Scope 2) and waste landfill, paper consumption and business air travel (Scope 3), etc. A summary of GHG emissions during the year is described in Appendix 1.

Air Emissions

Our air emissions mainly come from the volatile organic compound (VOC) emissions arising from the production of new drug and emissions of nitrogen oxides (NOx), sulphur oxides (SOx) and particulate matters (PM) arising from our company vehicles. We adopt appropriate reduction measures of air emissions to reduce the influence towards the environment.

For VOC emissions, we adopt the process of spraying and regenerative thermal oxidizer (RTO) to treat the waste gas. After treating, the amount of air emissions can attain the national and local emission standard of air pollutants. For reducing vehicle emissions, we encourage our employees to travel by public transport. If company vehicle is necessary, we encourage more employees to share one vehicle when travelling to reduce the use of company vehicle.

Wastewater Discharge

Wastewater generated by the Group mainly comes from drug manufacturing processes, washing, untreated rainwater and domestic sewage. All types of wastewater will be treated by the sewage treatment station in the factory area to meet the required standard before discharge. Water discharged from recirculating cooling systems and sewage from water purification generated in the factory area is discharged directly to the sewage treatment plant in Shaoxing for centralized treatment and is discharged when effluent has met the required standards. The discharge of wastewater generated by the Group has met with the required standards for emissions at national level and local level.

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Disposal of Waste

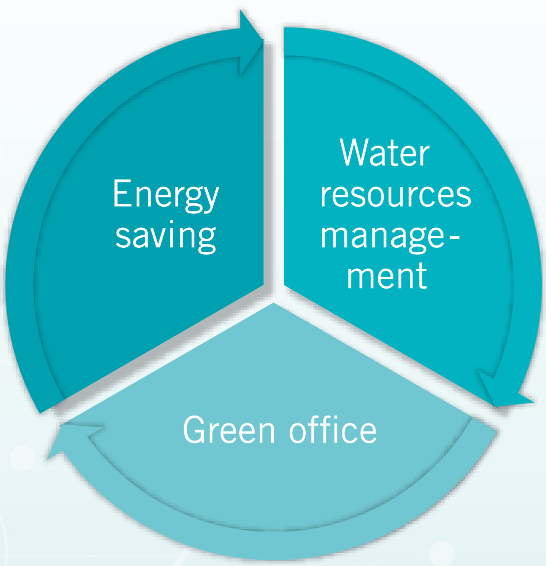
The Group employs professional and qualified waste treatment companies for disposal of both hazardous waste and non-hazardous waste. To achieve waste reduction and better resource utilization, we introduce sorting and storage of waste according to type and deliver waste to different companies for recovery, utilization and disposal based on their recycling purposes. Waste is stored in sealed containers with waste labels and transported by GSP-equipped transportation vehicles to achieve complete process supervision. We also have sufficient safety equipment, decontamination and clean-up tools and kits as well as the compilation of an Environmental Contingency Plan for Wastes (《廢棄物環境應急預案》) to deal with accidents.

Reduction of Business Trip

The Group is aware that business trips can result in GHG emissions. Therefore, we encourage employees to replace unnecessary overseas business trips with video conferences, and choose non-stop flights for unavoidable business trips, in order to minimize GHG emissions.

6.3 Use of Resources

The Group is committed to protecting the environment and conserving the natural resources, therefore we establish the Office Management Regulation to manage the employees' behaviors in the aspects of energy saving, water resources management and green office. We adopt the following measures to have better utilization of resources and waste reduction during the year.



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Energy Saving

Air conditioning system is one of the most intensive power-usage devices in office. For effective energy saving, we use air conditioning system with proven energy efficient label and avoid installing the air conditioner under direct sunlight in order to enhance energy efficiency. We stipulate our employees to turn off the air conditioning system in their office when not in use. The lowest temperature of air conditioning is set to be 22°C in summer and the highest temperature of air conditioning is set to be 20°C in winter. The windows in our office are attached with UV-resistant insulation film to reduce heat absorption. During hot weather, we allow our staff not to wear ties and suits and to wear smart causal on Friday to reduce the use of air conditioning system.

For energy saving in lighting system, we promote the use of energy-efficient LED lighting. We also divide our offices and laboratories into several different lighting zones to provide independent control of the lighting system, and stipulate employees to turn off unnecessary lighting when not in use as they leave office for outdoor work, go out for lunch or at the end of the day. Besides, we regularly check the level of illumination in different parts of the office, and for places with light exceeding the required brightness level, so that we may reduce the number of lights to reduce energy consumption.

In order to reduce the fuel consumption, the Group regularly carries out inspection and maintenance of the vehicle fleet, inflates the tyres regularly to keep proper air inflation and improves the automobile efficiency to reduce fuel consumption and emission of pollutants. We also offer trainings for drivers to prevent engine idling and improve fuel oil efficiency.

Water Resources Management

The Group recognizes that the world is now facing a water shortage crisis and we strive to promote water conservation. We implement a number of measures throughout our operations to enhance the effective use of water resources. We take the initiative to lower the water pressure to the lowest possible level, take meter readings regularly and check for hidden leaks. To further reduce water consumption, we place water saving reminder stickers, use double flush toilet and use sanitary ware with water saving labels and infrared sensing in washroom. Our water source is from local waterworks and we do not have any issue in sourcing water.

Green Office

The Group adopts green measures in our office. We use an online management platform as an important tool in streamlining and managing the business processes to reduce paper consumption. For unavoidable paper consumption, we encourage our employees to reuse or use both sides of paper and put up notices at prominent printing areas to raise their environmental protection awareness. We also encourage our employees to use wastepaper for internal record purpose and use e-greeting cards instead of traditional greeting cards to send holiday greetings to minimize paper consumption. Before purchasing office stationery, we firstly assess the material usage to avoid excessive inventory. If there is any need for purchase of materials, we give priority to the products that can be recycled or replenished and reduce the use of one-off and unrecyclable ones. We encourage our staff to reuse envelopes, spring binders, file cards and other stationeries. We post waste separation guidelines in our offices to encourage staff to separate recyclables such as metal cans, plastics and used paper to facilitate recycling and disposal of wastes.

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7. APPENDIX I: SUSTAINABILITY DATA STATEMENT

Environmental Subject Area*	Unit	2019
Air emissions		
NOx	kilogram	26.70
SOx	kilogram	0.27
PM	kilogram	1.75
Greenhouse gas emissions		
Direct greenhouse gas emissions (Scope 1)	tonnes carbon dioxide equivalent	63.57
Indirect greenhouse gas emissions (Scope 2)	tonnes carbon dioxide equivalent	1,603.22
Other indirect greenhouse gas emissions (Scope 3)	tonnes carbon dioxide equivalent	382.43
Total greenhouse gas emissions (Scope 1, 2 & 3)	tonnes carbon dioxide equivalent	2,049.22
Greenhouse gas emission intensity		
Per square metre (Scope 1, 2 & 3)	tonnes carbon dioxide equivalent/ square metre	0.09
Energy consumption		
Total electricity consumption	kilowatt-hours	2,278,917.40
Electricity consumption intensity (per square metre)	kilowatt-hours/square metre	98.40
Gasoline consumption (fleet)	litre	17,943.95
Diesel consumption (fleet)	litre	179.77
Water consumption		
Total water consumption	cubic metre	17,274.60
Water consumption intensity (per square metre)	cubic metre/square metre	0.75
Hazardous waste		
Total hazardous waste	tonnes	73.29
Hazardous waste intensity (per employee)	tonnes	0.52
Non-hazardous waste		
Total non-hazardous waste	tonnes	57.64
Non-hazardous waste intensity (per employee)	tonnes/employee	0.41
Total non-hazardous waste recycled	tonnes	1.51
Paper consumption	tonnes	15.08
Paper consumption intensity (per employee)	tonnes/employee	0.11
Packing Materials		
Bottle label	tonnes	0.03
Paper box	tonnes	0.30
Carton	tonnes	0.46
Polyolefin bottle for oral solid drugs	tonnes	1.01
Bottle lid	tonnes	0.90
Plastic bag	tonnes	0.26

* Reporting boundary of environmental subject area changes in 2019 which includes Ascletis BioScience Co., Ltd., Ascletis Pharmaceuticals Co., Ltd., Ascletis Biopharmaceutical (Hangzhou) Co., Ltd., Ascletis XinNuo Medicine (Hangzhou) Co., Ltd. and Gannex Pharma Co., Ltd. Therefore, the data of environmental subject area in 2019 is not comparable with that in 2018. We will consider doing data comparison in the future.

