



歌禮
ascletis

Ascletis Pharma Inc.
歌禮製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1672

2020

INTERIM REPORT

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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. 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
 Mrs. Judy Hejingdao WU

NOMINATION COMMITTEE

Dr. Jinzi Jason WU *(Chairman)*
 Dr. Yizhen WEI
 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
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 Grand Cayman KY1-9008
 Cayman Islands

CORPORATE HEADQUARTERS

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 PRC

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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CORPORATE INFORMATION

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Central
Hong Kong

STOCK CODE

1672

COMPANY WEBSITE

www.ascletis.com

FINANCIAL HIGHLIGHTS

	Unaudited		
	Six months ended June 30,		
	2020	2019	Changes
	RMB' 000	<i>RMB' 000</i>	%
Revenue			
Sales of products	1,062	55,356	(98.1)
Promotion service revenue	30,772	20,047	53.5
Total	31,834	75,403	(57.8)
Gross profit	20,980	55,676	(62.3)
Loss before tax	(51,465)	(47,232)	(9.0)
Loss for the period	(51,465)	(47,232)	(9.0)
Loss attributable to the owners of the Group	(51,465)	(47,232)	(9.0)
Net loss margin	(161.7%)	(62.6%)	–
	RMB	RMB	
Loss per share			
– Basic	(4.94) cents	(4.47) cents	
– Diluted	(4.94) cents	(4.47) cents	

CORPORATE PROFILE

OUR MISSION

Ascletis' mission is to become a world-class innovative R&D driven biotechnology company addressing unmet medical needs in viral hepatitis, non-alcoholic steatohepatitis (NASH), HIV/AIDS and liver cancer.

OVERVIEW

Ascletis is focusing on developing and commercializing innovative, first/best-in-class drugs against viral hepatitis, NASH, HIV/AIDS 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 of the date of this report, Ascletis has commercialized three drugs, namely (i) Ganovo® (Danoprevir), the first direct-acting antiviral agent for Hepatitis C developed domestically for China; (ii) Pegasys® (Peginterferon alfa-2a), a well-established pegylated interferon for Hepatitis B and C partnered with Shanghai Roche Pharmaceuticals Ltd. ("**Shanghai Roche**"); and (iii) Asclevir® (Ravidasvir) in combination with Ganovo® (Danoprevir) and ribavirin, forms an all-oral and interferon-free cure for Hepatitis C (the "**RDV/DNV Regimen**"). The NDA for Ravidasvir was approved by the NMPA on July 29, 2020.

Even impacted negatively by COVID-19, compared with the first half of 2019, Pegasys® has generated promotion revenue of RMB30.8 million in the first half of 2020, representing a growth rate of 53.5%. Ganovo® (Danoprevir) has only generated sales of RMB1.1 million in the first half of 2020, mainly for the following reasons: (i) since all oral regimens have become standard for HCV treatment in 2020, Ganovo® (Danoprevir) in combination with injectable peginterferon is no longer an option for many HCV patients; and (ii) Ganovo® (Danoprevir) failed to be listed in NRDL during the competitive negotiation at the end of 2019. With recent approval of our first all oral HCV regimen, the RDV/DNV Regimen, we expect our HCV franchise to be more competitive in the near future.

As an innovative R&D driven biotechnology company, the Group's R&D pipeline consists of first/best-in-class drug candidates of antibody-based immunotherapy and small molecules at various preclinical and clinical development stages, addressing unmet medical needs in the following therapeutic areas: NASH, HBV, HIV, and HCV. Among 12 drug candidates in our R&D pipeline, seven drug candidates are in-house developed and the other five are licensed from Big Pharma and leading biotech companies.

CORPORATE PROFILE

During the Reporting Period and up to the date of this report, the Group has made remarkable progress as summarized below:

- completed Phase II trial of the first-in-class fatty acid synthase (FASN) inhibitor for NASH, with a 61% responder rate in the 50mg cohort;
- received IND approval on January 22, 2020 and dosed first HBV patient in Phase IIa clinical trial of ASC22, a subcutaneously administered PD-L1 antibody;
- completed bridging study of ASC18, an in-house developed one-pill, once-a-day fixed dose combination as a complete HCV oral regimen;
- received IND approval for ASC41 on May 13, 2020, an orally bioavailable, highly selective small molecule THR- β agonist, developed in-house, for the treatment of NASH;
- received IND approval for ASC09F on April 13, 2020, an in-house developed fixed dose combination for HIV;
- progressed ASC42, an in-house developed Farnesoid X Receptor (FXR) agonist with best-in-class potential, into IND ready asset; and
- completed first clinical study using HCV protease inhibitor Ganovo[®] (Danoprevir) to treat Naïve and experienced COVID-19 patients.

Other than Ganovo[®] (Danoprevir), Pegasys[®] and Asclevir[®] (Ravidasvir), 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 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)	[Progress bar]								Roche	Greater China
NS5A	Asclevir® (Ravidasvir)	[Progress bar]								PRESIDIO	Greater China
Dual Targeted FDC	ASC18	[Progress bar]							In-house	Greater China	
NS5B	ASC21	[Progress bar]							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	Pegasy® (Peginterferon alfa-2a)	[Progress bar]								Roche	Mainland China
PD-L1	ASC22	[Progress bar]							康宁杰瑞 KANGINJERUI	Greater China	
Undisclosed	Candidate identified	[Progress bar]							In-house	Global	
Undisclosed	Candidate identified	[Progress bar]							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	[Progress bar]								In-house	Global
Protease	ASC09F (ASC09/Ritonavir FDC)	[Progress bar]							In-house	Mainland China and Macau	

COVID-19

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	Phase IV	
Protease	Ganovo® /Ritonavir	[Progress bar]						
Protease	ASC09F (ASC09/Ritonavir FDC)	[Progress bar]						

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	[Progress bar]							SAGIMET BIOTECHNOLOGIES	Greater China
THR-beta	ASC41	[Progress bar]							In-house	Global
FXR	ASC42	[Progress bar]							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	[Progress bar]							Alnylam	Greater China

Note: The tablet formulation of Ritonavir that the Group develops 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 first half of 2020, the Group made remarkable progress with respect to its business.

