Hua Medicine
華領醫藥

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

ANNUAL REPORT 2018

TABLE OF CONTENTS

CORPORATE INFORMATION

Executive directors

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

Non-executive directors

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

Independent non-executive directors

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

Strategy committee

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

Company secretary

Wing Sze CHAN (陳潁詩) (ACIS, ACS)

Authorized representatives

George Chien Cheng LIN (林潔誠)
Wing Sze CHAN (陳潁詩)

Auditor

Deloitte Touche Tohmatsu

Registered Office

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

Corporate headquarters

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

Principal place of business in Hong Kong

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

Cayman Islands share registrar

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

Hong Kong share registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

Compliance advisor

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

Principal bankers

In Hong Kong:

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

Standard Chartered Bank (Hong Kong) Limited
15/F Standard Chartered Tower, 388 Kwun Tong Road,
Kwun Tong, Hong Kong

In the PRC:

China Construction Bank Corporation Shanghai Zhangjiang Branch
No. 232 Ke Yuan Road, Shanghai, China

Company's website

www.huamedicine.com

Stock code

2552

BUSINESS AND FINANCIAL HIGHLIGHTS

Business Highlights

- Advanced our two Phase III trials for dorzagliatin in China, with total randomized enrollment of 752 patients as of December 31, 2018.
- Our monotherapy Phase III trial (HMM0301) completed enrollment as of February 28, 2019.
- As of February 28, 2019, enrollment for our combination with metformin Phase III trial (HMM0302) was 489 patients.
- Aggregate financing of US$231 million was successfully raised in calendar year 2018, with US$117 million raised in a pre-HK IPO equity financing in March 2018 and HK$892 million (approximately US$114 million) raised in HK IPO on the Stock Exchange in September 2018.
- Cash position was approximately RMB1,443.3 million as of December 31, 2018.
- Total expenditures incurred by the Company for the year ended December 31, 2018 was approximately RMB411.9 million, of which approximately RMB269.1 million was attributable to R&D expenses.

Financial Highlights

- R&D expenses increased by approximately RMB143.7 million or approximately 114.7% to approximately RMB269.1 million.
- Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL") increased by approximately RMB3,139.8 million or approximately 2,482.9% to approximately RMB3,266.2 million.
- Loss before tax increased by approximately RMB3,323.3 million or approximately 1,184.0% to approximately RMB3,604.0 million.
- Loss and total comprehensive expense for the year increased by approximately RMB3,323.3 million or approximately 1,184.0% to approximately RMB3,604.0 million.
- Adjusted net loss* increased by approximately RMB129.4 million or approximately 86.3% to approximately RMB279.3 million.

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

	For the year ended December 31,		
	2016	2017	**2018**
	RMB'000	RMB'000	**RMB'000**
Operating results			
R&D Expenses	(75,272)	(125,337)	**(269,065)**
Loss on changes in fair value of financial liabilities at FVTPL	(274,417)	(126,456)	**(3,266,216)**
Loss before tax	(362,408)	(280,688)	**(3,603,998)**
Adjusted net loss	(84,518)	(149,878)	**(279,282)**

	For the year ended December 31,		
	2016	2017	**2018**
	RMB'000	RMB'000	**RMB'000**
Financial position			
Total assets	226,732	245,784	**1,490,249**
Total (deficit)/equity	(666,196)	(942,530)	**1,403,488**
Total liabilities	892,928	1,188,314	**86,761**
Bank balances and cash	192,901	172,733	**1,443,310**

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRS, the Company has provided adjusted net loss as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that the adjusted financial measures are useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of these non-IFRS financial measures is not intend to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under the IFRS, or as being comparable to results reported or forecasted by other companies.

CHAIRMAN AND CEO STATEMENT

Dear Shareholders,

The past year has been an extraordinary year for the Company. Our mission at the Company has always been to focus on innovative, first-in-class medicines that address unmet needs globally, and we continue to make major advances with our main drug candidate, dorzagliatin (HMS5552).

In 2018, the China healthcare industry saw remarkable reforms, with accelerated review processes, increasing numbers of innovative drugs being introduced, faster and increased numbers of innovative drugs included in the national and provincial reimbursement list, as well as a strengthening of the NMPA's standards, supervision, and accountability. These reforms are extraordinarily beneficial to companies with a global innovation focus like us.

With these favorable industry tailwinds supporting us, we achieved the following key milestones in 2018:

1. We continue to focus on completing dorzagliatin's clinical development in China by 2020, and filing our NDA as soon as practicable thereafter

    - We have past the halfway point in the enrollment of our Phase III registration trials. As of February 28, 2019, we have completed enrollment in our monotherapy trial, and have enrolled 489 patients in our combination with metformin trial (HMM0301)

    - In November, we activated clinical sites for two Phase I trials in the United States to expand the indications for dorzagliatin globally, targeting DPP-4 and SGLT-2 combination users, and achieved first patient dosing for our DPP-4 (sitagliptin) trial (HMM0111) in January 2019

2. Our innovation is broadly recognized after our clinical study results were published in global peer-reviewed, prestigious journals

    - In April, our personalized medicine clinical research results were published in *Diabetes, Obesity and Metabolism*, supporting a personalized approach to diabetes treatment

    - In May, our Phase II proof-of-concept trial results were published in *The Lancet Diabetes & Endocrinology*, which validated that dorzagliatin can achieve effective glucose reduction with minimal hypoglycemia incidence.

3. We completed validation of our commercial manufacturing process and produced one metric ton of API under GMP conditions

4. We raised additional financing to complete our pivotal trials, initiated additional studies on dorzagliatin to expand our indications, and began preparation for commercialization and manufacturing

    - In March, we raised US$117 million in pre-HK IPO financing
    - In September, we became the third biotech company to list on the Stock Exchange under the new Chapter 18A rules that allow pre-revenue biotech companies to list on the Hong Kong Main Board, raising HK$892 million (approximately US$114 million)

5. We managed our expenditures and cash balance prudently, while managing our growth

    - We spent RMB411.9 million in 2018, of which 65% was incurred on R&D
    - We ended the year with RMB1,443.3 million cash
    - We ended the year with 115 employees

As we continue to focus on being the first Chinese company to focus on a global first-in-class, first launch in China drug, we remain committed to our task by setting world-class standards and ensuring high quality outcome. In order to achieve this for the year ended December 31, 2018:

- We hosted 18 meetings to provide training by our KOLs to our investigators, teaching and strengthening their understanding of glucokinase's unique mechanism of action, compliance to clinical study protocol, and glucagon-like peptide requirement
- We hosted 4 meetings to provide training to our CROs, to ensure continuation of quality and high standards despite high turnover in the industry
- We conducted regular inspections of our clinical sites in China, and hold quarterly joint quality committee meeting with our partners
- We held regular trainings with our employees
- We are recognized as a leader of promoting the new MAH practice in China

In 2019, we have already achieved the following milestones:

- Our monotherapy Phase III trial (HMM0301) completed patient enrollment on February 28
- Our formulation patent for dorzagliatin was issued in January for China, extending our exclusivity to 2037
- We appointed Dr. Ralph DeFronzo as Distinguished Scientific Consultant in February
- We continue to make progress on the remaining CMC validation work needed pre-NDA submission

And for the remainder of 2019, we plan to achieve the following:

- Completion of patient enrollment for our combination Phase III trial (HMM0302)
- Publish top-line 24-week results for our monotherapy Phase III trial (HMM0301)
- Our own commercial manufacturing site determined
- NDA preparatory work on going
- Work with McKinsey & Company, to develop and finalize our dorzagliatin commercial strategy for China and global launch
- Expand commercialization team and prepare reports to support rapid inclusion into reimbursement list and launch of dorzagliatin as early as 2021

2019 is a critical year for the Company to deliver key Phase III results for the HMM0301 trial with 24-week, double-blinded treatment. With patient recruitment completed, the Company team continues to actively conduct quality control on trial practice and source data validation.