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Social Subject Area	Unit	2019
Total employees (by gender)		
Total number of female employees	no. of people	162
Total number of male employees	no. of people	165
Total employees	no. of people	327
Total employees (by age group)		
Below 30	no. of people	87
Aged 30-50	no. of people	234
Above 50	no. of people	6
Employee participation in training		
Total number of employees participating in training	no. of people	325
Percentage of employees participating in training (by gender)		
Percentage of female employees	%	100
Percentage of male employees	%	98.8
Average training hours per employee (by gender)		
Average training hours per female employee	hours	42.3
Average training hours per male employee	hours	49.4
Occupational health and safety Work-related casualties		
Lost days due to work injury	days	0
Number of work-related fatalities	no. of people	0

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8. APPENDIX II: HONG KONG STOCK EXCHANGE

Environmental, Social and Governance Reporting Guide Content Index

Index content				Relevant sections
A. Environmental Area				
A1:	Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection for a Green World
		A1.1	The types of emissions and respective emissions data.	Appendix I: Sustainability Data Statement
		A1.2	Greenhouse gas emissions in total and intensity.	Appendix I: Sustainability Data Statement
		A1.3	Total hazardous waste produced and intensity.	Appendix I: Sustainability Data Statement
		A1.4	Total non-hazardous waste produced and intensity.	Appendix I: Sustainability Data Statement
		A1.5	Description of measures to mitigate emissions and results achieved.	Emissions Management Use of Resources
		A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions Management
A2:	Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
		A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity.	Appendix I: Sustainability Data Statement
		A2.2	Water consumption in total and intensity.	Appendix I: Sustainability Data Statement
		A2.3	Description of energy use efficiency initiatives and results achieved.	Use of Resources
		A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources
		A2.5	Total packaging material used for finished products and with reference to per unit produced.	Appendix I: Sustainability Data Statement

Environmental, Social and Governance Report

Index content				Relevant sections
A3:	The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection for a Green World
		A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection for a Green World
B.	**Social Area**			
B1:	Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Talent Employment Benefits of Employees
		B1.1	Total workforce by gender, employment type, age group and geographical region.	Total workforce by gender and age group is set out in Appendix I: Sustainability Data Statement, while further categorisation is being considered for disclosure in the future
		B1.2	Employee turnover rate by gender, age group and geographical region.	Considering disclosure in the future
B2:	Health and Safety	General Disclosure	Information on: (a) the polices; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employee's Health and Safety
		B2.1	Number and rate of work-related fatalities.	Appendix I: Sustainability Data Statement
		B2.2	Lost days due to work injury.	Appendix I: Sustainability Data Statement
		B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Employee's Health and Safety

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Index content				Relevant sections
B3:	Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training and Development of Employees
		B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	The percentage of employees trained by gender is set out in Appendix I: Sustainability Data Statement, while further categorisation is being considered for disclosure in the future
		B3.2	The average training hours completed per employee by gender and employee category.	The average training hours completed per employee by gender is set out in Appendix I: Sustainability Data Statement, while further categorisation is being considered for disclosure in the future
B4:	Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Talent Employment
		B4.1	Description of measures to review employment practices to avoid child and forced labour.	Talent Employment
		B4.2	Description of steps taken to eliminate such practices when discovered.	Talent Employment
B5:	Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
		B5.1	Number of suppliers by geographical region.	Supply Chain Management
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management

Environmental, Social and Governance Report

Index content				Relevant sections
B6:	Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Quality Management
		B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Safety Assurance
		B6.2	Number of products and service related complaints received and how they are dealt with.	Protection of Patients' Interests Product Safety Assurance
		B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Protection
		B6.4	Description of quality assurance process and recall procedures.	Product Safety Assurance
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Protection of Patients' Interests
B7:	Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Managing Corruption Risks and Promoting Integrity
		B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	Managing Corruption Risks and Promoting Integrity
		B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Managing Corruption Risks and Promoting Integrity
B8:	Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Repaying Community
		B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Repaying Community
		B8.2	Resources contributed to the focus area.	Repaying Community

Independent Auditor's Report

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To the shareholders of Ascletis Pharma Inc.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ascletis Pharma Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 97 to 164, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	**How our audit addressed the key audit matter**
Impairment of inventories	
As at 31 December 2019, the net carrying amount of the Group's inventories was RMB86,039,000. The Group's inventories, comprising majority raw materials and work in progress, are carried at the lower of cost and net realisable value which requires management significant estimation of the net realisable value of the inventories based on future usage and sales and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. The Group's disclosures about impairment of inventories are included note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 17 *Inventories*, which specifically explain the accounting policies and management's accounting estimates.	We evaluated management's assessment of the inventories provisions by reviewing the analyses of the ageing of the inventories and assessing actual and forecast usage or sale of inventories. We attended physical inventory counts on a sample basis to ascertain the condition of the inventories and to evaluate the adequacy of provision for slow moving and obsolete inventories. We also evaluated the key assumptions used to determine the net realisable value of inventories and recalculated the expected provisions based on the key assumptions to ensure the mathematical accuracy of the calculation.
Cut-off of research and development costs	
The Group incurred significant research and development costs of RMB125,962,000 for the year ended 31 December 2019 mainly consist of staff costs, clinical trial expenses and service fees paid to outsourced service providers. The research and development activities with these service providers are documented in detailed agreements and are typically performed over an extended period. Allocation of these costs to the appropriate reporting period based on the progress of the research and development projects involves judgement. The Group's disclosure about research and development costs is included in note 2.4 *Summary of significant accounting policies*.	We reviewed the key terms set out in agreements with outsourced service providers. We evaluated the progress of the research and development projects based on inquiry with project managers, inspection of supporting documents and obtaining confirmations from outsourced service providers, on a sample basis, in order to determine completeness, cut-off and nature of the research and development costs.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Report of Directors, the Corporate Governance Report and the Environmental, Social and Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Statement, the Report of Directors, the Corporate Governance Report and the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditor's Report

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. Our report is made solely to you, as a body, 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

We also provide the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	**2019**	2018
		RMB'000	*RMB'000*
REVENUE	*5*	**173,443**	166,325
Cost of sales		**(49,160)**	(12,379)
including royalties		***(4,966)***	*(3,156)*
Gross profit		**124,283**	153,946
Other income and gains	*5*	**126,593**	124,813
Selling and distribution expenses		**(100,500)**	(58,633)
Research and development costs		**(125,962)**	(143,452)
Administrative expenses		**(48,962)**	(85,789)
Other expenses		**(59,716)**	(10,755)
Finance costs	*7*	**(182)**	–
Share of loss of an associate		**(11,523)**	–
LOSS BEFORE TAX	*6*	**(95,969)**	(19,870)
Income tax credit	*10*	**–**	125
LOSS FOR THE YEAR		**(95,969)**	(19,745)
Attributable to:			
Owners of the parent		**(95,969)**	(7,258)
Non-controlling interests		**–**	(12,487)
		(95,969)	(19,745)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*12*	**RMB(9.10) cents**	RMB(0.84) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 *RMB'000*	2018 *RMB'000*
LOSS FOR THE YEAR	**(95,969)**	(19,745)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,305**	–
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into presentation currency	**33,614**	12,918
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**35,919**	12,918
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(60,050)**	(6,827)
Attributable to:		
Owners of the parent	**(60,050)**	5,660
Non-controlling interests	**–**	(12,487)
	(60,050)	(6,827)

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**94,494**	88,333
Right-of-use assets	*14(a)*	**4,233**	–
Other intangible assets	*15*	**75,614**	75,402
Investment in an associate	*16*	**58,109**	–
Advance payments for property, plant and equipment		**–**	257
Long-term deferred expenditure		**1,363**	275
Total non-current assets		**233,813**	164,267
CURRENT ASSETS			
Inventories	*17*	**86,039**	83,877
Trade and bills receivables	*18*	**69,525**	57,623
Prepayments, other receivables and other assets	*19*	**47,846**	48,587
Cash and cash equivalents	*20*	**2,989,164**	3,173,249
Total current assets		**3,192,574**	3,363,336
CURRENT LIABILITIES			
Trade and bills payables	*21*	**6,643**	14,191
Other payables and accruals	*22*	**77,059**	73,056
Lease liabilities	*14(b)*	**2,226**	–
Deferred income	*23*	**1,724**	6,158
Total current liabilities		**87,652**	93,405
NET CURRENT ASSETS		**3,104,922**	3,269,931
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,338,735**	3,434,198
NON-CURRENT LIABILITIES			
Lease liabilities	*14(b)*	**1,587**	–
Deferred income	*23*	**12,931**	6,786
Total non-current liabilities		**14,518**	6,786
Net assets		**3,324,217**	3,427,412
EQUITY			
Equity attributable to owners of the parent			
Share capital	*25*	**754**	764
Reserves	*26*	**3,323,463**	3,426,648
Total equity		**3,324,217**	3,427,412

Jinzi Jason WU
Director

Judy Hejingdao WU
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent							
	Share capital RMB'000	Share premium account* RMB'000	Capital reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	9	92,234	635,109	15,154	(145,545)	596,961	272,870	869,831
Loss for the year	–	–	–	–	(7,258)	(7,258)	(12,487)	(19,745)
Other comprehensive income for the year:								
Exchange differences	–	–	–	12,918	–	12,918	–	12,918
Total comprehensive income/(loss) for the year	–	–	–	12,918	(7,258)	5,660	(12,487)	(6,827)
Issue of shares	158	2,970,624	–	–	–	2,970,782	–	2,970,782
Capitalisation issue	597	(597)	–	–	–	–	–	–
Share issue expenses	–	(102,871)	–	–	–	(102,871)	–	(102,871)
Purchase of shares from non-controlling shareholders *(note a)*	–	–	10,559	–	–	10,559	(260,513)	(249,954)
Equity-settled share award and option arrangements	–	–	4,136	–	–	4,136	130	4,266
Dividend declared and paid	–	–	–	–	(57,815)	(57,815)	–	(57,815)
At 31 December 2018	764	2,959,390	649,804	28,072	(210,618)	3,427,412	–	3,427,412

Note:

(a) On 28 February 2018 and 8 April 2018, PowerTree Investment (BVI) Ltd. ("PowerTree") purchased 7.24% and 26.15% interests in Ascletis BioScience Co., Ltd. ("Ascletis BioScience") from non-controlling shareholders at cash considerations of US$1,492,223 (equivalent to RMB9,383,000) and US$38,218,989 (equivalent to RMB240,571,000), respectively.