COMMERCIALIZED PRODUCTS

- **Pegasys® promotion income of RMB30.8 million**

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. We began our exclusive sales and promotion of Pegasys® in Mainland China from December 1, 2018 and recorded RMB30.8 million income from the marketing promotion of Pegasys® during the Reporting Period.

Even impacted negatively by COVID-19, Pegasys® has generated promotion revenue of RMB30.8 million in the first half of 2020, representing a growth rate of 53.5% in the first half of 2020 compared to the first half of 2019.

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.

- **Ganovo® (Danoprevir) sales of RMB1.1 million**

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 treatment duration of 12 weeks and a good safety and tolerability profile.

Ganovo® (Danoprevir) is our first commercialized product. We obtained the NDA approval from NMPA on June 8, 2018, and have begun to commercialize Ganovo® in Mainland China since then. The Group only recorded RMB1.1 million sales of Ganovo® (Danoprevir) in Mainland China during the Reporting Period, mainly for the following reasons: (i) since all oral regimens have become standard for HCV treatment in 2020, Ganovo® (Danoprevir) in combination with injectable peginterferon is no longer an option for many HCV patients; and (ii) Ganovo® (Danoprevir) failed to be listed in NRDL during the competitive negotiation at the end of 2019. To date, Ganovo® is covered by the Basic Medical Insurance of Zhejiang Province.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMERCIALIZED PRODUCTS (Continued)

- **NDA approval for Ravidasvir**

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, or the RDV/DNV Regimen, forms an all-oral and interferon-free cure for Hepatitis C. Our 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 the RDV/DNV Regimen demonstrated a cure rate of 100% (SVR12). With the approval of our first all oral HCV regimen, the RDV/DNV Regimen, we expect our HCV franchise to be more competitive in the near future.

- **Capability of commercialization**

The Group has demonstrated strong development capability and established a solid commercial presence in China in the area of hepatitis. As of June 30, 2020, the Group has built a commercialization team of approximately 135 members, covering approximately 1,000 hospitals and pharmacies strategically located in regions where Hepatitis C and B are most prevalent in China. Our commercial team has identified and educated approximately 6,000 specialists and KOLs in the hepatitis field. We have entered into 19 distribution agreements with different distributors that cover 368 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

DRUG CANDIDATES IN THE PIPELINE

NASH

The Group has built a leading NASH pipeline consisting of three drug candidates: (i) ASC40: a Phase II first-in-class FASN inhibitor; (ii) ASC41: a Phase I highly selective small molecule THR- β agonist; and (iii) ASC42: an FXR agonist with best-in-class potential. With three drug candidates against three different targets in our NASH pipeline, the Group is accelerating the development of innovative drugs.

- **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 preliminary data shows that ASC40 significantly reduced liver fat, as the primary efficacy endpoint of this trial, with a 61% responder rate in the 50mg group. Participants also showed improvement in markers of liver function and fibrosis. A single-dose, pharmacokinetic bridging study of NASH drug candidate ASC40 on 34 subjects in China has been completed and data indicates that key pharmacokinetic parameters (C_{max} , AUC, T_{max} and $t_{1/2}$) are consistent between subjects in China and in the United States.
- **ASC41**
ASC41 is an orally bioavailable, highly selective small molecule THR- β agonist for the treatment of NASH which is developed in-house by the Group. In mouse NASH model, ASC41 can reduce up to 45% NAS score and 25% liver fibrosis score. ASC41 is expected to be used alone or in combination with ASC40 or ASC42. IND for ASC41 was approved by NMPA on May 13, 2020 to conduct clinical trials of NASH indication.
- **ASC42**
ASC42 is a potent FXR agonist developed in-house. We expect to file IND in the second half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

DRUG CANDIDATES IN THE PIPELINE (Continued)

HBV

The Group has built a leading pipeline for curing HBV consisting of (i) cornerstone assets: Marketed Pegasys® and Phase II subcutaneously injected PD-L1 antibody – ASC22; and (ii) two in-house developed drug candidates against human targets, with the first-in-class potential.

- **ASC22**

Phase II PD-L1 antibody for Hepatitis B cure. ASC22 (Envafohimab), 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 1,000 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 and can serve as a cornerstone therapy in combination with other novel therapies to clinically cure HBV. The Group recently finished dosing of the first HBV patient in Phase IIa clinical trial of ASC22 (Envafohimab).

- **Candidates identified**

The Group has two in-house developed drug candidates against human targets (not disclosed), with the first-in-class potential. These two drug candidates are expected to use in combination with Pegasys® or ASC22 in upcoming clinical trials in order to clinically cure Hepatitis B.

HCV

- **ASC18**

ASC18 is an in-house developed one-pill, once-a-day fixed dose combination (FDC) as a complete oral HCV regimen. The Group recently completed bridging study of ASC18. The results from this Phase I bridging study on 20 subjects indicated that ASC18 FDC one-pill once-a-day showed comparable pharmacokinetics (PK), safety and tolerability with RDV 200mg + SOF 400mg given in separate pills. ASC18 FDC will further enhance Asclethis' competitiveness in HCV marketplace.

The STORM-C-1 Phase II/III trial, conducted by Drugs for Neglected Diseases initiative (DNDi) and reported at the International Liver Conference held in Paris on April 12, 2018, enrolled 300 HCV patients administered with separate 200 mg RDV tablet plus 400 mg SOF tablet for 12 weeks for patients without liver cirrhosis and for 24 weeks for those with compensated cirrhosis. The results showed an overall cure rate (SVR12) of 97%, 96% in cirrhotic subjects, and high SVR12 rates across the genotypes studied: 99% in genotype 1a, 100% in genotype 1b, 96% in genotype 3a, 100% in genotype 3b, and 81% among the small group of genotype 6 subjects. The SVR12 rates are high for HCV/HIV co-infection patients using their usual treatment (97%) and people infected with genotype 3 (97%) including those with cirrhosis (96%).