The Company is a global biotech company headquartered in Shanghai, China. The talent pool in China remains deep, and we rely heavily on our management team, trained at multi-national pharmaceutical companies, to deliver and maintain global standards in our daily operations and in the execution of our clinical trials.

In conclusion, we would like to express our appreciation to our employees, Shareholders, and partners for their continuous commitment and support. In 2019, we will continue to drive forward our mission, to deliver innovation and to address unmet global needs.

Thank you.

Mr. Robert Taylor NELSEN
Chairman and Non-executive director

Dr. Li CHEN
Chief Executive Officer and Executive Director

March 7, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

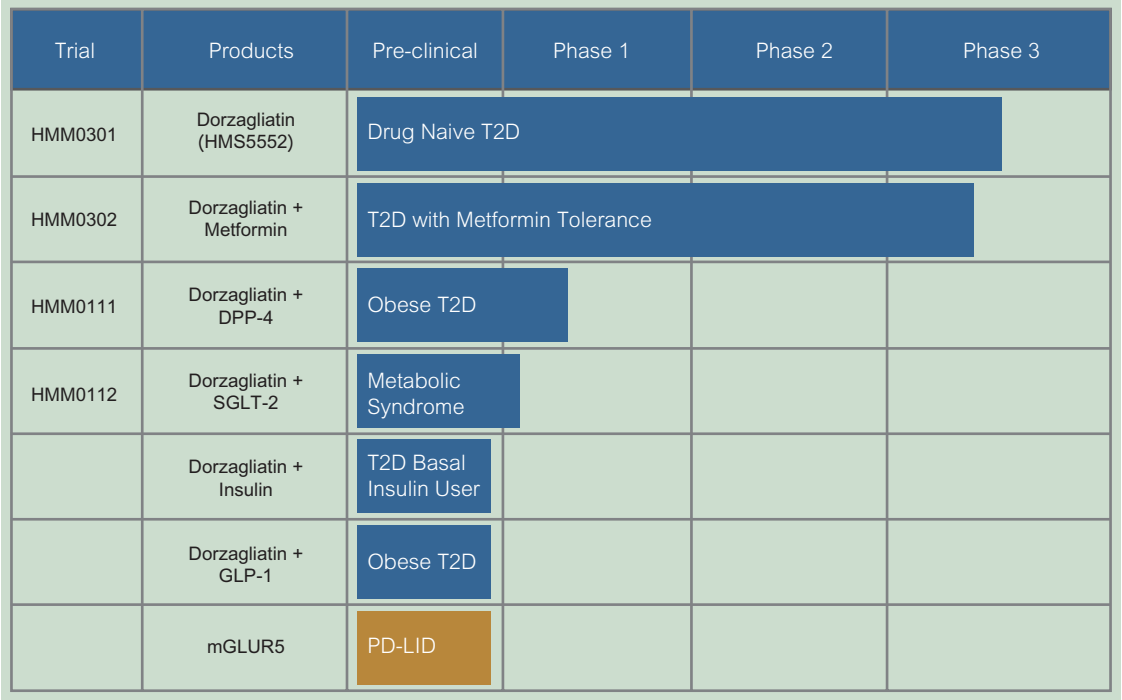
We are a pre-revenue China-based drug development company currently focused on developing dorzagliatin, a first-in-class oral drug for the treatment of Type 2 Diabetes ("T2D"). We filed an Investigational New Drug ("IND") application with the NMPA for dorzagliatin under Category 1.1 (New Drug) in 2012 and initiated a Phase Ia clinical study of our novel glucokinase activator dorzagliatin in September 2013. We also filed an IND application with the U.S. Food and Drug Administration ("FDA") for dorzagliatin in March 2015. Since then, we have completed five Phase I trials in China, two Phase I trials in the United States, and one Phase II trial in China. During the year ended December 31, 2018 (being the reporting period), the results from our Phase II trial were published in the May 2018 edition of *The Lancet Diabetes & Endocrinology*. We also published the results of our personalized medicine Phase Ic trial, demonstrating effective glycemic control in T2D patients when using our proprietary biomarker-guided patient selection approach in the April 2018 edition of *Diabetes, Obesity and Metabolism*. We are currently conducting two Phase III trials in China and two Phase I trials in the United States. Our Phase III registration trials began in July 2017, with dorzagliatin both as a monotherapy (HMM0301) and in combination with metformin (HMM0302). Our two Phase I trials began in early 2019, and are studying the pharmacokinetic ("PK") and pharmacodynamic ("PD") characteristics of dorzagliatin in combination with sitagliptin (DPP-4) and empagliflozin (SGLT-2), respectively.

In preparation for our eventual NDA submission for dorzagliatin with the NMPA, we completed the required API commercial manufacturing process validation of up to one ton of material. In addition, in the second half of 2018, we established the leadership team for our China commercialization, sales and marketing ("CSM") team for dorzagliatin.

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

Product pipeline

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



HMM0301 is a dorzagliatin monotherapy Phase III trial in drug-naive T2D patients in China. We completed enrollment with over 450 patients as of February 28, 2019 and we expect to announce top-line 24-week results by the fourth quarter of 2019. HMM0302 is a dorzagliatin combination with metformin Phase III trial in metformin tolerant T2D patients in China. We expect to complete enrollment by mid-year 2019, and announce top-line 24-week result by the first quarter of 2020. HMM0111 is a dorzagliatin combination with DPP-4 (sitagliptin) Phase I trial in T2D patients in the United States. We announced first patient dosed in January 2019 and expect to complete and announce results by year end 2019. HMM0112 is a dorzagliatin combination with SGLT-2 (empagliflozin) Phase I trial in T2D patients in the United States. We have activated our clinical site and expect to dose first patient in the first half of 2019. We expect to complete and announce results by year end 2019. We are planning to conduct additional dorzagliatin combination trials with insulin and GLP-1, respectively. We expect to initiate these clinical studies later in 2019. We continue to conduct pre-clinical studies on our mGLUR5 program for levodopa-induced dyskinesia in Parkinson disease patients. Based on the results of these studies, we plan to make a Go/No Go decision later in 2020.