	Attributable to owners of the parent						
	Share capital RMB'000	**Treasury shares* RMB'000**	**Share premium account* RMB'000**	**Capital reserve* RMB'000**	**Exchange fluctuation reserve* RMB'000**	**Accumulated losses* RMB'000**	**Total equity RMB'000**
At 1 January 2019	**764**	**–**	**2,959,390**	**649,804**	**28,072**	**(210,618)**	**3,427,412**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(95,969)**	**(95,969)**
Other comprehensive income for the year:							
Exchange differences	**–**	**–**	**–**	**–**	**35,919**	**–**	**35,919**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**35,919**	**(95,969)**	**(60,050)**
Shares repurchased	**–**	**(46,269)**	**–**	**–**	**–**	**–**	**(46,269)**
Shares cancelled	**(10)**	**46,269**	**(46,259)**	**–**	**–**	**–**	**–**
Equity-settled share award and option arrangements	**–**	**–**	**–**	**3,124**	**–**	**–**	**3,124**
At 31 December 2019	**754**	**–**	**2,913,131**	**652,928**	**63,991**	**(306,587)**	**3,324,217**

* These reserve accounts comprise the consolidated reserves of RMB3,323,463,000 (2018: RMB3,426,648,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 *RMB'000*	2018 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(95,969)**	(19,870)
Adjustments for:			
Finance costs	*7*	**182**	–
Share of loss of an associate		**11,523**	–
Bank interest income	*5*	**(72,239)**	(25,006)
Dividend income from financial assets at fair value through profit or loss	*5*	**–**	(3,191)
Changes in fair value of financial assets at fair value through profit or loss		**–**	831
Loss on disposal of items of property, plant and equipment	*6*	**1,388**	–
Write-off of items of property, plant and equipment	*6*	**–**	551
Depreciation of items of property, plant and equipment	*13*	**10,928**	5,794
Depreciation of right-of-use assets	*14(a)*	**1,838**	–
Amortisation of intangible assets	*15*	**9,382**	6,186
Amortisation of long-term deferred expenditure		**162**	6
Equity-settled share award and option expense	*6*	**3,124**	4,266
		(129,681)	(30,433)
Increase in inventories		**(2,162)**	(21,666)
Increase in long-term deferred expenditure		**(1,250)**	(281)
Increase in trade and bills receivables		**(11,902)**	(57,623)
Decrease in prepayments, other receivables and other assets		**8,730**	15,297
(Decrease)/increase in trade and bills payables		**(7,548)**	1,224
Increase/(decrease) in other payables and accruals		**4,003**	(3,205)
Increase/(decrease) in deferred income		**1,711**	(19,126)
Interest received		**63,758**	19,223
Net cash flows used in operating activities		**(74,341)**	(96,590)

Consolidated Statement of Cash Flows

	Notes	**2019** **RMB'000**	2018 RMB'000
Net cash flows used in operating activities		**(74,341)**	(96,590)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(18,885)**	(15,816)
Proceeds from disposal of items of property, plant and equipment		**665**	–
Purchases of intangible assets	*15*	**(9,348)**	(44,267)
Purchases of financial assets at fair value through profit or loss		**–**	(229,000)
Purchase of a shareholding in an associate		**(67,400)**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	372,000
Dividend income from financial assets at fair value through profit or loss		**–**	3,191
Decrease/(increase) in time deposits with original maturity of over three months		**697,237**	(903,579)
Net cash flows from/(used in) investing activities		**602,269**	(817,471)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	2,970,782
Share issue expenses		**–**	(102,871)
Purchase of shares from non-controlling shareholders		**–**	(249,954)
Principal portion of lease payments	*29(b)*	**(1,948)**	–
Shares repurchased		**(46,269)**	–
Dividend paid		**–**	(57,815)
Net cash flows (used in)/from financing activities		**(48,217)**	2,560,142
NET INCREASE IN CASH AND CASH EQUIVALENTS		**479,711**	1,646,081
Cash and cash equivalents at beginning of year		**1,781,892**	123,697
Effect of foreign exchange rate changes, net		**33,441**	12,114
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,295,044**	1,781,892
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	*20*	**2,989,164**	3,173,249
Non-pledged time deposits with original maturity of over three months when acquired		**(694,120)**	(1,391,357)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**2,295,044**	1,781,892

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 25 February 2014. The registered office of the Company is located at c/o Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. The principal place of business in Hong Kong of the Company is located at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the research and development, production, marketing and sale of pharmaceutical products.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 August 2018.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follow:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PowerTree	British Virgin Islands 13 January 2011	United States dollars ("US$") 101	100%	–	Investment holding
AP11 Limited	British Virgin Islands 20 November 2018	US$ 103	100%	–	Investment holding
Ascletis Pharma (China) Co., Limited (歌禮製藥(中國)有限公司)	Hong Kong 15 March 2018	Hong Kong dollars ("HK$") 102	–	100%	Investment holding
SoundRidge Pharmaceuticals (Hong Kong) Co., Limited	Hong Kong 23 April 2019	HK$100.002	–	100%	Investment holding
Gannex Pharma Co., Ltd. (甘萊製藥有限公司) (i)	People's Republic of China/ Mainland china 3 September 2019	US$8,000,000	–	100%	Manufacture, research and development of pharmaceutical products
Ascletis BioScience (歌禮生物科技(杭州)有限公司) (i)	People's Republic of China/ Mainland china 26 April 2013	US$100,600,162	–	100%	Research, development and commercialisation of pharmaceutical products
Ascletis Pharmaceuticals Co., Ltd. ("Ascletis Pharmaceuticals") (歌禮藥業(浙江)有限公司) (ii)	People's Republic of China/ Mainland China 24 September 2014	Renminbi ("RMB") 411,002,100	–	100%	Manufacture, commercialisation research and development of pharmaceutical products

Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follow: (Continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ascletis Biopharmaceutical (Hangzhou) Co., Ltd. ("Ascletis Biopharma") (歌禮生物製藥(杭州)有限公司) (i)	People's Republic of China/ Mainland China 19 April 2018	RMB50,000,000	–	100%	Manufacture, research and development of pharmaceutical products
Ascletis XinNuo Medicine (Hangzhou) Co., Ltd. (歌禮欣諾醫藥(杭州)有限公司) (ii)	People's Republic of China/ Mainland China 24 July 2018	RMB10,000,000	–	100%	Sale of pharmaceutical products

Notes:

(i) These entities are registered as a wholly-foreign-owned enterprises under People's Republic of China ("PRC") law.

(ii) These entities are limited liability enterprises established under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Notes to Financial Statements

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and were presented separately in statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	2,740
Decrease in prepayments, other receivables and other assets	(492)
Increase in total assets	2,248
Liabilities	
Increase in lease liabilities	2,248
Increase in total liabilities	2,248

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	7,090
Less: Commitments relating to short-term leases and other leases with a remaining lease term ended on or before 31 December 2019	235
Commitment relating to long-term leases terminated in advance before 31 December 2019	3,542
	3,313
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	2,248
Lease liabilities as at 1 January 2019	2,248

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in an associate and concluded that the long-term interests in an associate was measured under equity method of accounting in accordance with HKAS 28. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in associate.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in an associate (Continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) (continued)

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

Plant and machinery	9.50% to 33.33%
Motor vehicles	19.00% to 25.00%
Office equipment	19.00% to 33.33%
Leasehold improvements	20.00 to 34.78%

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents plants under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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

Software	3 to 5 years
Intellectual property	10 to 17 years

Research and development costs

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

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

Leases (applicable from 1 January 2019)

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee

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

(a) Right-of-use assets

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

Office premises and staff dormitory	2 to 3 years

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

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach

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

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

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition as payables.

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

The Group's financial liabilities include trade and other payables.

Subsequent measurement

The Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) though the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(b) Collaboration revenue

The Group enters into collaboration agreements for research, development, manufacturing and commercialisation services. The terms of these arrangements typically include payments to the Group of one or more of the following: non-refundable upfront fees, milestone payments for development and regulatory application and royalties on net sales of licensed products. Milestone payment is variable consideration which is constrained until it is probable that the revenue is not at a significant risk of reversal in a future period when the uncertainty resolved. The contracts into which the Group enters generally do not include significant financing components.

As part of the accounting for these arrangements, the Group must use significant judgement to determine: (a) the performance obligations; (b) the transaction price; and (c) the timing of revenue recognition, including the appropriate measure of progress.