MANAGEMENT DISCUSSION AND ANALYSIS

DRUG CANDIDATES IN THE PIPELINE (Continued)

HIV/AIDS

- **ASC09F**
ASC09F is a potential best-in-class protease inhibitor to treat HIV type-1 infections. ASC09F 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 ASC09F requires seven mutations before HIV develops resistance to ASC09F, indicating ASC09F to have high genetic barrier to resistance compared to other approved protease inhibitors. Lopinavir, an HIV protease inhibitor, has been approved to market 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 ASC09F is a promising candidate for 72% clinical isolates resistant to Darunavir. The clinical trials have also shown that ASC09F is safe and well-tolerated. These characteristics make ASC09F a promising HIV drug therapy candidate for both treatment-naïve and treatment-experienced patients.

ASC09F is an in-house developed fixed dose combination (FDC) consisting of ASC09 and ritonavir. The IND approval for ASC09F has been granted by the NMPA on April 13, 2020 and the clinical trials are ongoing.

Others

- **COVID-19**
The Group completed first clinical study using HCV protease inhibitor Ganovo® (Danoprevir) to treat Naïve and experienced COVID-19 patients. The data from this small-sample clinical study showed that Ganovo® (Danoprevir) combined with ritonavir is safe and well tolerated in all patients. After 4 to 12-day treatment of Ganovo® (Danoprevir) combined with ritonavir, all 11 moderate COVID-19 patients enrolled, two Naïve and nine experienced, were discharged from the hospital as they met all four conditions as follows: (i) normal body temperature for at least 3 days; (ii) significantly improved respiratory symptoms; (iii) lung imaging shows obvious absorption and recovery of acute exudative lesion; and (iv) two consecutive RT-PCR negative tests of SARS-CoV-2 nucleotide acid (respiratory track sampling with interval at least one day).

After initiation of Danoprevir/Ritonavir treatment, the first negative RT-PCR test occurred at a median of 2 days, ranging from 1 to 8 days, and the obvious absorption in CT scans occurred at a median 3 days, ranging from 2 to 4 days.

- **Pre-clinical programs**
We have multiple wholly-owned, in-house developed pre-clinical programs. They are expected to develop novel therapies for cancer and achieve high functional cures for Hepatitis B.

MANAGEMENT DISCUSSION AND ANALYSIS

THE GROUP'S FACILITIES

We have one manufacturing facility located in Shaoxing, Zhejiang Province, PRC, with a total gross floor area of approximately 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 in or after 2015 from leading international manufacturers, such as Leistritz and Fette.

As of June 30, 2020, we had nine subsidiaries, all of which are wholly owned by us. Our business was mainly conducted in China through three of our five onshore operating subsidiaries, being Ascleto BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司), Ascleto 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 the second half of 2020 and beyond, we will be focusing on:

1. Global development of our three NASH assets: NASH is a complicated metabolic disease which involves multiple targets and mechanisms. The Group's three NASH assets target three different mechanisms of NASH: FASN, THR- β and FXR. These three assets have potential to be used alone or in combination to treat NASH. Since NASH is a global disease, the Group will focus on clinical development in USA, Europe and China.
2. Continuing effort to build 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) in-house developed human targets; and (ii) collaboration with other industry leaders in HBV clinical cure.
3. Promotion revenue from Pegasys[®]: 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 promotion revenue growth of Pegasys[®] as the paradigm of Hepatitis B patients management is pursuing clinical cure.
4. Sustainable HCV franchise to maximize sales: we will focus more on recently approved Ravidasvir/Danoprevir all-oral and interferon-free regimen. The Group recently completed Phase I bridging study of ASC18, a one-pill, once-a-day FDC, which will further enhance Group's competitiveness in HCV marketplace.
5. Expansion of portfolio: with the IND approval of ASC09F and clinical trial ongoing, the Group will be focusing on the opportunities to expand our HIV/AIDS portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

Even impacted negatively by COVID-19, Pegasys® has generated promotion revenue of RMB30.8 million in the first half of 2020, representing a growth rate of 53.5% in the first half of 2020 compared to the first half of 2019.

The revenue of the Group decreased by 57.8% from approximately RMB75.4 million for the six months ended June 30, 2019 to approximately RMB31.8 million for the six months ended June 30, 2020. The decrease was mainly because the Group only recorded RMB1.1 million sales of Ganovo® (Danoprevir) in Mainland China during the Reporting Period for the following reasons: (i) since all oral regimens have become standard for HCV treatment in 2020, Ganovo® (Danoprevir) in combination with injectable peginterferon is no longer an option for many HCV patients; and (ii) Ganovo® (Danoprevir) failed to be listed in NRDL during the competitive negotiation at the end of 2019.

Cost of Sales

The cost of sales of the Group decreased by 45.0% from approximately RMB19.7 million for the six months ended June 30, 2019 to approximately RMB10.9 million for the six months ended June 30, 2020. The decreased cost of sales was mainly attributed to the decreased cost of Ganovo® (Danoprevir) along with revenue decreasing and reducing 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 impairment of inventories.

Direct labor costs primary 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 technologies and intellectual properties to manufacture APIs for Danoprevir. Unlike the case for Ganovo® (Danoprevir), we would manufacture the APIs and tablet formulation for Asclevir® (Ravidasvir) in-house.

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.

The cost of rendering promotion services primarily consists of costs incurred for the direct promotion.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Gross Profit

The gross profit of the Group decreased by 62.3% from approximately RMB55.7 million for the six months ended June 30, 2019 to approximately RMB21.0 million for the six months ended June 30, 2020. The decrease in the gross profit was mainly due to the limited sales of Ganovo® (Danoprevir).

Other Income and Gains

The other income and gains of the Group decreased by 1.0% from approximately RMB58.9 million for the six months ended June 30, 2019 to approximately RMB58.4 million for the six months ended June 30, 2020, primarily because (i) bank interest income was RMB28.1 million for the six months ended June 30, 2020 and RMB33.3 million for the six months ended June 30, 2019; (ii) the Group recorded RMB24.3 million in government grants for the six months ended June 30, 2020 and RMB25.6 million for the six months ended June 30, 2019, respectively; and (iii) net foreign exchange gain was RMB5.9 million for the six months ended June 30, 2020, mainly arising from the translation of the U.S. dollar dominated-cash portion into Renminbi due to the appreciation of U.S. dollar against Renminbi.