We continue to work closely with and supervise our CROs, SMOs and CMOs, who provide us with a range of services at a consistently high level of quality.

To date, we have not yet generated any revenue from the sale of goods or from the rendering of services, recognizing only limited income in the form of government grants and investment income. As of December 31, 2018, we expect to incur significant losses for the foreseeable future with no product revenues prior to obtaining marketing approval for dorzagliatin from the NMPA and commercializing dorzagliatin.

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

Business outlook

We expect to complete patient enrollment for both of our Phase III trials by the middle of calendar year 2019, announce top-line 24-week Phase III trial results for our monotherapy trial (HMM0301) by the fourth quarter of 2019, announce top-line 24-week Phase III results for our combination with metformin trial (HMM0302) by the first quarter of 2020, file for NDA approval on a rolling basis with the NMPA shortly thereafter, and obtain NMPA approval by the end of 2020 or the first half of 2021. Upon receipt of positive Phase III data, we plan to partner with international pharmaceutical companies to make dorzagliatin available to patients outside of China. This will include partnerships for conducting clinical trials and navigating the drug approval process, as well as for the marketing and commercialization of dorzagliatin outside of China. In preparation for our eventual NDA submission with the NMPA, we plan to complete all required research and studies as well as CMC process validations by the end of 2019. We also plan to expand our CSM team in anticipation of China launch of dorzagliatin by the end of 2020 or early 2021. As part of the strategy to establish dorzagliatin as a cornerstone therapy for the treatment of T2D globally, we would expect to collaborate with global experts in T2D to further understand the potential of dorzagliatin.

Key events after the reporting period

On January 23, 2019, the China National Intellectual Property Administration issued to our Company a patent on a controlled release formulation of dorzagliatin. This new patent would extend the exclusivity of dorzagliatin to 2037 in China.

On January 31, 2019, we dosed our first patient for our Phase I DPP-4 combination trial (HMM0111) in the United States. We have activated a clinical trial site for our Phase I SGLT-2 combination trial (HMM0112) in the United States, and expect to dose first patient in the first half of 2019. We expect to complete and publish results of both Phase I combination trials (HMM0111 & HMM0112) by year end 2019.

In February 2019, we announced the appointment of Dr. Ralph DeFronzo as our Global Consultant – Distinguished Scientific Consultant. Dr. DeFronzo is currently a Professor and Division Chief of Diabetes Division at the University of Texas Health Science Center and Deputy Director of Texas Diabetes Institute. He has contributed to several significant milestones in diabetes medicine, including leading the U.S. development of metformin, and its FDA approval in 1995. Since then, he discovered a new approach to diabetes treatment that targets glucose reabsorption in the kidneys, which led to the development and approval of SGLT-2.

On February 28, 2019, our Phase III monotherapy trial (HMM0301) had completed patient enrollment, and our Phase III combination trial (HMM0302) had enrolled 489 patients.

Financial review

Other income

Our other income consisted primarily of bank interest income and government grants and subsidies. Our other income decreased by RMB1.3 million to RMB10.4 million for the year ended December 31, 2018 from RMB11.7 million for the year ended December 31, 2017, which was mainly attributable to a decrease of RMB1.4 million in government grants.

Other gains and losses

Our other gains and losses consisted primarily of gains or losses due to fluctuations in the exchange rates between the RMB and the US$. Our other gains and losses increased by RMB70.4 million to a gain of RMB63.8 million in the year ended December 31, 2018 from a loss of RMB6.6 million in the year ended December 31, 2017, which was mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in US$ and HK$ and the appreciation of US$ and HK$ against RMB in the year ended December 31, 2018 compared to the minor depreciation of US$ against RMB in the year ended December 31, 2017.

Our business mainly operates in the PRC, and with the exception of our listing expenses incurred in connection with our HK IPO, most of our transactions settled in RMB. Since inception, we have financed our business solely through equity financings, with related proceeds denominated in US$, HK$ and RMB. We converted a portion of those US$ proceeds to RMB and HK$ proceeds to US$ immediately, with the remaining amounts reserved for additional conversions to RMB as needed. Translation for financial statements presentation purposes of our assets and liabilities exposes us to currency-related gains or losses and the actual conversion of our US$ and HK$ denominated cash balances (including the HK$ proceeds received from the HK IPO into RMB) will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses increased by RMB69.3 million to RMB100.4 million in the year ended December 31, 2018 from RMB31.1 million in the year ended December 31, 2017, which was mainly attributable to i) increase in labor costs which is attributable to the increase of RMB29.3 million in share-based payment including share options and restricted share units that were granted, and increase of RMB29.1 million in cash compensation due to increased headcount of 40 new employees for the year ended December 31, 2018 for the establishment of our finance and corporate development team and commercial strategy and marketing team, ii) consulting fee associated with marketing strategy in 2018, and iii) overhead costs associated with the headcount increases.

Finance cost

Our finance cost consisted of expenses associated with the issue of redeemable convertible preferred shares. Our finance cost was RMB3.5 million for the year ended December 31, 2018 as compared to RMB3.0 million for the year ended December 31, 2017, which was attributable to the Series D and Series E preferred shares financings completed in March 2018.

Listing expenses

Our listing expenses mainly include sponsor fee, underwriting fees and commissions, and professional fees paid to legal advisers and the reporting accountants for their services rendered in relation to the HK IPO. The total listing expenses for the HK IPO are approximately RMB72.4 million. We incurred listing expenses of approximately RMB38.9 million for the year ended December 31, 2018, which were recognized as expenses and the remaining amount of approximately RMB33.5 million were recognized directly as a deduction from equity upon the successful completion of the HK IPO.

Research and development expenses

The following table sets forth the components of our R&D expenses for the year indicated.

	For the year ended December 31,			
	2018	**%**	**2017**	**%**
	RMB'000		**RMB'000**	
Dorzagliatin Clinical Trials	133,619	49.7%	51,816	41.3%
Dorzagliatin Non-clinical Studies	2,295	0.9%	7,708	6.2%
Chemical, Manufacturing and Control	44,733	16.5%	22,947	18.3%
Labor Cost	76,854	28.6%	29,339	23.4%
Dorzagliatin Licensing Fee	137	0.1%	6,757	5.4%
Others	11,427	4.2%	6,770	5.4%
Total	269,065	100.0%	125,337	100.0%

R&D expenses increased by RMB143.8 million to RMB269.1 million for the year ended December 31, 2018 from RMB125.3 million for the year ended December 31, 2017. The increase in R&D expenses included:

- an increase of RMB81.8 million for dorzagliatin clinical trials, which was primarily attributable to increased costs associated with the progress of our Phase III clinical trials and additional Phase I clinical trials conducted in 2018;
- a decrease of RMB5.4 million in dorzagliatin non-clinical studies, which was primarily attributable to certain toxicology trials completed in 2017, and that were not conducted in 2018;
- an increase of RMB21.8 million in chemical, manufacturing, and control expenses, which was primarily attributable to process validation for API manufacturing completed in 2018;
- an increase of RMB47.5 million for increased labor costs, which was primarily attributable to an increase of RMB22.7 million in cash compensation with headcount increasing from 55 as of December 31, 2017 to 75 as of December 31, 2018 and an increase of RMB24.8 million in share-based payment;
- a decrease of RMB6.6 million for decreased licensing milestone payments, which was primarily attributable to a US$1.0 million milestone payment paid to Roche under our licensing agreement due to the initiation of our Phase III trials in 2017, and that did not recur in 2018; and
- an increase of RMB4.7 million for others, which was primarily attributable to increased travelling, consulting and meeting costs and increased rental cost.