At contract inception, the Group assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(b) Collaboration revenue (Continued)

The Group uses judgement to determine whether milestones or other variable consideration, except for royalties, should be included in the transaction price. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, for which the Group recognises revenue as or when the performance obligations under the contract are satisfied. If a milestone or other variable consideration relates specifically to the Group's efforts to satisfy a single performance obligation or to a specific outcome from satisfying the performance obligation, the Group generally allocates that milestone amount entirely to that performance obligation once it is probable that a significant revenue reversal would not occur.

The Group recognises revenue only when it satisfies a performance obligation by transferring control of the promised goods or services. The transfer of control can occur over time or at a point in time. A performance obligation is satisfied over time if it meets one of the following criteria.

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

The portion of the transaction price that is allocated to performance obligations satisfied at a point in time is recognised as revenue when control of the goods or services transfers to the counterparty. If the performance obligation is satisfied over time, the portion of the transaction price allocated to that performance obligation is recognised as revenue as the performance obligation is satisfied. The Group adopts an appropriate method of measuring progress for purposes of recognising revenue. The Group evaluates the measure of progress at the end of each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(b) Collaboration revenue (Continued)

Milestone payments

At the inception of each arrangement that includes milestone payments, the Group evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Group, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Group evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgement involved in determining whether it is probable that a significant reversal of cumulative revenue would not occur. At the end of each subsequent reporting period, the Group re-evaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment. During the reporting period, the milestone payments were recognised as revenue when the performance obligation was satisfied over time.

Licences of intellectual property

In assessing whether a licence is distinct from the other promises, the Group considers factors such as the research, development, manufacturing and commercialisation capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. In addition, the Group considers whether the counterparty can benefit from a licence for its intended purpose without the receipt of the remaining promise(s) by considering whether the value of the licence is dependent on the unsatisfied promise(s), whether there are other vendors that could provide the remaining promise(s), and whether it is separately identifiable from the remaining promise(s). For licences that are combined with other promises, the Group utilises judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognising revenue.

Upfront fees

Upfront payment is initially deferred since no goods or services have yet been provided. The Group determines that the upfront payment constitutes the entirety of the consideration to be included in the transaction price as of the outset of the collaboration agreement and to be allocated to the performance obligations based on the Group's best estimate of their relative stand-alone selling prices. The upfront payment is recognised as revenue when the performance obligation is satisfied over time or at a point in time. During the reporting period, the upfront payment was recognised as revenue when the performance obligation was satisfied over time.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(b) Collaboration revenue (Continued)

Royalties

A sales-based royalty promised in exchange for a licence of intellectual property is recognised as revenue only when (or as) the later of the following events occurs: (a) the subsequent sale occurs; and (b) the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied).

The Group presents a contract liability or a contract asset in its consolidated statement of financial position when either party to the contract has performed. The Group performs by transferring goods or services to the collaboration partner, and the collaboration partner performs by paying consideration to the Group.

Any unconditional rights to consideration are presented separately as trade receivables.

(c) Rendering of promotion services

Transaction price is derived from fee based on a percentage of the customer's sales, and the performance obligation is not satisfied until the customer's sales occur. Accordingly, revenue from the provision of promotion services is recognised at a point in time, generally when the customer's sales occur.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Group operates a share award for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an option pricing model, further details of which are given in note 27 to the financial statements.

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

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB as the major operations of the Group are within the PRC. The functional currency of the Company and certain subsidiaries incorporated outside Mainland China is the US$ and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

The functional currencies of the Company and an overseas subsidiary are currencies other than the RMB. As at the end of the year, the assets and liabilities of the Company and an overseas subsidiary are translated into RMB at the exchange rates prevailing at the end of the year and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

For the purpose of the consolidated statement of cash flows, the cash flows of the non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non-PRC established companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Recognition of collaboration revenue

In determining the appropriate amount of revenue to be recognised as the Group fulfils its obligations under each of its collaboration agreements, the Group must use judgement to determine: (a) whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (b) measurement of the transaction price, including the constraint on variable consideration; and (c) recognition of revenue when (or as) the Group satisfies each performance obligation.

At the inception of each arrangement that includes development milestone payments, the Group determines that each of its collaboration agreements is one single performance obligation. The Group evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Group, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. At the end of the year, the Group re-evaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

The Group determines that the identified performance obligations from each of its collaboration agreements are satisfied over time and revenue is recognised over time. The Group evaluates the measure of progress at the end of the year and, if necessary, adjusts the measure of performance and related revenue recognition.

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Useful lives of intangible assets

The Group's finite life intangible assets primarily represent patents transferred from third parties. These intangible assets are amortised on a straight-line basis over their useful economic lives, which are estimated to be the patent life. If the Group's estimate of the duration of sale of product is shorter than the patent life, then the shorter period is used. Additional amortisation is recognised if the estimated useful lives of patents are different from the previous estimation. Useful lives are reviewed at the end of the year based on changes in circumstances.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is recognised if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made for those identified obsolete and slow-moving inventories and inventories with a carrying amount higher than net realisable value. The assessment of the provision required involves management's judgement and estimates on which are influenced by assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. At 31 December 2019, the carrying amount of inventories was RMB86,039,000 (2018: RMB83,877,000).

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available.

4. OPERATING SEGMENT INFORMATION

Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**172,057**	75,747
Switzerland	**–**	90,578
Other country	**1,386**	–
Total	**173,443**	166,325

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**161,123**	147,966
British Virgin Islands	**58,109**	–
Cayman Islands	**14,581**	16,301
Total	**233,813**	164,267

The non-current asset information above is based on the locations of assets.

Notes to Financial Statements

4. OPERATING SEGMENT INFORMATION (Continued)

Information about a major customer

Revenue of RMB47,638,000 was derived from rendering of promotion services to a single customer during the year, while revenue of RMB90,578,000 was derived from collaboration arrangement with a single collaboration partner in 2018.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers	**173,443**	166,325

Revenue from contracts with customers

(i) Disaggregation of revenue information

	2019	2018
	RMB'000	*RMB'000*
Type of goods or services		
– Sale of products	**124,419**	72,273
– Rendering of promotion services	**47,638**	3,474
– Collaboration revenue	**1,386**	90,578
Total revenue from contracts with customers	**173,443**	166,325

	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
Over time		
– Collaboration revenue	**–**	40,956
At a point in time		
– Sale of products	**124,419**	72,273
– Rendering of promotion services	**47,638**	3,474
– Collaboration revenue	**1,386**	49,622
Total revenue from contracts with customers	**173,443**	166,325

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregation of revenue information (Continued)

	2019	2018
	RMB'000	*RMB'000*
Geographical markets		
Mainland China		
– Sale of products	**124,419**	72,273
– Rendering of promotion services	**47,638**	3,474
Switzerland		
– Collaboration revenue	**–**	90,578
Other country		
– Collaboration revenue	**1,386**	–
Total revenue from contracts with customers	**173,443**	166,325

The following table shows the amount of revenue recognised during the reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Collaboration revenue	**–**	40,956
Sale of products	**230**	–
	230	40,956

The Group received non-refundable upfront fees and milestone payments for development and regulatory application as agreed in the collaboration agreements from the collaboration partner.

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 180 days from delivery.

Promotion services

The performance obligation is satisfied at a point in time when the customer's sales occur and payment is generally due within 60 days from the date of billing.

Collaboration revenue

The performance obligation is satisfied over time or at a point in time as output generated from the development activities is supplied to the collaboration partner or upon completion of services, and payment is generally due within 30 to 60 days from the date of billing.

	2019	2018
	RMB'000	*RMB'000*
Other income and gains		
Bank interest income	**72,239**	25,006
Dividend income from financial assets at fair value through profit or loss	**–**	3,191
Government grants*	**49,869**	73,018
Foreign exchange gain, net	**4,485**	23,598
	126,593	124,813

* The government grants mainly represent subsidies received from the local governments for the purpose of compensation for expenses arising from research activities and clinical trials, award for new drug development and capital expenditure incurred on certain projects.

Notes to Financial Statements

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Cost of inventories sold		**18,802**	12,379
Cost of services provided		**30,358**	–
Depreciation of items of property, plant and equipment	13	**10,928**	5,794
Depreciation of right-of-use assets	14(a)	**1,838**	–
Amortisation of intangible assets*	15	**9,382**	6,186
Write-down of inventories to net realisable value**		**5,153**	3,739
Minimum lease payments under operating leases		**–**	2,509
Lease payments not included in the measurement of lease liabilities	14(c)	**235**	–
Auditor's remuneration		**2,180**	1,830
Research and development costs		**125,962**	143,452
Foreign exchange gain, net		**(4,485)**	(23,598)
Government grants		**(49,869)**	(73,018)
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**78,352**	55,363
Pension scheme contributions		**16,018**	13,074
Staff welfare expenses		**4,361**	2,070
Equity-settled share award and option expense		**3,124**	4,266
		101,855	74,773
Other expenses:			
Donation		**57,871**	9,227
Loss on disposal of items of property, plant and equipment		**1,388**	–
Impairment of trade receivables	18	**88**	–
Changes in fair value of financial assets at fair value through profit or loss		**–**	831
Write-off of items of property, plant and equipment		**–**	551
Others		**369**	146
		59,716	10,755

* The amortisation of intangible assets is included in "Administrative expenses" and "Research and development costs" in the consolidated statement of profit or loss.