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 periods indicated:

	Unaudited			
	Six months ended June 30,			
	2020		2019	
	<i>RMB' 000</i>	%	<i>RMB' 000</i>	%
Bank interest income	28,119	48.2	33,331	56.5
Government grants	24,341	41.7	25,616	43.5
Foreign exchange gain, net	5,862	10.0	–	–
Others	37	0.1	–	–
Total	58,359	100.0	58,947	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Selling and Distribution Expenses

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

The selling and distribution expenses of the Group represented 58.7% of the overall revenue of the Group for the six months ended June 30, 2019, and represented 55.8% of the overall revenue of the Group for the six months ended June 30, 2020.

Administrative Expenses

The administrative expenses of the Group decreased significantly by 20.1% from approximately RMB28.4 million for the six months ended June 30, 2019 to approximately RMB22.7 million for the six months ended June 30, 2020, primarily due to (i) a decrease in staff salary and welfare of RMB3.3 million which is in line with the headcount movement; and (ii) a decrease in utilities, rent and general office expenses of RMB3.0 million as a result of the cost saving and a reduction in the lease payments.

Our administrative expenses primarily comprise of staff salary and welfare costs for non-research and development personnel, utilities, rent and general office expenses and agency and consulting fees.

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

	Unaudited			
	Six months ended June 30,			
	2020		2019	
	<i>RMB' 000</i>	%	<i>RMB' 000</i>	%
Staff salary and welfare	12,504	55.2	15,797	55.7
Utilities, rent and general office expenses	8,244	36.4	11,275	39.7
Agency and consulting fee	1,578	6.9	988	3.5
Others	340	1.5	323	1.1
Total	22,666	100.0	28,383	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

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 19.4% from approximately RMB64.2 million for the six months ended June 30, 2019 to approximately RMB51.7 million for the six months ended June 30, 2020, for developing our drug candidates.

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

	Unaudited Six months ended June 30,	
	2020 RMB' 000	2019 RMB' 000
Clinical trial expenses	23,302	36,660
Staff costs	16,277	13,767
Third-party contracting costs	466	866
Depreciation and amortization	8,983	7,239
Others	2,707	5,637
Total	51,735	64,169

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

	Unaudited Six months ended June 30,	
	2020 RMB' 000	2019 RMB' 000
NASH	19,259	7,764
HCV	15,593	38,619
HBV	10,243	5,087
HIV	3,507	12,699
Others ^(Note)	3,133	–
Total	51,735	64,169

Note:

"Others" includes research and development costs of COVID-19, ASC06 and pre-clinical programs.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Finance costs

The Group recorded finance costs to approximately RMB0.08 million for the six months ended June 30, 2020, as a result of the interest on the lease liabilities.

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

	Unaudited Six months ended June 30,	
	2020 RMB' 000	2019 RMB' 000
Interest on lease liabilities	80	77
Total	80	77

Other Expenses

Other expenses of the Group increased by 49.0% from approximately RMB20.2 million for the six months ended June 30, 2019 to approximately RMB30.1 million for the six months ended June 30, 2020, mainly due to (i) the impairment of inventories was RMB6.6 million for the six months ended June 30, 2020; (ii) we recognized impairment of an intangible asset on ASC21 IP upfront payment with RMB5.8 million as business strategic plan change; and (iii) nil of foreign exchange loss for the six months ended June 30, 2020.

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

	Unaudited Six months ended June 30,	
	2020 RMB' 000	2019 RMB' 000
Donation	17,664	15,013
Impairment of inventories	6,631	–
Impairment of an intangible asset	5,771	–
Loss on disposal of items of property, plant and equipment	–	707
Foreign exchange loss, net	–	4,278
Others	1	175
Total	30,067	20,173

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from 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 Group did not incur any income tax expense as the Group did not generate taxable income for the six months ended June 30, 2019 and the six months ended June 30, 2020.

We have tax losses arising in the PRC of RMB563.6 million as at December 31, 2019, which are expected to expire in one to five years for offsetting our future taxable profits.

Inventories

The inventories of the Group consist of raw materials used in the commercial manufacturing, work in progress, finish goods and research materials. The inventories decreased by 5.0% from approximately RMB86.0 million as at December 31, 2019 to approximately RMB81.7 million as at June 30, 2020. The following table sets forth the inventory balances as of the dates indicated:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Raw materials	52,760	60,468
Work in progress	23,876	20,408
Finished goods	5,097	5,163
Total	81,733	86,039

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Trade Receivables

The Group had approximately RMB68.5 million trade receivables as at December 31, 2019 and approximately RMB63.8 million as at June 30, 2020.

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Trade receivables	63,809	68,485
Less: Impairment of trade receivables	52	88
Total	63,757	68,397

The Group's trading terms with its customers are mainly on credit. The credit period is generally from 30 days to 360 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 ageing analysis of the trade receivables as at the dates indicated, based on the invoice date, is as follows:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Within 3 months	33,849	68,397
3 to 6 months	1,800	-
6 to 12 months	28,108	-
Total	63,757	68,397

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:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Value-added tax recoverable	14,042	13,225
Interest receivable	9,778	18,899
Prepayments	5,923	7,686
Deposits and other receivables	1,780	4,788
Prepaid expenses	1,499	1,885
Prepaid income tax	1,363	1,363
Total	34,385	47,846

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Prepayments, Other Receivables and Other Assets (Continued)

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 increased from approximately RMB13.2 million as of December 31, 2019 to approximately RMB14.0 million as of June 30, 2020, which was in line with our increased purchases of service and raw materials.

We had approximately RMB18.9 million and approximately RMB9.8 million interest receivable as of December 31, 2019 and June 30, 2020, respectively, which represent the expected interest to be received on time deposits.

Our prepayments represented the amounts mainly relating to our purchase of inventory. Our prepayments decreased by 22.9% from approximately RMB7.7 million as of December 31, 2019 to approximately RMB5.9 million as of June 30, 2020. Prepayments to supplier as at the end of June 30, 2020 are due within one year.