Loss on changes in fair value of financial liabilities at FVTPL

Our loss on changes in fair value of convertible redeemable preferred shares consisted primarily of the increase in fair value per share. Loss on changes in fair value of financial liabilities at FVTPL increased by RMB3,139.8 million to RMB3,266.2 million for the year ended December 31, 2018 from RMB126.5 million for the year ended December 31, 2017, which was mainly attributable to the increase in valuation of the Company due to the launch of our Phase III clinical trials in the third quarter of 2017 and the successful completion of the HK IPO in the third quarter of 2018.

In connection with the HK IPO, all our outstanding convertible redeemable preferred shares were converted into ordinary Shares on September 14, 2018, after which, we would no longer recognize any loss on changes in fair value of convertible redeemable preferred shares.

Income tax expense

We recognized no income tax expenses for the year ended December 31, 2018 and the year ended December 31, 2017.

Adjusted net loss

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

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Loss before tax for the year	(3,603,998)	(280,688)
Adjust for:		
Loss on changes in fair value of financial liabilities at FVTPL	3,266,216	126,456
Share-based payment	58,500	4,354
Adjusted net loss	(279,282)	(149,878)

Liquidity and capital resources

Since our inception, we have incurred net losses and negative cash flows from operations. Our primary use of cash is to fund R&D expenses. Our operating activities utilized RMB269.4 million for the year ended December 31, 2018. As of December 31, 2018, we had cash and cash equivalents of RMB1,443.3 million.

As of December 31, 2018, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the reporting period.

Cash operating cost

The following table sets out the components of our cash operating cost for the years ended December 31, 2017 and 2018:

	For the year ended December 31,	
	2018	2017
	RMB '000	RMB '000
R&D costs	169,938	166,148
Administrative Costs		
— Workforce employment	40,262	11,419
— Others	59,223	23,925
	99,485	35,344
	269,423	201,492

Cash flows

The following table provides information regarding our cash flows for the years ended December 31, 2017 and 2018:

	For the year ended December 31,	
	2018	2017
	RMB '000	RMB '000
Net cash (used in) operating activities	(269,423)	(198,694)
Net cash from investing activities	12,492	14,475
Net cash from financing activities	1,464,856	172,904
Effect of exchange rate changes	62,652	(8,853)
Net increase (decrease) in cash and cash equivalents	1,270,577	(20,168)

Net cash used in operating activities

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

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

During the year ended December 31, 2017, our operating activities used RMB198.7 million of cash, which resulted principally from our loss before tax of RMB280.7 million, adjusted for non-cash charges and non-operating cash charges of RMB130.5 million, and by cash used in our operating assets and liabilities of RMB48.5 million. Our net non-cash charges during the year ended December 31, 2017 primarily consisted of loss on changes in fair value of financial liabilities at FVTPL of RMB126.5 million, depreciation of plant and equipment, amortization for intangible assets, share-based payments expenses and net foreign exchange loss.

Net cash from investing activities

Net cash provided by investing activities was RMB12.5 million for the year ended December 31, 2018, which resulted primarily from the disposal of other financial assets and purchase of plant and equipment. Net cash provided by investing activities was RMB14.5 million for the year ended December 31, 2017, which resulted primarily from the net impact of purchases and disposals of other financial assets and purchases of plant and equipment.

Net cash from financing activities

Net cash from financing activities was RMB1,464.9 million for the year ended December 31, 2018, which resulted primarily from proceeds from the issue of our Series D and E preferred shares and net proceeds from HK IPO. Net cash provided by financing activities was RMB172.9 million for the year ended December 31, 2017, which resulted primarily from prepayments from investors and proceeds from the issue of our convertible redeemable preferred shares and proceeds from the issue of a subsidiary's ordinary shares and the written put options of certain subsidiaries.

Financial position

Our net current assets increased from RMB189.3 million as of December 31, 2017 to RMB1,396.9 million as of December 31, 2018. Current assets increased from RMB232.3 million as of December 31, 2017 to RMB1,474.5 million as of December 31, 2018, primarily due to an increase in bank balances and cash from RMB172.7 million as of December 31, 2017 to RMB1,443.3 million as of December 31, 2018, which was due primarily to the proceeds from the issue of the Company's ordinary Shares through our HK IPO, issue of convertible redeemable preferred shares for our Series D and Series E pre-HK IPO financing, and the issue of subsidiary's ordinary shares and a written put option over subsidiary.

Contractual obligations

The following table sets forth our contractual obligations as of December 31, 2018. Amounts we pay in future periods may vary from those reflected in the table.

		Payments due by period			
	Total	Less than a year	1-3 years	3-5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating lease obligation	6,056	3,991	2,065	—	—

Indebtedness

As of December 31, 2018, we did not have any indebtedness, including but not limited to mortgages, charges, debentures, other issued and outstanding debt capital, bank overdrafts, borrowings, liabilities under acceptance or acceptance credits, hire purchase commitments, unutilized banking facilities or other similar indebtedness, any guarantees or other material contingent liabilities. Accordingly, the gearing ratio is not applicable.

Qualitative and quantitative disclosures about market risk

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

Currency risk

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

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

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

	2018 RMB'000	2017 RMB'000
Impact on profit or loss		
US$	(50,411)	50,844
HK$	(20,438)	—

Interest rate risk

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

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

Liquidity risk

As of December 31, 2018, and 2017, we recorded net current assets of RMB1,396.9 million and RMB189.3 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key financial ratios

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

	As of December 31,	
	2018	2017
Current ratio [(1)]	19.0	5.4
Quick ratio [(2)]	19.0	5.4

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

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

The current ratio and quick ratio as of December 31, 2018 increased by 13.6 compared with that as of December 31, 2017 was mainly due to the Series D and Series E preferred shares financing and HK IPO for the year ended December 31, 2018.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Li CHEN (陳力), aged 56, is our founder, Chief Executive Officer, Chief Scientific Officer, and the Chairman of the Company's Strategy Committee. He was appointed as a Director on June 4, 2010 and re-designated as an executive Director on May 11, 2018. He has been our Chief Executive Officer since June 4, 2010. Since August 2010 and March 2011, respectively, he has served as a director of Hua HK and Hua Shanghai.