** The write-down of inventories to net realisable value of RMB5,153,000 for the year ended 31 December 2019 (2018: RMB3,739,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

Notes to Financial Statements

7. FINANCE COST

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	**182**	–

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019 RMB'000	2018 RMB'000
Fees	**1,280**	516
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**13,024**	26,682
Pension scheme contributions	**172**	160
	13,196	26,842
	14,476	27,358

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Jiong GU	**320**	129
Lin HUA	**320**	129
Ru Rong JI	**320**	129
Yizhen WEI	**320**	129
	1,280	516

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

Notes to Financial Statements

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors and the chief executive

	Salaries, bonuses, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2019			
Executive director:			
Jinzi Jason WU*	10,852	86	10,938
Judy Hejingdao WU	2,172	86	2,258
	13,024	172	13,196
2018			
Executive director:			
Jinzi Jason WU*	24,983 **	80	25,063
Judy Hejingdao WU	1,699	80	1,779
	26,682	160	26,842

* Jinzi Jason WU was also the chief executive of the Company during the year.

** In 2018, the Group paid a one-time special bonus of RMB12,800,000 to Jinzi Jason WU, in recognition of his contributions to the Group. On the same year, the Group also paid a subsidy of RMB8,873,400 to Jinzi Jason WU to offset against his individual income tax liability (after grossed up for China individual income tax) for his subpart F income in 2017 which was derived from the bank interest and dividends generated by the Group. He is the citizen of the United States of America ("USA") and pursuant to the USA Internal Revenue Code Section 951, if a foreign corporation is a controlled foreign corporation at any time during any taxable year, and any of the shareholders of such corporation is the citizen of the USA, such shareholder shall include in his gross income his pro rata shares of the corporation's subpart F income for the year, even though such corporation has not paid such shareholder any dividends.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 *RMB'000*	2018 *RMB'000*
Salaries, bonus, allowances and benefits in kind	**5,266**	4,346
Pension scheme contributions	**88**	80
Equity-settled share award and option expense	**76**	1,531
	5,430	5,957

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

	Number of employees	
	2019	2018
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	1
	3	3

During the year and in prior years, shares and options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such awarded shares and options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

British Virgin Islands

Under the current laws of the British Virgin Islands ("BVI"), PowerTree is not subject to tax on income or capital gains. In addition, upon payments of dividends by PowerTree to its shareholder, no BVI withholding tax is imposed.

Notes to Financial Statements

10. INCOME TAX (Continued)

Hong Kong

Under the current laws of the Hong Kong, the subsidiary in Hong Kong is subject to profit tax at a rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong. During the year, no provision for profit tax has been made as the subsidiary did not generate any assessable profits in Hong Kong.

Mainland China

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), the subsidiaries which operate in Mainland China are subject to CIT at a rate of 25% (2018: 25%) on the taxable income. Preferential tax treatment is available to Ascletis Pharmaceuticals, since it was recognised as High and New Technology Enterprises, and were entitled to a preferential tax rate of 15% during the year (2018: 15%).

The income tax credit of the Group for the year is analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	**–**	–
Deferred tax *(note 24)*	**–**	(125)
Total tax credit for the year	**–**	(125)

A reconciliation of the tax credit applicable to loss before tax at the statutory rate in Mainland China to the tax credit at the effective tax rate is as follows:

	2019	2018
	RMB'000	*RMB'000*
Loss before tax	**(95,969)**	(19,870)
At the PRC's statutory income tax rate of 25%	**(23,992)**	(4,968)
Effect of tax rate differences in other countries	**(1,877)**	(15,031)
Preferential income tax rates enacted by local authority	**7,529**	8,484
Effect of tax concessions and allowances	**(17,054)**	(15,463)
Tax losses not recognised	**34,297**	22,385
Expenses not deductible for tax	**1,097**	4,468
Tax credit at the Group's effective rate	**–**	(125)

Notes to Financial Statements

11. DIVIDENDS

In February 2018, the Company declared a dividend of US$9,120,051 (equivalent to RMB57,815,000) to its shareholders.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of RMB95,969,000 (2018: RMB7,258,000), and the weighted average number of ordinary shares of 1,054,545,974 (2018: 869,047,787) in issue during the year. The number of shares for the current period has been arrived at 1,106,336,000 after eliminating the shares repurchased.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2018 and 2019 in respect of a dilution as the impact of the share award had an anti-dilutive effect on the basic loss per share amount presented.

The calculation of basic loss per share is based on:

	2019	2018
	RMB'000	*RMB'000*
Loss		
Loss attributable to ordinary equity holders of the parent	**(95,969)**	(7,258)

	Number of shares	
	2019	2018
Shares		
Weighted average number of shares in issue during the year	**1,054,545,974**	869,047,787

Notes to Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 1 January 2019:						
Cost	**83,798**	**3,174**	**5,238**	**1,235**	**3,520**	**96,965**
Accumulated depreciation	**(5,268)**	**(784)**	**(2,120)**	**(460)**	**–**	**(8,632)**
Net carrying amount	**78,530**	**2,390**	**3,118**	**775**	**3,520**	**88,333**
At 1 January 2019, net of accumulated depreciation	**78,530**	**2,390**	**3,118**	**775**	**3,520**	**88,333**
Additions	**4,348**	**121**	**2,383**	**1,284**	**11,006**	**19,142**
Disposal	**(1,346)**	**–**	**–**	**(707)**	**–**	**(2,053)**
Depreciation provided during the year	**(8,225)**	**(705)**	**(1,453)**	**(545)**	**–**	**(10,928)**
Transfers	**8,739**	**–**	**2,785**	**1,589**	**(13,113)**	**–**
At 31 December 2019, net of accumulated depreciation	**82,046**	**1,806**	**6,833**	**2,396**	**1,413**	**94,494**
At 31 December 2019:						
Cost	**95,357**	**3,295**	**10,406**	**2,873**	**1,413**	**113,344**
Accumulated depreciation	**(13,311)**	**(1,489)**	**(3,573)**	**(477)**	**–**	**(18,850)**
Net carrying amount	**82,046**	**1,806**	**6,833**	**2,396**	**1,413**	**94,494**
31 December 2018						
At 1 January 2018:						
Cost	8,184	1,028	3,528	1,235	67,896	81,871
Accumulated depreciation	(1,082)	(613)	(1,172)	(189)	–	(3,056)
Net carrying amount	7,102	415	2,356	1,046	67,896	78,815
At 1 January 2018, net of accumulated depreciation	7,102	415	2,356	1,046	67,896	78,815
Additions	6,854	2,146	951	–	5,912	15,863
Write-off	(529)	–	(22)	–	–	(551)
Depreciation provided during the year	(4,380)	(171)	(972)	(271)	–	(5,794)
Transfers	69,483	–	805	–	(70,288)	–
At 31 December 2018, net of accumulated depreciation	78,530	2,390	3,118	775	3,520	88,333
At 31 December 2018:						
Cost	83,798	3,174	5,238	1,235	3,520	96,965
Accumulated depreciation	(5,268)	(784)	(2,120)	(460)	–	(8,632)
Net carrying amount	78,530	2,390	3,118	775	3,520	88,333

Notes to Financial Statements

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of office premises and staff dormitory used in its operations. Leases of office premises and staff dormitory have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Office premises and staff dormitory *RMB'000*
At 1 January 2019	**2,740**
Additions	**3,331**
Depreciation charge	**(1,838)**
At 31 December 2019	**4,233**

(b) Lease liabilities

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

	Lease liabilities *RMB'000*
Carrying amount at 1 January 2019	**2,248**
New leases	**3,331**
Accretion of interest recognised during the year	**182**
Payments	**(1,948)**
Carrying amount at 31 December 2019	**3,813**
Analysed into:	
Current portion	**2,226**
Non-current portion	**1,587**

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

Notes to Financial Statements

14. LEASES (Continued)

The Group as a lessee (Continued)

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

	2019 *RMB'000*
Interest on lease liabilities	182
Depreciation charge of right-of-use assets	1,838
Commitments relating to short-term leases and other leases with a remaining lease term ended on or before 31 December 2019 (included in administrative expenses and research and development costs)	235
Total amount recognised in profit or loss	2,255

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

15. OTHER INTANGIBLE ASSETS

	Intellectual property *RMB'000*	Software *RMB'000*	Total *RMB'000*
31 December 2019			
At 1 January 2019:			
Cost	88,154	785	88,939
Accumulated amortisation	(13,330)	(207)	(13,537)
Net carrying amount	74,824	578	75,402
Cost at 1 January 2019, net of accumulated amortisation	74,824	578	75,402
Additions	7,000	2,348	9,348
Amortisation provided during the year	(8,802)	(580)	(9,382)
Exchange realignment	246	–	246
At 31 December 2019	73,268	2,346	75,614
At 31 December 2019:			
Cost	95,549	3,133	98,682
Accumulated amortisation	(22,281)	(787)	(23,068)
Net carrying amount	73,268	2,346	75,614