Other receivables and prepaid expenses are miscellaneous expenses including rental and 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 value, as at the end of June 30, 2020 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:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Cash and bank balances	978,052	167,982
Time deposits	2,018,859	2,821,182
Total	2,996,911	2,989,164

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 term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

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:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Trade payables	5,021	3,961
Bills payable	–	2,682
Total	5,021	6,643

The following table sets forth an ageing analysis of trade payables due to third parties as at the dates indicated, which is based on invoice date:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Within 3 months	5,000	3,961
Over 3 months	21	2,682
Total	5,021	6,643

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

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Other payables	33,920	33,276
Payroll payable	12,164	23,387
Accrued expenses	11,844	14,347
Refund liabilities	1,599	4,432
Taxes other than income tax	621	1,617
Total	60,148	77,059

Our other payables and accrued expenses decreased by 3.9% from approximately RMB47.6 million as of December 31, 2019 to approximately RMB45.8 million as of June 30, 2020 as payment term in contract. Other payables and accruals are non-interest-bearing and are due within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Trade and Other Payables (Continued)

The payroll payable are the annual bonus of 2020 accrued and June 2020 salary accrued, which are due within one year.

The accrued expenses as at June 30, 2020 mainly represented the 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:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Government grants		
– Current	1,724	1,724
– Non-current	12,069	12,931
Total	13,793	14,655

Other Intangible Assets

The other intangible assets of the Group decreased by 8.6% from approximately RMB75.6 million for as at December 31, 2019 to approximately RMB69.1 million for as at June 30, 2020, due to the recognition of an impairment loss for ASC21 IP upfront payments to Medivir.

Our other intangible assets primarily include (i) a patent that was transferred from Presidio to us in relation to the Presidio Licensing Agreement, under which we made upfront and milestone payments to Presidio; (ii) a patent that was transferred from Medivir to us in relation to the Medivir Licensing Agreement, under which we made upfront payment to Medivir; and (iii) a patent that was transferred from Alphamab to us in relation to the Alphamab Licensing and Development Agreement, under which we made upfront payments to Alphamab.

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 recognized an impairment loss for ASC21 as business strategic plan throughout the Reporting Period. ASC21 is an NS5B nucleotide polymerase inhibitor that has shown in in vitro studies to have potent, pan-genotypic anti-viral activity and a high genetic barrier to resistance.

Because our other intangible assets primarily represent a patent transferred to us from Presidio, which related to the development, manufacture and commercialization of Ravidasvir in Greater China. The NDA for Ravidasvir has been approved by NMPA on July 29, 2020. And IND of ASC22 was approved by NMPA on January 22, 2020 to conduct clinical trials in Hepatitis B patients. Therefore, we did not foresee any indicators of impairment for these two intangible assets.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

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 statements of cash flows for the periods indicated and analysis of balances of cash and cash equivalents for the periods indicated:

	June 30, 2020 (Unaudited) RMB' 000	June 30, 2019 (Unaudited) RMB' 000
Net cash used in operating activities	(17,936)	(64,434)
Net cash used in investing activities	(362,611)	(616,089)
Net cash used in financing activities	(1,013)	(812)
Net decrease in cash and cash equivalents	(381,560)	(681,335)
Cash and cash equivalents at the beginning of the period	2,295,044	1,781,892
Effect of foreign exchange rate changes, net	30,178	2,399
Cash and cash equivalents at the end of the period	1,943,662	1,102,956

As at June 30, 2020, 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 receivables from customers, government grants and bank interests. Our cash outflow from operating activities mainly consisted of research and development costs, and administrative expenses.

For the six months ended June 30, 2020, we had net cash flows used in operating activities of approximately RMB17.9 million, primarily as a result of operating loss before changes in working capital of approximately RMB43.5 million. The negative changes in working capital mainly due to (i) a decrease of approximately RMB16.9 million in other payables and accruals as payment term; (ii) an increase in inventories of approximately RMB2.3 million; (iii) a decrease in trade and bills receivables of approximately RMB5.8 million.

For the six months ended June 30, 2019, we had net cash flows used in operating activities of approximately RMB64.4 million, primarily as a result of operating loss before changes in working capital of approximately RMB56.5 million. The negative changes in working capital are mainly due to (i) a decrease in other payables and accruals of approximately RMB14.7 million; (ii) an increase of approximately RMB10.5 million in trade receivables in relation to our product sales; (iii) a decrease in prepayments, other receivables and other assets of approximately RMB6.9 million; and (iv) an increase in bank interest of approximately RMB24.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Investing Activities

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

For the six months ended June 30, 2020, our net cash used in investing activities was approximately RMB362.6 million, primarily attributable to an increase in time deposits with original maturity of over three months of approximately RMB359.1 million.

For the six months ended June 30, 2019, our net cash used in investing activities was approximately RMB616.1 million, primarily attributable to: (i) an increase in time deposits with original maturity of over three months of approximately RMB549.6 million; and (ii) investment in an associate of approximately RMB54.3 million.

Financing Activities

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

For the six months ended June 30, 2020, our net cash flows used in financing activities was RMB1.0 million, primarily attributable to the principal portion of lease payments.

For the six months ended June 30, 2019, our net cash flows used in financing activities was RMB0.8 million, primarily attributable to principal portion of lease payments.

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:

	June 30, 2020 (Unaudited) RMB' 000	December 31, 2019 (Audited) RMB' 000
Plant and machinery	646	4,348
Motor vehicles	–	121
Office equipment	97	2,383
Leasehold improvements	–	1,284
Construction in progress	2,745	11,006
Total	3,488	19,142

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Significant Investments, Material Acquisitions and Disposals

As at June 30, 2020 and up to the date of this report, there were no significant investments held by the Group. For the six months ended June 30, 2020, we did not have material acquisitions or disposals of subsidiaries, associates and joint ventures.

Indebtedness

Borrowings

As at June 30, 2020, the Group did not have any borrowing, and the undrawn bank facilities was RMB200.0 million as of the same date.

As at June 30, 2020, 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.

Contingent Liabilities, Charges of Assets and Guarantees

As at June 30, 2020, the Group were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, and did not have any contingent liabilities, that, we expected 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 June 30, 2020 and December 31, 2019, respectively.

The Group had the capital commitments in the amount of approximately RMB1.1 million and RMB3.5 million as at June 30, 2020 and December 31, 2019, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Indebtedness (Continued)

Gearing Ratio

Gearing ratio is calculated using total liabilities divided total assets and multiplied by 100%. As at June 30, 2020, the gearing ratio of the Group was 2.4% (as at December 31, 2019: 3.0%).