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

Dr. Chen obtained his Bachelor of Science in Chemistry from Zhengzhou University in July 1982, a Master of Science in Chemistry from East China Normal University in November 1985 in Shanghai and a Ph.D. in Organic Chemistry in August 1992 from Iowa State University in the United States. He is an inventor of 35 granted patents and has authored 58 scientific publications. From September 2007 to September 2010, Dr. Chen served as an adjunct professor at Tongji University in Shanghai. In 2001, Dr. Chen served as the President of the Sino-American Pharmaceutical Professionals Association ("SAPA").

Dr. Chen's awards and recognitions include:

- "Thousand Talents Program" (千人計劃) awarded by the PRC government (2012);
- "Shanghai Pudong Hundred Talents Program" (浦東新區百人計劃) awarded by the Shanghai Pudong New Area government (2012);
- Shanghai Leading Talent Award (2009);
- IBC China Parma R&D award (2010);
- Roche Olympiad Awards: Golden Award in Pharma Research (2005); and
- SAPA President Award (2002).

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

George Chien Cheng LIN (林潔誠), aged 48, was appointed as our Director on May 11, 2018 and re-designated as an executive Director on the same date. He has been the Company's Executive Vice President and Chief Financial Officer since December 22, 2017. Mr. Lin has been serving as a member of the Biotech Advisory Panel of the Stock Exchange since April 24, 2018. Mr. Lin has over 18 years of experience in investment banking working with numerous private and public companies globally. Prior to joining the Group, he worked for Bank of America Merrill Lynch in Hong Kong as an investment banker, and held a number of senior positions including Asia Pacific head of consumer, retail and healthcare investment banking, and head of Hong Kong and Taiwan investment banking coverage from June 2013 to December 2017. From July 2000 to May 2013, he worked for Credit Suisse as an investment banker in the Los Angeles, San Francisco and Hong Kong offices. At Credit Suisse, he focused on financings and merger and acquisitions for a variety of global clients, including, but not limited to, U.S. biotechnology companies and Chinese healthcare companies. His last position at Credit Suisse was Asia Pacific (ex-Japan) head of consumer, retail and healthcare investment banking based in Hong Kong. Prior to investment banking, Mr. Lin practiced corporate law in Los Angeles including working for O'Melveny & Myers for over 4 years from September 1995 to July 1999.

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

Non-executive Directors

Robert Taylor NELSEN, aged 55, was appointed as our Director on April 23, 2010 and re-designated as a non-executive Director on May 11, 2018. He is the Chairman of our Board, the Chairman of the Nomination Committee and a member of the Strategy Committee, and has also been a director of our subsidiary, Hua HK, since August 2010. Since 1994, Mr. Nelsen has served as a co-founder and managing director of ARCH Venture Partners, a venture capital firm focused on early-stage technology companies, and has played a significant role in the early sourcing, financing and development of more than 30 biopharmaceutical companies. Mr. Nelsen has been serving as a director of Denali Therapeutics, Inc. (stock code: DNLI) since May 2015, Sienna Biopharmaceuticals, Inc. (stock code: SNNA) since August 2015, Syros Pharmaceuticals, Inc. (stock code: SYRS) since August 2012, and Unity Biotechnology, Inc. (stock code: UBX) since November 2011, and previously served as a director of Juno Therapeutics, Inc. (stock code: JUNO) from August 2013 to March 2018, KYTHERA Biopharmaceuticals, Inc. (stock code: KYTH) from January 2006 to December 2014, Agios Pharmaceuticals Inc. (stock code: AGIO) from December 2007 to June 2017, Sage Therapeutics, Inc. (stock code: SAGE) from September 2013 to March 2016, Bellerophon Therapeutics, Inc. (stock code: BLPH) from February 2014 to November 2015, Adolor Corporation (stock code: ADLR) from November 1994 to May 2004, Illumina, Inc. (stock code: ILMN) from June 1998 to August 2006, Fate Therapeutics, Inc. (stock code: FATE) from September 2007 to June 2014, and NeurogesX, Inc. (stock code: NGSX) from July 2000 to July 2013, all of which were companies listed on NASDAQ stock market in the United States. Subsequent to June 29, 2012, NGSX shares were quoted on the Over the Counter Bulletin Board (OTC) in the United States. Mr. Nelsen also previously served as a trustee of Fred Hutchinson Cancer Research Center.

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

Lian Yong CHEN (陳連勇), aged 56, was appointed as our Director on January 6, 2015 and re-designated as a non-executive Director on May 11, 2018. Dr. Lian Yong Chen is a member of the Audit Committee and the Remuneration Committee. He has also been a director of our subsidiaries, Hua HK and Hua Shanghai, since January 2015 and April 2016 respectively. Dr. Lian Yong Chen is currently the founding managing partner and CEO of 6 Dimensions Capital. He has over 20 years of experience in the life sciences industry in China and the United States as a venture capitalist, senior management executive, entrepreneur, and scientific inventor. He was the founder and managing partner at Frontline BioVentures and a partner at FIL Capital Management (Hong Kong) Limited in Asia from May 2008 to March 2014. He is a member of the Expert Review Panel for the PRC Government's Thousand Talents Program.

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

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

Independent Non-executive Directors

Walter Teh-Ming KWAUK (郭德明), aged 66, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Kwauk is primarily responsible for supervising and providing independent judgment to our Board.

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

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

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

William Robert KELLER, aged 70, was appointed as independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Remuneration Committee as well as a member of the Audit Committee and Nomination Committee. Mr. Keller is primarily responsible for supervising and providing independent judgment to our Board.

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

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

Junling LIU (劉峻嶺), aged 54, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also a member of the Nomination Committee and Strategy Committee. Mr. Liu is the chairman and chief executive officer of 111,Inc., a digital and mobile healthcare platform operator in China, a company listed on NASDAQ (stock code: YI). Mr. Liu was a co-founder and chief executive officer of Yihaodian. Before establishing Yihaodian in 2008, Mr. Liu was a co-president of Dell (China) Company Limited from 2006 to 2007. He has been an independent director of Autohome Inc., company listed on New York Stock Exchange (stock code: ATHM) since January 12, 2015.

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

Yiu Wa Alec TSUI (徐耀華), aged 69, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. Mr. Tsui has over 21 years of experience in finance and administration, corporate and strategic planning, information technology and human resources management. He served at various positions, including the chief executive of the Stock Exchange from February 1997 to August 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited from March 2000 to August 2000 and the chairman of Hong Kong Securities Institute from December 2001 to December 2004. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited, a private professional consulting services and financial solutions company from February 2006 to June 2016, and presently serves as a director to WAG Worldsec Management Consultancy Limited.