Notes to Financial Statements

15. OTHER INTANGIBLE ASSETS (Continued)

	Intellectual property *RMB'000*	Software *RMB'000*	Total *RMB'000*
31 December 2018			
At 1 January 2018:			
Cost	43,010	511	43,521
Accumulated amortisation	(6,926)	(78)	(7,004)
Net carrying amount	36,084	433	36,517
Cost at 1 January 2018, net of accumulated amortisation	36,084	433	36,517
Additions	43,993	274	44,267
Amortisation provided during the year	(6,057)	(129)	(6,186)
Exchange realignment	804	–	804
At 31 December 2018	74,824	578	75,402
At 31 December 2018:			
Cost	88,154	785	88,939
Accumulated amortisation	(13,330)	(207)	(13,537)
Net carrying amount	74,824	578	75,402

16. INVESTMENT IN AN ASSOCIATE

	2019 ***RMB'000***
Share of net assets	**32,187**
Goodwill on acquisition	**25,922**
	58,109

Particulars of the associate is as follows:

Name	**Particulars of issued shares held**	**Place of incorporation and business**	**Percentage of ownership interest attributable to the Group**	**Principal activity**
Sagimet Bioscience Inc. ("Sagimet")	Preferred stock	United States of America	15.16	Research and development of pharmaceutical products

Notes to Financial Statements

16. INVESTMENT IN AN ASSOCIATE (Continued)

The Group's shareholding in this associate comprise equity shares held through a wholly-owned subsidiary of the Company. The Group's investment in Sagimet is accounted for under the equity method of accounting because the Group has significant influence over Sagimet by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's direct equity interest in Sagimet was lower than 20% for the year ended 31 December 2019.

Sagimet, which is considered a material associate of the Group, is a strategic partner of the Group engaged in research and development of pharmaceutical products.

The following table illustrates the summarised financial information in respect of Sagimet adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 ***RMB'000***
Current assets	**77,301**
Non-current assets, excluding goodwill	**216,326**
Goodwill on acquisition of the associate	**170,989**
Current liabilities	**(16,003)**
Non-current liabilities	**(65,309)**
Net assets	**383,304**
Net assets, excluding goodwill	**212,315**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**15.16%**
Group's share of net assets of the associate, excluding goodwill	**32,187**
Goodwill on acquisition	**25,922**
Carrying amount of the investment	**58,109**
Revenue	**–**
Loss for the year	**79,059**
Total comprehensive loss for the year	**79,059**

17. INVENTORIES

	2019 ***RMB'000***	2018 *RMB'000*
Raw materials	**60,468**	47,889
Work in progress	**20,408**	32,138
Finished goods	**5,163**	3,850
	86,039	83,877

Notes to Financial Statements

18. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**68,485**	56,123
Bills receivable	**1,128**	1,500
	69,613	57,623
Impairment	**(88)**	–
	69,525	57,623

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 180 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the before mentioned and the fact that the Group's trade receivables relate to large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Less than 3 months	**68,397**	56,123

The Group's bills receivable was aged within six months and was neither past due nor impaired.

The movement in the loss allowance for impairment of trade receivables is as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**–**	–
Impairment losses recognised *(note 6)*	**88**	–
At end of year	**88**	–

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to Financial Statements

18. TRADE AND BILLS RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due			
	Current	**Less than 3 month**	**3 to 6 months**	**over 6 months**	**Total**
Expected credit loss rate	**0.13%**	–	–	–	**0.13%**
Gross carrying amount *(RMB'000)*	**68,485**	–	–	–	**68,485**
Expected credit losses *(RMB'000)*	**88**	–	–	–	**88**

As at 31 December 2018, the Group estimated the expected credit loss rate on the trade receivables aged less than 3 months was close to zero.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 *RMB'000*	2018 *RMB'000*
Interest receivable	**18,899**	10,418
Value-added tax recoverable	**13,225**	18,160
Prepayments	**7,686**	13,721
Deposits and other receivables	**4,788**	1,664
Prepaid expenses	**1,885**	3,261
Prepaid income tax	**1,363**	1,363
	47,846	48,587

Other receivables mainly represent rental and other deposits. An impairment analysis is performed at each reporting date by applying an expected credit loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions. As at 31 December 2019 and 2018, the expected credit loss rate was close to zero.

The financial assets included in the above balances are non-interest-bearing, unsecured and repayable on demand and relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

Notes to Financial Statements

20. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**167,982**	1,301,468
Time deposits	**2,821,182**	1,871,781
Cash and cash equivalents	**2,989,164**	3,173,249
Denominated in RMB	**475,320**	266,058
Denominated in US$	**2,497,054**	1,849,651
Denominated in HK$	**16,784**	1,057,534
Denominated in other currencies	**6**	6
Cash and cash equivalents	**2,989,164**	3,173,249

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

21. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**3,961**	7,635
Bills payable	**2,682**	6,556
	6,643	14,191

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	**3,933**	6,913
1 to 3 months	**28**	3,984
3 to 6 months	**2,682**	3,294
	6,643	14,191

The trade payables are non-interest-bearing and are normally settled within three months.

The maturity of the bills payable is within six months.

Notes to Financial Statements

22. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Other payables	*(a)*	**33,276**	40,071
Payroll payable		**23,387**	15,030
Accrued expenses		**14,347**	17,354
Refund liabilities		**4,432**	–
Taxes other than income tax		**1,617**	371
Contract liabilities	*(b)*	**–**	230
		77,059	73,056

Notes:

(a) Other payables are non-interest-bearing.

(b) Detail of contract liabilities is as follows:

	2019 RMB'000	2018 RMB'000
Sales of products	**–**	230

Contract liabilities included short-term advances received to deliver products. The decrease in contract liabilities in 2019 was mainly due to the Group traded mainly on credit with its customers in the current year.

23. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants		
Current	**1,724**	6,158
Non-current	**12,931**	6,786
	14,655	12,944

The movements in government grants during the year are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**12,944**	32,070
Grants received during the year	**12,020**	10,314
Amount released	**(10,309)**	(29,440)
At end of year	**14,655**	12,944
Current	**1,724**	6,158
Non-current	**12,931**	6,786
	14,655	12,944

Notes to Financial Statements

23. DEFERRED INCOME (Continued)

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research activities and clinical trials, award for new drug development and capital expenditure incurred on certain projects.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

2019

Deferred tax liabilities

	Right-of-use assets *RMB'000*	Total *RMB'000*
At 31 December 2018	–	–
Effect of adoption of HKFRS 16	231	231
At 1 January 2019 (restated)	231	231
Deferred tax charged to the statement of profit or loss during the year	554	554
Gross deferred tax liabilities at 31 December 2019	785	785

Deferred tax assets

	Lease liabilities *RMB'000*	Total *RMB'000*
At 31 December 2018	–	–
Effect of adoption of HKFRS 16	231	231
At 1 January 2019 (restated)	231	231
Deferred tax credited to the statement of profit or loss during the year	554	554
Gross deferred tax assets at 31 December 2019	785	785

Notes to Financial Statements

24. DEFERRED TAX (Continued)

2018

Deferred tax liabilities

	Fair value adjustments arising from financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
At 1 January 2018	125	125
Deferred tax credited to the statement of profit or loss during the year	(125)	(125)
At 31 December 2018	–	–

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 ***RMB'000***	2018 *RMB'000*
Net deferred tax recognised in consolidated statement of financial position	**–**	–

The Group has tax losses arising in Mainland China of RMB563,635,000 (2018: RMB388,706,000) that will expire in one to five years for offsetting against future taxable profits.

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

25. SHARE CAPITAL

	2019	2018
Authorised:		
7,000,000,000 (2018: 7,000,000,000) ordinary shares of US$0.0001 each		
US$	**700,000**	700,000
Issued and fully paid:		
1,106,336,000 (2018: 1,120,685,000) ordinary shares of US$0.0001 each		
US$	**110,634**	112,069
RMB	**754,000**	764,000

Notes to Financial Statements

25. SHARE CAPITAL (Continued)

A summary of movements in the Company's issued share capital, treasury share and share premium is as follows:

	Notes	Number of shares in issue	Share capital *RMB'000*	Treasury shares *RMB'000*	Share premium account *RMB'000*	Total *RMB'000*
At 1 January 2018		14,750,000	9	–	92,234	92,243
Issue of shares on 4 April 2018	(a)	7,392,693	5	–	240,493	240,498
Capitalisation issue	(b)	874,405,307	597	–	(597)	–
Issue of shares on 1 August 2018	(c)	224,137,000	153	–	2,730,131	2,730,284
Share issue expenses		–	–	–	(102,871)	(102,871)
At 31 December 2018 and 1 January 2019		1,120,685,000	764	–	2,959,390	2,960,154
Shares repurchased	(d)	–	–	(46,269)	–	(46,269)
Shares cancelled	(d)	(14,349,000)	(10)	46,269	(46,259)	–
At 31 December 2019		1,106,336,000	754	–	2,913,131	2,913,885

Notes:

(a) On 4 April 2018, a total of 7,392,693 shares of US$0.0001 each were issued for a total cash consideration of US$38,219,146 (equivalent to RMB240,498,000) to new shareholders.