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Current ratio ⁽¹⁾	46.3	36.4
Quick ratio ⁽²⁾	45.1	35.4

Notes:

- (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 36.4 as of December 31, 2019 to 46.3 as of June 30, 2020, and our quick ratio increased from 35.4 as of December 31, 2019 to 45.1 as of June 30, 2020, 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 into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. The Group seek 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 0.0% of the total revenue of the Company for both the six months ended June 30, 2019 and the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Employees and Remuneration Policies

As at June 30, 2020, the Group had a total of 285 employees, 283 of which were located in the PRC and 2 consultants were located abroad, and over 62.0% 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	54	19
Commercialization	135	47
Manufacturing	47	17
Operations	44	15
Total	285	100

The Group's total staff costs for the six months ended June 30, 2020 was RMB47.8 million, compared to RMB57.1 million for the six months ended June 30, 2019.

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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Share Option Scheme

Pursuant to a share option scheme adopted by the Company on June 6, 2019, the Company may grant options to eligible participants to subscribe for Shares subject to the terms and conditions stipulated therein.

Details of the movement of share options granted under the share option scheme during the Reporting Period are as follows:

Category of participants	Date of grant	Exercise price per Share	Closing price immediately before the date of grant	Options balance outstanding as at January 1, 2020	Options granted during the Reporting Period	Options exercised during the Reporting Period	Options lapsed during the Reporting Period	Options cancelled during the Reporting Period	Options outstanding as at June 30, 2020
Employee of the Group	March 31, 2020	HK\$2.90	HK\$2.86	-	5,413,155	-	-	164,035	5,249,120

For share options granted on March 31, 2020, none of the options were granted to any of the Directors, chief executive officer and substantial shareholders of the Company or an associate (as defined under the Listing Rules) of any of them. All of such options are with the same exercise period commencing from the relevant vesting date and ending on March 30, 2030:

Vesting date	Percentage of the share options to be vested
March 31, 2021	20%
March 31, 2022	20%
March 31, 2023	20%
March 31, 2024	20%
March 31, 2025	20%

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the share option scheme during the Reporting Period.

Fair Value of Share Options Granted

The fair value of the options granted during the period was HK\$10,677,000, of which the Group recognised a share option expense of RMB1,114,000 during the period ended June 30, 2020 (six months ended June 30, 2019: Nil).

The fair value of equity-settled share options granted during the period 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:

	2020
Dividend yield (%)	0.00
Expected volatility (%)	82.22
Risk-free interest rate (%)	0.75
Early exercise multiple	2.20-2.80
Weighted average share price (HK\$ per share)	2.90
Forfeiture rate (%)	0.00

No other feature of the options granted was incorporated into the measurement of fair value.

OTHER INFORMATION

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. Jinzi Jason 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.

CHANGES IN DIRECTORS' INFORMATION

Dr. Ru Rong JI has resigned as an Independent Non-executive Director, and a member of each of the remuneration committee and the nomination committee of the Board of the Company with effect from June 30, 2020.

Mrs. Judy Hejingdao WU has been appointed as a member of the remuneration committee of the Board and Dr. Yizhen WEI has been appointed as a member of the nomination committee of the Board, both with effect from June 30, 2020.

Save as disclosed above, there is no other change in Directors' biographical details which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

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.

OTHER INFORMATION

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

As of the date of this Interim 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:

Note: Below disclosure are based on the current DI filings available on the HKEX website.

(I) 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 of controlled corporation ⁽²⁾	597,221,078 (L)	53.98%
	Interest held jointly with another person ⁽³⁾	2,311,000 (L)	0.21%
Mrs. Wu	Beneficiary of a trust ⁽²⁾	44,827,414 (L)	4.05%
	Interest of your 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.

As of the date of this report, Lakemont Holding LLC was controlled by Lakemont Remainder Trust as to 56.55% and Dr. Wu as to 43.45%. Mrs. Wu exercises the voting rights of the Shares held through Lakemont Remainder Trust and is a beneficiary of the Lakemont Remainder Trust.

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

Save as disclosed above, as of the date of this Interim 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.

OTHER INFORMATION

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

As of the date of this Interim 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.

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) As of the date of this Interim Report, the only issued one 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 Ascleto 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 Ascleto 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 Ascleto 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.

OTHER INFORMATION

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 (Continued)

Save as disclosed above, as of the date of this Interim 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.

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). Dealings in these shares on the Stock Exchange commenced on August 1, 2018.

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 June 30, 2020:

Use of proceeds	Planned applications (HK\$ million)	Percentage of total net proceeds (%)	Actual usage up to June 30, 2020 (HK\$ million)	Unutilized net proceeds as at June 30, 2020 (HK\$ million)	Expected timeframe for use of proceeds
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	197.3	695.3	The remaining amount is expected to be utilized in around four years from June 30, 2020.
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	287.3	456.6	The remaining amount is expected to be utilized in around three years from June 30, 2020.

OTHER INFORMATION

USE OF PROCEEDS FROM LISTING (Continued)

Use of proceeds	Planned applications (HK\$ million)	Percentage of total net proceeds (%)	Actual usage up to June 30, 2020 (HK\$ million)	Unutilized net proceeds as at June 30, 2020 (HK\$ million)	Expected timeframe for use of proceeds
For the other assets and other purposes					
For pursuing in-licensing of new drug candidates	446.3	15.0	35.7	410.6	The remaining amount is expected to be utilized in around three years from June 30, 2020.
For research and development of ASC21	297.5	10.0	13.1	284.4	The remaining amount is expected to be utilized in around four years from June 30, 2020.
For supporting the research and development infrastructure and the early development of the two in-house drug programs at discovery stage for Hepatitis B and NASH	297.5	10.0	64.2	233.3	The remaining amount is expected to be utilized in around three years from June 30, 2020.
For the working capital and other general corporate purposes	297.5	10.0	95.4	202.1	The remaining amount is expected to be utilized in around four years from June 30, 2020.
Total	2,975.3⁽¹⁾	100.0	693.0	2,282.3	-

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.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM REPORT

The independent auditors of the Company, namely, Ernst & Young, have carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Jiong GU, Dr. Yizhen WEI, and Ms. Lin HUA. The chairman of the Audit Committee is Mr. Jiong GU. The Audit Committee has jointly reviewed with the management the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the unaudited interim results for the six months ended June 30, 2019) of the Group. The Audit Committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended June 30, 2020.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

For and on behalf of the Board

Ascletris Pharma Inc.