Mr. Tsui is an independent non-executive director of a number of companies listed in Hong Kong, namely, COSCO Shipping International (Hong Kong) Co., Ltd., (stock code: 517) since February 2004, Pacific Online Limited (stock code: 543) since November 2007, Kangda International Environmental Company Limited (stock code: 6136) since October 2013 and DTXS Silk Road Investment Holdings Company Limited (stock code: 620) since December 2015. He also serves as independent director of NASDAQ listed companies, ATA Inc. (stock code: ATAI) since January 2008 and Melco Resorts & Entertainment Limited (stock code: MLCO) since December 2006 as well as Melco Resorts and Entertainment (Philippines) Corporation (stock code: MRP), a company listed on the Philippine Stock Exchange, since December 2012. Mr. Tsui is also an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited, a company previously listed in Hong Kong, since August 2000. He also served as independent non-executive directors in various other Hong Kong listed companies, including China Power International Development Limited (stock code: 2380) from March 2004 to December 2016, China Oilfield Services Limited (stock code: 2883) from June 2009 to June 2015, and Summit Ascent Holdings Limited (stock code: 102) from March 2011 to September 2018. Save as disclosed above, Mr. Tsui is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

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

SENIOR MANAGEMENT

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

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

Daniel Yunlong DU (杜雲龍), aged 54, has been serving as the senior vice president of our Regulatory, Clinical and Manufacture department and Drug Safety and Pharmacovigilance department since he joined our Group on August 15, 2017. Prior to joining our Group, he worked in Frontage Clinical Services, Inc. as vice president from March 2016 to August 2017, Akebia Therapeutics, Inc. as clinical director in the mid-2010s, GlaxoSmithKline plc as principal clinical scientist and Pfizer, Inc. as associate director. He is the inventor of 9 patents. Dr. Du received his bachelor degree from Beijing Medical University in China in July 1987 and Ph.D. degree in Biological Sciences from Albany Medical College in the United States in May 1995. He received U.S. Education Certificates for Foreign Medical Graduates (ECFMG) in 1996.

Yi ZHANG (張怡), aged 44, has been serving as the senior vice president of our Clinical R&D department since April 2018. Prior to joining our Group in February 2013 as vice president of our Clinical R&D department, Dr. Zhang was the associate medical director of clinical science at Roche Product Development group, Asia Pacific region in early 2010s. She served as a clinical scientist for innovative drug development in the areas of cardiovascular, metabolic and renal diseases. Prior to Roche, Dr. Zhang was a physician at Shanghai Renji Hospital, and worked at Shanghai Renji Hospital, Shanghai Ruijin Hospital, and Shanghai Jiaotong University School of Medicine with 10 years' clinical experience between December 1999 and October 2009. Dr. Zhang obtained her Ph.D. degree from Shanghai Jiaotong University School of Medicine (specialization in cardiology) in China in June 2004. She was involved in the Framingham Heart Study as a NIH/NHLBI visiting researcher. Dr. Zhang was nominated as a "Shanghai Excelling Academic/Technical Leader" (上海市優秀學術/技術帶頭人) in 2015 and has authored 60 publications in journals such as Nature Genetics, Circulation: Cardiovascular Genetics, and Human Molecular Genetics, and has invented 3 China patents.

Yong Guo LI (李永國), aged 52, has been serving in our Chemical Manufacturing Control department as the vice president from August 2012, and currently as the senior vice president since April 2018. Prior to joining our Group, Mr. Li served as the head of analytical science at Roche R&D Center (China) Ltd.. Before joining Roche, Dr. Li worked at the global healthcare company Pharmanex of Nu Skin as the QA manager. He was also a faculty member at China Pharmaceutical University. He has published over 20 scientific articles in peer-reviewed journals. Dr. Li obtained his master's degree in Chemistry from Jilin University in China in July 1991 and Ph.D. degree in Medicine from Shanghai University of Traditional Chinese Medicine in China in July 2004.

Jin SHE (佘勁), aged 46, has been serving as the Company's vice president in our Chemical Manufacturing Control department since June 2015. Prior to joining our Group in June 2015, Dr. She worked at MSD R&D Center (China) from January 2013 to May 2015 and at Roche R&D Center (China) from April 2009 to December 2012. He has 8 publications in peer-reviewed journals and 6 patents. Dr. She received his Ph.D. degree in chemistry from the University of North Carolina at Chapel Hill in August 2004 and his bachelor and master's degree in chemistry from Peking University in China in July 1996 and July 1999 respectively.

Yilei FU (付宜磊), aged 48, has been serving as the Company's vice president for the Quality Assurance department since he joined our Group in July 2017. Mr. Fu served as quality director at Boehringer-Ingelheim from September 2010 to July 2017. Mr. Fu also served as senior quality and compliance manager at pharmaceutical company Xian Janssen in the late 2000s. Prior to that, he served as quality assurance manager at pharmaceutical company AstraZeneca. Mr. Fu obtained his bachelor's degree in pharmaceutical analysis from Shenyang Pharmaceutical University in 1994, his master's degree of business administration from Shanghai Jiaotong University in China in January 2008 and was certified as a licensed pharmacist by the China Food and Drug Administration in October 2000.

Wenjie XU (徐文潔), aged 47, has been serving as vice president, Head of Commercial Strategy and Marketing since August 9, 2018. Prior to joining our Group, Ms. Xu served as Executive Director of the Cardiovascular, Renal, and Metabolic Business Unit of AstraZeneca China from January 2016 to August 2018. Ms. Xu's principal responsibility at AstraZeneca China was sales and marketing of their diabetes franchise in China, including the successful launch of Dapagliflozin. Prior to AstraZeneca, she also served in various sales and marketing roles at Eli Lilly from February 2007 to December 2015, focused on diabetes starting in 2009. Prior to Eli Lilly, Ms. Xu served in sales and marketing functions of various pharmaceutical companies, including Amgen China. Ms. Xu obtained her bachelor's degree in pharmaceutical analysis from the China Pharmaceutical University in 1993, and a master of business administration degree from Goizueta Business School, Emory University in the United States, in 2004.

REPORT OF DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2018.

Principal activities

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

Business review

A review of the Company's business, and a discussion of future clinical progress and business development are presented in the sections titled "Chairman and CEO Statement" on pages 6 to 8 of this annual report, "Management discussion and analysis" on pages 9 to 18. The financial risk management objectives and policies of the Company are set out in note 31 of the consolidated financial statements in this annual report. Significant events that have an effect on us subsequent to the financial year ended December 31, 2018 are set out in the "Key events after the reporting period" section of the "Management Discussion and Analysis" on page 11.

More information regarding the Company's performance with regards to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations are discussed in the section titled "Environmental, Social and Governance Report" on pages 45 to 77 of this annual report.

Financial key performance indicators

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

Final dividend

The Board did not recommend the payment of final dividend for the year ended December 31, 2018 (December 31, 2017: NIL).

Annual general meeting and closure of register of Shareholders

The annual general meeting ("AGM") of the Company is scheduled to be held on June 24, 2019. A notice convening the AGM will be published and dispatched to the Shareholders of the Company in the manner required by the Listing Rules in due course.

For determining the entitlement to attend and vote at the AGM, the register of shareholders of the Company will be closed from June 19, 2019 to June 24, 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4.30pm on June 18, 2019.