(b) Pursuant to an ordinary resolution passed on 11 July 2018, 874,405,307 shares of US$0.0001 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appeared on the register of members of the Company at the close of business on 11 July 2018 in proportion to their respective shareholdings. This allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (c) below.

(c) In connection with the Company's initial public offering, 224,137,000 ordinary shares of US$0.0001 each were issued at a price of HK$14.00 per share for a total cash consideration, before expenses, of approximately HK$3,137,918,000 (equivalent to RMB2,730,284,000). Dealings in these shares on the Stock Exchange commenced on 1 August 2018.

(d) The Company purchased 14,349,000 of its shares on the Stock Exchange for a total cash consideration of HK$51,508,000 (equivalent to approximately RMB46,269,000), which were cancelled on 31 December 2019.

Notes to Financial Statements

26. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity of the Group.

Statutory reserve

In accordance with the Company Law of the PRC, the subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC GAAP, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

27. SHARE AWARD

Restricted Stock Unit Scheme

On 14 July 2016, Zande Investment and Management LLP ("Zande") entered into an equity interest subscription agreement with PowerTree, pursuant to which Zande subscribed for approximately 2.44% equity interest in Ascletis BioScience for a cash consideration of US$312,220. Subsequently on 2 August 2016, Zande, Hangzhou Zanqin Investment and Management LLP ("Zanqin"), Hangzhou Zanwei Investment and Management LLP ("Zanwei") and Hangzhou Zanfang Investment and Management LLP ("Zanfang") (collectively, the "PRC Share Incentive Entities") and PowerTree entered into an equity interest subscription agreement with Ascletis BioScience, pursuant to which Zanqin, Zanwei, Zanfang, Zande and PowerTree agreed to subscribe for approximately 1.18%, 1.18%, 1.18%, 0.25% and 10.08% equity interest in Ascletis BioScience, respectively, at cash consideration of RMB2,319,581, RMB2,319,581, RMB2,319,581, RMB497,045 and US$3,133,689, respectively. The considerations were determined based on fair market value at that time. The purpose to establish the PRC Share Incentive Entities was to reserve equity interest for future employee incentive plans. Ms. Heying YANG, being a supervisor of Ascletis BioScience and the mother of a director, as the general partner, and the Group's employees, each as a limited partner, subscribed for equity interest in Zanqin and Zanwei by way of entering into partnership agreement.

On 15 March 2018, JJW11 Limited was incorporated in the BVI. The purpose for its incorporation is to set up an offshore share incentive platform to replace the PRC Share Incentive Entities and to hold incentive shares for the participants of the employee incentive plans. For any participant who had subscribed for equity interest in the PRC Share Incentive Entities, the amount of the award is determined based on his/her previous interest in such PRC Share Incentive Entities. There is no significant change to the terms of the employee incentive plans.

The employees of the Group shall not have any right to receive any shares awarded to them and all other interest attributable thereto unless and until the shares have transferred the legal and beneficial ownership of such awarded shares to them and the legal and beneficial ownership of those awarded shares vested in them. When the participant ceased to be the Group's employee, the unvested shares would be retained by the partnerships.

Notes to Financial Statements

27. SHARE AWARD (Continued)

Restricted Stock Unit Scheme (Continued)

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares and is determined using an option pricing model, adjusted for the exclusion of expected dividends to be received in the vesting period.

Pursuant to share award on 9 July 2016, equity interest in Ascletis BioScience was granted to a selected employee at a consideration of RMB100,000 and the earliest vesting date is 9 July 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 21 December 2016, equity interest in Ascletis BioScience was granted to 5 selected employees at a total consideration of RMB319,000 and the earliest vesting date is 21 December 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 25 June 2017, equity interest in Ascletis BioScience was granted to 19 selected employees at a total consideration of RMB486,000 and the earliest vesting date is 25 June 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 18 December 2017, equity interest in Ascletis BioScience was granted to 67 selected employees at a total consideration of RMB2,750,000 and the earliest vesting date is 18 December 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 12 March 2018, equity interest in Ascletis BioScience was granted to a selected employee at a total consideration of RMB420,000 and the earliest vesting date is 12 March 2023. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

During the year, a share award expense of RMB2,956,000 was charged to the consolidated statement of profit or loss (2018: RMB3,225,000).

Restricted Stock Unit Option Incentive Scheme

The shareholder of the Company, JJW11 Limited, adopted a Restricted Stock Unit Option Incentive Scheme on 8 August 2018 (the "Scheme"). The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include senior management members who serve as directors, supervisors, presidents, vice presidents, financial managers and board secretaries at the Group as well as other core technical personnel, key personnel or other natural persons or entities that were or will be important to the development of the Group.

Subject to any early termination as may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of twelve years commencing on the 8 August 2018 (the "Adoption Date").

Notes to Financial Statements

27. SHARE AWARD (Continued)

Restricted Stock Unit Option Incentive Scheme (Continued)

The director of JJW11 Limited (or its authorised person) (the "Option Manager") shall have the full and absolute management right over the operation of the Scheme, including but not limited to the absolute discretion in matters such as the grant, vesting, exercise, cancellation and validity period of options.

The grantees shall only be entitled to the property rights expressly specified in the Scheme in relation to the restricted stock units acquired from the exercise of their options, and shall not be entitled to any voting rights or any other shareholders' rights of JJW11 Limited and the Company. The Option Manager shall have the absolute right to exercise the voting rights attached to the Company's shares held by JJW11 Limited and any other shareholders' rights on behalf of JJW11 Limited.

Options granted to the grantees shall not be exercised within 3 years from the date of signing the option incentive agreement under the Scheme. 60% of the options granted shall become exercisable by the grantees between 3 years (inclusive of the 3rd anniversary) and 4 years (exclusive of the 4th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units; 80% of the options granted shall become exercisable by the grantees between 4 years (inclusive of the 4th anniversary) and 5 years (exclusive of the 5th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units; 100% of the options granted shall become exercisable by the grantees after 5 years (inclusive of the 5th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units.

The option exercise price shall be agreed in writing at the time the grantees sign the option incentive agreement with JJW11 Limited, and the grantees may choose (a) to deliver the option exercise price to the Option Manager at the point when the options are exercised, and request the Option Manager to continue to manage the underlying restricted stock units associated with the exercised options, or (b) to deduct the option exercise price from the proceeds from the transfer of the underlying shares of the Company immediately following the exercise of the options.

The following share options were outstanding under the Scheme during the year:

	2019		2018	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**3.2807**	**1,357**	–	–
Granted during the year	**3.2807**	**600**	3.2807	1,357
Forfeited during the year	**3.2807**	**(1,297)**	–	–
At 31 December	**3.2807**	**660**	3.2807	1,357

Notes to Financial Statements

27. SHARE AWARD (Continued)

Restricted Stock Unit Option Incentive Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019

Number of options *'000*	**Exercise price** *HK$ per share*	**Exercise period**
60	3.2807	2021/10/22-2030/10/21
60	3.2807	2022/2/25-2031/2/24
60	3.2807	2022/2/26-2031/2/25
60	3.2807	2022/6/30-2031/6/29
90	3.2807	2022/9/30-2031/9/29
330	3.2807	2022/10/8-2031/10/7
660		

2018

Number of options *'000*	Exercise price *HK$ per share*	Exercise period
200	3.2807	2021/10/15-2030/10/14
60	3.2807	2021/10/22-2030/10/21
1,097	3.2807	2021/11/12-2030/11/11
1,357		

The fair value of the options granted during the year was HK$6,766,000 (HK$11.28 each) (2018: HK$29,123,000), of which the Group recognised a share option expense of RMB168,000 (2018: RMB1,041,000) during the year ended 31 December 2019.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2019	2018
Dividend yield (%)	**0.00**	0.00
Expected volatility (%)	**84.56 – 89.30**	83.18
Risk-free interest rate (%)	**1.34 – 1.76**	2.47
Early exercise multiple	**2.80**	2.80
Weighted average share price (HK$ per share)	**3.09 – 6.82**	7.64
Forfeiture rate (%)	**0.00**	0.00

No other feature of the options granted was incorporated into the measurement of fair value.

Notes to Financial Statements

28. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2019	2018
	RMB'000	*RMB'000*
Loss for the year allocated to non-controlling interests:		
Ascletis BioScience	–	(12,487)

The following tables illustrate the summarised financial information of Ascletis BioScience which became a wholly-owned subsidiary of the Group after the Group's acquisition of its 33.39% interests from non-controlling shareholders in 2018. The amounts disclosed are before any inter-company eliminations:

	2018
	RMB'000
Revenue	8,256
Total expenses	(51,422)
Loss for the year	(43,166)
Total comprehensive loss for the year	(43,166)

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB3,331,000 and RMB3,331,000, respectively, in respect of lease arrangements for office premises and staff dormitory (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Lease liabilities
	RMB'000
At 1 January 2018 and 31 December 2018	–
Effect of adoption of HKFRS 16	**2,248**
At 1 January 2019 (restated)	**2,248**
Change from financing cash flows	**(1,948)**
Finance costs	**182**
New leases	**3,331**
At 31 December 2019	**3,813**

Notes to Financial Statements

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

(c) Total cash outflow for leases

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

	2019
	RMB'000
Within operating activities	**235**
Within financing activities	**1,948**
	2,183

30. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Plant and machinery	**3,520**	11,517

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office premises and staff dormitory under operating lease arrangements. Leases for office premises and staff dormitory were negotiated for terms ranging from two to three years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	RMB'000
Within one year	2,979
In the second to third years, inclusive	4,111
	7,090

31. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with a related party during the year:

	Note	**2019**	2018
		RMB'000	*RMB'000*
An associate:			
Purchase of products	(i)	**212**	–

Notes:

(i) The purchase from an associate is determined at the price mutually agreed between the parties.