歌禮製藥有限公司

Jinzi Jason WU

Chairman

Hangzhou, the People's Republic of China,
August 28, 2020

Independent Review Report



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To the board of directors of Ascletris Pharma Inc.

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 37 to 50, which comprises the condensed consolidated statement of financial position of Ascletris Pharma Inc. (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
28 August 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) RMB'000
REVENUE	4	31,834	75,403
Cost of sales, <i>including royalties</i>		(10,854) <i>(41)</i>	(19,727) <i>(2,100)</i>
Gross profit		20,980	55,676
Other income and gains		58,359	58,947
Selling and distribution expenses		(17,773)	(44,292)
Research and development costs		(51,735)	(64,169)
Administrative expenses		(22,666)	(28,383)
Finance costs		(80)	(77)
Other expenses		(30,067)	(20,173)
Share of loss of an associate		(8,483)	(4,761)
LOSS BEFORE TAX	5	(51,465)	(47,232)
Income tax	6	-	-
LOSS FOR THE PERIOD		(51,465)	(47,232)
Attributable to: Owners of the parent		(51,465)	(47,232)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
BASIC	8	RMB (4.94) cents	RMB (4.47) cents
DILUTED	8	RMB (4.94) cents	RMB (4.47) cents

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) RMB'000
LOSS FOR THE PERIOD	(51,465)	(47,232)
OTHER COMPREHENSIVE LOSS		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	3,381	1,438
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	28,225	2,258
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	31,606	3,696
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(19,859)	(43,536)
Attributable to:		
Owners of the parent	(19,859)	(43,536)

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	87,938	94,494
Right-of-use assets		3,105	4,233
Intangible assets		69,100	75,614
Investment in an associate		50,430	58,109
Long-term deferred expenditure		1,154	1,363
Total non-current assets		211,727	233,813
CURRENT ASSETS			
Inventories		81,733	86,039
Trade and bills receivables	10	63,757	69,525
Prepayments, other receivables and other assets		34,385	47,846
Cash and cash equivalents		2,996,911	2,989,164
Total current assets		3,176,786	3,192,574
CURRENT LIABILITIES			
Trade and bills payables	11	5,021	6,643
Other payables and accruals		60,148	77,059
Lease liabilities		1,667	2,226
Deferred income		1,724	1,724
Total current liabilities		68,560	87,652
NET CURRENT ASSETS		3,108,226	3,104,922
TOTAL ASSETS LESS CURRENT LIABILITIES		3,319,953	3,338,735
NON-CURRENT LIABILITIES			
Lease liabilities		1,022	1,587
Deferred income		12,069	12,931
Total non-current liabilities		13,091	14,518
Net assets		3,306,862	3,324,217
EQUITY			
Equity attributable to owners of the parent			
Share capital		754	754
Reserves		3,306,108	3,323,463
Total equity		3,306,862	3,324,217

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the parent					Total RMB'000
	Share capital RMB'000	Share premium account* RMB'000	Capital reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	
At 1 January 2020 (audited)	754	2,913,131	652,928	63,991	(306,587)	3,324,217
Loss for the period	-	-	-	-	(51,465)	(51,465)
Other comprehensive income for the period:						
Exchange differences	-	-	-	31,606	-	31,606
Total comprehensive loss for the period	-	-	-	31,606	(51,465)	(19,859)
Equity-settled share award and option arrangements	-	-	2,504	-	-	2,504
At 30 June 2020 (unaudited)	754	2,913,131	655,432	95,597	(358,052)	3,306,862

* These reserve accounts comprise the consolidated reserves of RMB3,306,108,000 in the interim condensed consolidated statement of financial position as at 30 June 2020.

For the six months ended 30 June 2019

	Attributable to owners of the parent					Total RMB'000
	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	
At 1 January 2019 (audited)	764	2,959,390	649,804	28,072	(210,618)	3,427,412
Loss for the period	-	-	-	-	(47,232)	(47,232)
Other comprehensive income for the period:						
Exchange differences	-	-	-	3,696	-	3,696
Total comprehensive loss for the period	-	-	-	3,696	(47,232)	(43,536)
Equity-settled share award and option arrangements	-	-	4,697	-	-	4,697
At 30 June 2019 (unaudited)	764	2,959,390	654,501	31,768	(257,850)	3,388,573

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(51,465)	(47,232)
Adjustments for:			
Finance costs		80	77
Share of loss of an associate		8,483	4,761
Bank interest income		(28,119)	(33,331)
Loss on disposal of items of property, plant and equipment	5	–	707
Depreciation of items of property, plant and equipment	5	6,302	5,366
Depreciation of right-of-use assets	5	1,118	785
Lease payment concession from lessors		(197)	–
Amortisation of intangible assets	5	5,103	4,448
Amortisation of long-term deferred expenditure		244	31
Impairment of inventories	5	6,639	3,064
Impairment of other receivables		–	175
Impairment of an intangible asset	5	5,771	–
Equity-settled share award and option expense	5	2,504	4,697
		(43,537)	(56,452)
Increase in inventories		(2,333)	(5,692)
Increase in long-term deferred expenditure		(43)	(38)
Decrease/(increase) in trade and bills receivables		5,768	(10,517)
Decrease in prepayments, other receivables and other assets		4,364	6,944
Decrease in trade and bills payables		(1,622)	(7,627)
Decrease in other payables and accruals		(16,911)	(14,674)
Decrease in deferred income		(862)	(761)
Cash used in operations		(55,176)	(88,817)
Interest received		37,240	24,383
Net cash flows used in operating activities		(17,936)	(64,434)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) RMB'000
Net cash flows used in operating activities	(17,936)	(64,434)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant equipment and construction in progress	(3,488)	(11,169)
Purchase of intangible assets	–	(959)
Proceeds from disposal of items of property, plant and equipment	6	–
Investment in an associate	–	(54,336)
Increase in time deposits with original maturity of over three months	(359,129)	(549,625)
Net cash flows used in investing activities	(362,611)	(616,089)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal portion of lease payments	(933)	(812)
Interest paid for lease liabilities	(80)	–
Net cash flows used in financing activities	(1,013)	(812)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(381,560)	(681,335)
Cash and cash equivalents at 1 January	2,295,044	1,781,892
Effect of foreign exchange rate changes, net	30,178	2,399
CASH AND CASH EQUIVALENTS AT 30 JUNE	1,943,662	1,102,956
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	2,996,911	3,043,938
Non-pledged time deposits with original maturity of over three months when acquired	(1,053,249)	(1,940,982)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	1,943,662	1,102,956