Major suppliers and customers

For the year ended December 31, 2018, the Group's five largest suppliers accounted for 55.1%, as compared to 54.7% of the Group's total purchases for the year ended December 31, 2017. The Group's single largest supplier accounted for 27.3% for the year ended December 31, 2018, as compared to 26.7% of the Group's total purchases for the year ended December 31, 2017.

During the year ended December 31, 2018, none of the Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of total issued Shares of the Company) had any interest in the Group's five largest suppliers.

During the year ended December 31, 2018, there were no sales of goods or rendering of services by the Group and thus, no major customers were identified.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 33 to the consolidated financial statements.

Property and equipment

Details of the movements in property and equipment of the Group during the year ended December 31, 2018 are set out in note 16 to the consolidated financial statements.

Share capital

The changes in the share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date to December 31, 2018.

Pre-emptive rights

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

Charitable donations

During the year ended December 31, 2018, the Group made HK$1 million of charitable donation to Community Chest for selecting our Stock Code.

Reserves

Details of the movement in the reserves of the Group and the Company during the year ended December 31, 2018 are set out in consolidated statement of changes in equity and note 35 respectively to the consolidated financial statements.

Borrowings

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

Tax Relief and Exemption

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

Use of Net Proceeds from the Global Offering

The Company was listed on the Stock Exchange on September 14, 2018. The net proceeds from the Company's issue of new Shares amounted to RMB747.2 million (including the issue of additional Shares pursuant to the partial exercise of the over-allotment option on October 5, 2018), have been applied in compliance with the intended use of proceeds set out in the section headed ''Future plans and use of proceeds'' contained in the Prospectus.

The following table sets forth the status of use of proceeds from the HK IPO as of December 31, 2018:

		% of use of proceeds (Approximately)	Net proceeds from the HK IPO RMB million	Actual usage up to December 31, 2018 RMB million	Unutilized net proceeds as of December 31, 2018 RMB million
(a)	Dorzagliatin R&D	39%	291.4	26.2	265.2
(b)	Dorzagliatin lifecycle management and additional indications	9%	67.2	2.9	64.3
(c)	Dorzagliatin launch and commercialization	27%	201.8	1.5	200.3
(d)	New product and diabetes care technology development	11%	82.2	0.5	81.7
(e)	Product licensing and partnership	4%	29.9	—	29.9
(f)	General working capital	10%	74.7	12.6	62.1
Total		100%	747.2	43.7	703.5

The unutilized net proceeds of RMB703.5 million as of December 31, 2018 is expected to be completed used by December 31, 2020.

Directors

The Directors from the Listing Date and up to the date of this annual report were:

Executive directors

Li CHEN (陳力) (Chief Executive Officer and Chief Scientific Officer)
George Chien Cheng LIN (林潔誠) (Executive Vice President and Chief Financial Officer) *(Appointed on May 11, 2018)*

Non-executive directors

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

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明) *(effective September 14, 2018)*
William Robert KELLER *(effective September 14, 2018)*
Junling LIU (劉峻嶺) *(effective September 14, 2018)*
Yiu Wa Alec TSUI (徐耀華) *(effective September 14, 2018)*

Biographies of the Directors and Senior Management

The biographies of the Directors and senior management of the Company are provided in the section titled "Directors and Senior Management" on pages 19 to 24 of this annual report.

Directors' Service Contracts

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

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

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

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

Remuneration of the directors and five highest paid individuals

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

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

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

Directors' interests in competing business

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

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

The independent non-executive Directors have also reviewed the compliance by Dr. CHEN with the Deed of Non-competition during the year ended December 31, 2018. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by Dr. Chen of the Deed of Non-competition.

Permitted indemnity provision

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

Equity-linked agreement

Save for the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2018.

Independence of Independent Non-Executive Directors

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

Disclosure of Interests

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

As of December 31, 2018, the interest or short positions of the Directors or the chief executives of the Company in the Shares or underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the ordinary Shares:

Name of Directors	Capacity/Nature of interest	Number of Shares [7]	Approximate percentage of shareholding in the Company [8]
Li CHEN	Interest of spouse[1]	25,320,690 (L)	2.40%
	Beneficial Owner[2]	13,921,725 (L)	1.32%
George Chien Cheng LIN	Founder and beneficiary of trust[3]	1,152,258 (L)	0.11%
	Beneficial Owner[4]	32,939,442 (L)	3.12%
Robert Taylor NELSEN	Interest of Controlled Corporation[5]	125,088,960 (L)	11.86%
Lian Yong CHEN	Interest of Controlled Corporation[6]	8,571,420 (L)	0.81%

Notes:

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

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

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

(4) Being options and awards for 25,980,405 Shares and 6,959,037 Shares granted pursuant to the Pre-IPO Share Incentive Scheme respectively.

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

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

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

(8) The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2018.

Substantial Shareholders

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

As of December 31, 2018, the interests of relevant persons (other than a Director or the chief executives of the Company) who had interests or short positions in the Shares or the underlying Shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of Shares held [9]	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P. [1]	Beneficial interest	125,088,960(L)	11.86%
Robert Taylor NELSEN[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Keith Lawrence CRANDELL[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Clinton Whitewood BYBEE[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Venrock Associates V, L.P. [2]	Beneficial interest	103,475,595(L)	9.81%
Venrock Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.81%
Venrock Partners V, L.P. [2]	Beneficial interest	103,475,595(L)	9.81%
Venrock Partners Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.81%
VEF Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.81%
Impresa Fund III Limited Partnership[3] [4]	Interest in controlled corporation	105,581,040(L)	10.01%
Impresa Management LLC[3] [4]	Interest in controlled corporation	105,581,040(L)	10.01%
Abigail P. JOHNSON[3] [4]	Trustee	105,581,040(L)	10.01%
Edward C. JOHNSON IV[3] [4]	Trustee	105,581,040(L)	10.01%
FMR LLC[3] [4]	Interest in controlled corporation	105,581,040(L)	10.01%
FIL Limited[3] [5]	Interest in controlled corporation	107,686,470(L)	10.21%

Name of Shareholders	Capacity/Nature of interest	Number of Shares held [9]	Approximate percentage of shareholding in the Company [10]
Pandanus Partners L.P. [3] [5]	Interest in controlled corporation	107,686,470(L)	10.21%
Pandanus Associates Inc. [3] [5]	Interest in controlled corporation	107,686,470(L)	10.21%
Wuxi Pharmatech Healthcare Fund I L.P. [6]	Beneficial interest	74,029,635(L)	7.02%
WuXi AppTec Co., Ltd. [6]	Interest in controlled corporation	74,029,635(L)	7.02%
Ge LI[6]	Beneficial interest	28,015,170(L)	2.66%
	Interest in controlled corporations	74,029,635(L)	7.02%
Ning ZHAO[6]	Beneficial interest	28,015,170(L)	2.66%
	Interest in controlled corporations	74,029,635(L)	7.02%
Harvest Yuanxiang (Cayman) Limited[7]	Beneficial interest	65,665,860(L)	6.22%
Harvest Investment Management Co., Ltd (嘉實投資管理有限公司) [7]	Interest in controlled corporation	65,665,860(L)	6.22%
The Core Trust Company Limited[8]	Trustee	116,536,062(L)	11.05%
HLYY Limited[8]	Nominee of a trust	116,536,062(L)	11.05%

Notes:

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

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

3. To the best of our Directors' knowledge, Asia Ventures II L.P. is a limited partnership established in Bermuda and holds approximately 5.12% of the voting rights of the Company. Further, F-Prime Capital Partners Healthcare Fund II LP is a limited partnership established in Delaware and holds approximately 4.92% of the voting rights of the Company.