Notes to Financial Statements

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

During the year, Ascletis BioScience and Sagimet entered into an exclusive licensing agreement (the "Licensing Agreement") pursuant to which Sagimet granted Ascletis BioScience and its affiliates exclusive rights in Greater China to develop, manufacture and commercialise Sagimet's fatty acid synthase (FASN) inhibitor ASC40 (TVB-2640), a first-in-class, Phase II drug candidate for NASH. Under the Licensing Agreement, Sagimet will be entitled to receive development and commercial milestone payments as well as tiered royalties on future net sales of ASC40 (TVB-2640).

(c) Compensation of key management personnel of the Group:

	2019 *RMB'000*	2018 *RMB'000*
Short term employee benefits	**20,058**	31,288
Pension scheme contributions	**289**	268
Equity-settled share award and option expense	**254**	1,760
Total compensation paid to key management personnel	**20,601**	33,316

Further details of directors' and chief executive's remuneration are included in note 8 to the financial statements.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at amortised cost *RMB'000*	**Total** *RMB'000*
Trade and bills receivables	**69,525**	**69,525**
Financial assets included in prepayments, other receivables and other assets	**23,687**	**23,687**
Cash and cash equivalents	**2,989,164**	**2,989,164**
	3,082,376	**3,082,376**

Notes to Financial Statements

32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2019

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	**Total** *RMB'000*
Trade and bills payables	**6,643**	**6,643**
Lease liabilities	**3,813**	**3,813**
Financial liabilities included in other payables and accruals	**47,623**	**47,623**
	58,079	**58,079**

2018

Financial assets

	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills receivables	57,623	57,623
Financial assets included in prepayments, other receivables and other assets	12,082	12,082
Cash and cash equivalents	3,173,249	3,173,249
	3,242,954	3,242,954

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills payables	14,191	14,191
Financial liabilities included in other payables and accruals	57,425	57,425
	71,616	71,616

Notes to Financial Statements

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair values

All the carrying amounts of the Group's financial instruments approximate to their fair values. Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the finance director. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance director. The valuation process and results are discussed with the directors once a year for annual financial reporting.

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

The fair values of the financial assets at fair value through profit or loss have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Assets measured at fair value:

The Group did not have any financial assets or financial liabilities measured at fair value as at 31 December 2019 (2018: Nil).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

Notes to Financial Statements

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	(Increase)/ decrease in loss before tax RMB'000	Increase/ (decrease) in equity RMB'000
2019			
If RMB weakens against US$	**5**	**124,853**	**124,853**
If RMB strengthens against US$	**(5)**	**(124,853)**	**(124,853)**
If RMB weakens against HK$	**5**	**839**	**839**
If RMB strengthens against HK$	**(5)**	**(839)**	**(839)**
2018			
If RMB weakens against US$	5	92,483	92,483
If RMB strengthens against US$	(5)	(92,483)	(92,483)
If RMB weakens against HK$	5	52,877	52,877
If RMB strengthens against HK$	(5)	(52,877)	(52,877)

Credit risk

The Group trades only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade and bills receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 18 and 19 to the financial statements.

To manage this risk arising from cash and cash equivalents, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

Notes to Financial Statements

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

	As at 31 December 2019				
	On demand RMB'000	**Less than 1 month RMB'000**	**1 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**
Lease liabilities	**–**	**137**	**2,216**	**1,642**	**3,995**
Trade and bills payables	**26**	**1,758**	**4,859**	**–**	**6,643**
Financial liabilities included in other payables and accruals	**32,582**	**1,827**	**12,608**	**606**	**47,623**
	32,608	**3,722**	**19,683**	**2,248**	**58,261**

	As at 31 December 2018				
	On demand RMB'000	Less than 1 month RMB'000	1 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	723	–	13,468	–	14,191
Financial liabilities included in other payables and accruals	48,816	–	8,609	–	57,425
	49,539	–	22,077	–	71,616

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

35. EVENT AFTER THE REPORTING PERIOD

There has been an outbreak of the Corona Virus Disease 2019 ("**COVID-19**") around the world. The Group expects the COVID-19 outbreak to have limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts.

Notes to Financial Statements

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 *RMB'000*	2018 *RMB'000*
NON-CURRENT ASSETS		
Intangible assets	**14,581**	16,301
Investments in subsidiaries	**1,044,383**	456,529
Total non-current assets	**1,058,964**	472,830
CURRENT ASSETS		
Prepayments, other receivables and other assets	**11,815**	9,600
Cash and cash equivalents	**2,075,165**	2,626,753
Total current assets	**2,086,980**	2,636,353
CURRENT LIABILITIES		
Other payables and accruals	**28,557**	35,662
Total current liabilities	**28,557**	35,662
NET CURRENT ASSETS	**2,058,423**	2,600,691
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,117,387**	3,073,521
Net assets	**3,117,387**	3,073,521
EQUITY		
Share capital	**754**	764
Reserves *(note)*	**3,116,633**	3,072,757
Total equity	**3,117,387**	3,073,521

Notes to Financial Statements

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Treasury Shares *RMB'000*	Share premium account *RMB'000*	Capital reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits/ (accumulated losses) *RMB'000*	Total *RMB'000*
At 1 January 2018	–	92,234	–	19,605	(14,430)	97,409
Profit for the year	–	–	–	–	120,743	120,743
Other comprehensive income for the year:						
Exchange differences	–	–	–	39,834	–	39,834
Total comprehensive income for the year	–	–	–	39,834	120,743	160,577
Issue of shares	–	2,970,624	–	–	–	2,970,624
Capitalisation issue	–	(597)	–	–	–	(597)
Share issue expenses	–	(102,871)	–	–	–	(102,871)
Equity-settled share award and option arrangements	–	–	5,430	–	–	5,430
Dividend declared and paid	–	–	–	–	(57,815)	(57,815)
At 31 December 2018	–	2,959,390	5,430	59,439	48,498	3,072,757
At 31 December 2018 and 1 January 2019	–	2,959,390	5,430	59,439	48,498	3,072,757
Profit for the year	–	–	–	–	35,657	35,657
Other comprehensive income for the year:						
Exchange differences	–	–	–	51,354	–	51,354
Total comprehensive income for the year	–	–	–	51,354	35,657	87,011
Equity-settled share award and option arrangements	–	–	3,124	–	–	3,124
Shares repurchased	(46,269)	–	–	–	–	(46,269)
Shares cancelled	46,269	(46,259)	–	–	–	10
At 31 December 2019	–	2,913,131	8,554	110,793	84,155	3,116,633

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 March 2020.

Definitions

"AGM"	annual general meeting of the Company
"Ascletis" or "Company"	Ascletis Pharma Inc., a company incorporated in the Cayman Islands with limited liability on February 25, 2014
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of directors of the Company
"CAGR"	compound annual growth rate
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"China", "Mainland China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this annual report, Hong Kong, Macau Special Administrative Region and Taiwan
"Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Dr. Wu, Mrs. Wu, JJW12 Limited, Lakemont Holding LLC and the Lakemont 2018 GRAT, as a group, or any member of them
"Core Product(s)"	has the meaning ascribed to it in Chapter 18A of the Listing Rules; for purposes of this annual report, our Core Products include Ganovo® (Danoprevir), Ravidasvir, ASC09 and ASC06
"Director(s)"	the director(s) of the Company
"Dr. Wu"	Dr. Jinzi Jason WU (吳勁梓), our Founder and the spouse of Mrs. Wu, chairman of the Board, chief executive officer, an executive Director of the Company, one of our Controlling Shareholders
"Founder"	the founder of our Group, being Dr. Wu
"Group" or "the Group"	the Company and its subsidiaries
"Greater China"	Mainland China, Hong Kong, Macau and Taiwan
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IND"	investigational new drug, an experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved

Definitions

"KOL(s)"	Key opinion leader(s)
"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange on August 1, 2018
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Mrs. Wu"	Mrs. Judy Hejingdao WU, an executive Director, one of our Controlling Shareholders and the spouse of Dr. Wu
"Prospectus"	the prospectus issued by the Company dated July 20, 2018
"R&D"	Research and development
"Reporting Period"	the one-year period from January 1, 2019 to December 31, 2019
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China
"Roche"	F. Hoffmann-La Roche AG, a Swiss multi-national healthcare company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	ordinary shares in the share capital of our Company of US$0.0001 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S. dollar(s)", "USD" or "US$"	United States dollars, the lawful currency of the United States of America
"Written Guidelines"	the Guidelines for Securities Transactions by Directors adopted by the Company

In this annual report, the terms "associate", "connected person", "controlling shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.