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 25 February 2014. The registered office address of the Company is c/o Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. The principal place of business 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.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2020 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Other than as explained below regarding the impact of amendment to HKFRS 16, the application of the revised HKFRSs above did not have a material effect on the Group's interim condensed consolidated financial information.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office premises and staff dormitory have been waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, reductions in the lease payments arising from the rent concessions of RMB197,000 have been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Mainland China	31,834	75,403

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

3. OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Mainland China	147,470	161,123
British Virgin Islands	50,430	58,109
Cayman Islands	13,827	14,581
Total	211,727	233,813

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

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue from contracts with customers	31,834	75,403

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Types of goods or services		
Sales of products	1,062	55,356
Rendering of promotion services	30,772	20,047
Total revenue from contracts with customers	31,834	75,403
Geographical market		
Mainland China	31,834	75,403
Total revenue from contracts with customers	31,834	75,403
Timing of revenue recognition		
Goods/services transferred at a point in time		
– Sale of products	1,062	55,356
– Rendering of promotion services	30,772	20,047
Total revenue from contracts with customers	31,834	75,403

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

5. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Cost of inventories sold	46	9,569
Cost of services provided	10,808	10,158
Depreciation of items of property, plant and equipment	6,302	5,366
Depreciation of right-of-use assets	1,118	785
Amortisation of intangible assets	5,103	4,448
Impairment of inventories	6,639	3,064
Impairment of an intangible asset	5,771	–
Operating lease expenses	–	502
Auditor's remuneration	740	740
Research and development costs	51,735	64,169
Loss on disposal of items of property, plant and equipment	–	707
Exchange differences, net	(5,862)	4,278
Equity-settled share award and option expense	2,504	4,697

6. INCOME TAX

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

The Group calculates the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The Group did not incur any income tax expenses as the Group did not generate taxable income for the periods ended 30 June 2020 and 2019.

7. DIVIDENDS

The Board does not recommend the payment of any dividend in respect for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

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

The calculation of the basic loss per share amount is based on the loss attributable to ordinary equity holders of the parent of RMB51,465,000 (six months ended 30 June 2019: RMB47,232,000), and the weighted average number of ordinary shares of 1,041,390,980 (six months ended 30 June 2019: 1,055,739,982) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2019 and 2020 in respect of a dilution as the impact of the share award had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of basic loss per share is based on:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Loss		
Loss attributable to ordinary equity holders of the parent	(51,465)	(47,232)
	For the six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Shares		
Weighted average number of shares in issue during the period	1,041,390,980	1,055,739,982

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB3,488,000 (six months ended 30 June 2019: RMB12,181,000).

Assets with a net book value of RMB6,000 were disposed of by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB707,000), resulting in no gain or loss on disposal (six months ended 30 June 2019: net loss on disposal of RMB707,000).

10. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	63,809	68,485
Bills receivable	–	1,128
	63,809	69,613
Impairment	(52)	(88)
	63,757	69,525

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

10. TRADE AND BILLS RECEIVABLES (Continued)

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:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	33,849	68,397
3 to 6 months	1,800	–
6 to 12 months	28,108	–
	63,757	68,397

11. TRADE AND BILLS PAYABLES

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:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	5,000	3,961
Over 3 months	21	2,682
	5,021	6,643

12. COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Contracted, but not provided for: Plant and machinery	1,109	3,520

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Short term employee benefits	9,424	7,239
Pension scheme contributions	84	126
Equity-settled share award and option expense	1,117	3,445
Total compensation paid to key management personnel	10,625	10,810

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

14. 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:

30 June 2020 (Unaudited)

Financial assets

	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills receivables	63,757	63,757
Financial assets included in prepayments, other receivables and other assets	11,558	11,558
Cash and cash equivalents	2,996,911	2,996,911
	3,072,226	3,072,226

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	5,021	5,021
Lease liabilities	2,689	2,689
Financial liabilities included in other payables and accruals	45,764	45,764
	53,474	53,474

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

14. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2019 (Audited)

Financial assets

	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
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
	<u>3,082,376</u>	<u>3,082,376</u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
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
	<u>58,079</u>	<u>58,079</u>

15. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Group did not have financial instruments other than those with carrying amounts that reasonably approximate to fair values as at 30 June 2020 and 31 December 2019.

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.

DEFINITIONS

“Ascletis”, “Company”, “the Company” or “We”	Ascletis Pharma Inc. (歌禮製藥有限公司) (an exempted 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
“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 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 Remainder Trust, 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 report, our Core Products include Ganovo® (Danoprevir), Ravidasvir, ASC09 and ASC06
“COVID-19”	an infectious disease caused by the most recently discovered coronavirus (severe acute respiratory syndrome coronavirus 2)
“Director(s)”	the director(s) of the Company
“Dr. Wu”	Dr. Jinzi Jason WU (吳勁梓), our founder and chairman of the Board, chief executive officer, an executive Director of the Company, one of our Controlling Shareholders and spouse of Mrs. Wu
“Greater China”	Mainland China, Hong Kong, Macau and Taiwan
“Group” or “the Group”	the Company and its subsidiaries
“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”	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
“NDA”	new drug application, an application through which the drug sponsor formally proposes that the relevant regulatory authority approve a new drug for sales and marketing
“NMPA”	National Medical Products Administration
“NRDL”	the National Reimbursement Drug List
“Prospectus”	the prospectus issued by the Company dated July 20, 2018
“R&D”	research and development
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of China
“Reporting Period”	the six-month period from January 1, 2020 to June 30, 2020
“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 Interim 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.