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

   As such, under the SFO, Impresa Fund III Limited Partnership, Impresa Management LLC, Abigail P. JOHNSON, Edward C. JOHNSON IV and FMR LLC are deemed interested in the Shares held by Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP, which collectively hold 10.04% of the voting rights of the Company.

5. To the best of our Directors' knowledge, Eight Roads Investments Limited is a company limited by shares incorporated in Bermuda and holds approximately 0.20% of the voting rights of the Company.

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

   As such, under the SFO, FIL Limited, Pandanus Partners L.P., and Pandanus Associates Inc. are deemed interested in our Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP and Eight Roads Investments Limited, which collectively holds 10.24% of the voting rights of the Company.

6. To the best of our Directors' knowledge, the general partner of Wuxi Pharmatech Healthcare Fund I L.P. is Wuxi PharmaTech Fund I General Partner L.P., a limited partnership established in the Cayman Islands whose general partner is Wuxi PharmaTech Investments (Cayman) Inc., an exempted limited liability company established in the Cayman Islands. Wuxi PharmaTech Investments (Cayman) Inc. is a wholly-owned subsidiary of Wuxi PharmaTech Investment Holdings (Cayman) Inc., which is in turn wholly-owned by Wuxi AppTec International Holdings Limited, which is in turn wholly-owned by WuXi AppTec Co., Ltd. As Dr. Ge LI, Dr. Ning ZHAO and their concert parties controls over 30% in WuXi AppTec Co., Ltd., Dr. Ge LI and his wife Dr. Ning ZHAO are deemed to be interested in our Shares held by Wuxi PharmaTech Healthcare Fund I L.P. and are its ultimate controllers.

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

8. The Core Trust Company Limited is the sole shareholder of HLYY Limited, which holds the Shares underlying the option and awards granted under the Pre-IPO Share Incentive Scheme.

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

10. The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2018.

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

Connected Transactions and Continuing Connected Transactions

Reference is made to the Prospectus of the Company dated August 31, 2018 in respect of the continuing connected transactions. During the year ended December 31, 2018, the Group has entered into certain transactions which constituted connected transactions and/or continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Connected Persons

WuXi AppTec Co., Ltd. ("WuXI AppTec") is indirectly owned as to more than 30% by Dr. Ge LI and his concert parties and Dr. Ge LI served as a director of the Company from August 2010 to December 2017. Accordingly, WuXi AppTec Co., Ltd. is an associate of Dr. Ge LI and a connected person of our Company.

Non-exempt Continuing Connected Transactions

1. Framework Agreement for Non-Clinical Studies Service with WuXi AppTec

We entered into framework agreement for non-clinical studies service with WuXi AppTec dated August 26, 2018 ("Framework Agreement for Non-Clinical Studies Service"), pursuant to which WuXi AppTec and its subsidiaries (the "WuXi AppTec Group") will provide certain services for non-clinical studies to our Group. The major terms, including the pricing policy, of the Framework Agreement for Non-Clinical Studies Service have been disclosed.

For the year ended December 31, 2018, the total amount payable by our Group to the WuXi AppTec Group for the services under the Framework Agreement for Non-Clinical Studies Service was not expected to exceed RMB6.5 million. The above proposed annual caps are set based on the following factors: (i) the historical transaction amount paid by our Group to the WuXi AppTec Group; and (ii) the volume of services our Group expects to procure from the WuXi AppTec Group for non-clinical studies involving dorzagliatin and potential new projects.

For the year ended December 31, 2018, the total amount incurred by our Group to the WuXi AppTec Group for the services under the Framework Agreement for Non-Clinical Studies Service was RMB5.2 million.

2. Framework Agreement for Clinical Trials Management Services with WuXi AppTec

We entered into framework agreement for clinical trials management services with WuXi AppTec dated August 26, 2018 ("Framework Agreement for Clinical Trials Management Services"), pursuant to which the WuXi AppTec Group will provide certain clinical trials management services to our Group. The major terms, including pricing policy, of the Framework Agreement for Clinical Trials Management Services have been disclosed in the Prospectus.

For the year ended December 31, 2018, the total amount payable by our Group to the WuXi AppTec Group for the services under the Framework Agreement for Clinical Trials Management Services was not expected to exceed RMB50.5 million. The above proposed annual caps are set based on the following factors: (i) the historical transaction amount paid by our Group to the WuXi AppTec Group; and (ii) the volume of clinical trials management services our Group expects to procure from the WuXi AppTec Group for the two phase III clinical trials for dorzagliatin in 2018.

For the year ended December 31, 2018, the total amount incurred by our Group to the WuXi AppTec Group for the services under the Framework Agreement for Clinical Trials Management Services was RMB30.1 million.

3. Framework Agreement for Process Development and Manufacturing Services with Shanghai STA

We entered into process development and manufacturing services framework agreement with Shanghai STA dated August 26, 2018 ("Framework Agreement for Process Development and Manufacturing Services"), pursuant to which the Shanghai STA, its indirect holding company, WuXi AppTec, and its subsidiaries (the "STA Group") will provide certain manufacturing services to our Group. The major terms, including the pricing policy, of the Framework Agreement for Process Development and Manufacturing Services have been disclosed in the Prospectus.

For the year ended December 31, 2018, the total amount payable by our Group to the STA Group for the services under the Framework Agreement for Process Development and Manufacturing Services was not expected to exceed RMB62.1 million. The above proposed annual caps are set based on the following factors: (i) the historical transaction amount paid by our Group to the STA Group; and (ii) the volume of clinical manufacturing services our Group expects to procure from the STA Group in 2018 for the preparation of NDA filing of dorzagliatin.

For the year ended December 31, 2018, the total amount incurred by our Group to the STA Group for the services under the Framework Agreement for Process Development and Manufacturing Services was RMB38.2 million.

Internal control measures for non-exempt continuing connected transactions

For non-exempt continuing connected transactions under the Framework Agreement for Non-Clinical Studies Services, the Framework Agreement for Clinical Trials Management Services and the Framework Agreement for Process Development and Manufacturing Services, we have established the following internal review procedures to ensure that the pricing under the non-exempt continuing connected transactions is fair and reasonable:

(i). If a comparable market price is available, we shall compare the proposed service fee against market price to ensure that the proposed service fee will not be higher than the service fee for similar nature of service provided by independent third-party providers;

(ii). Before selecting a service provider, our responsible department shall obtain price quotations from certain independent third-party providers. The factors to be considered by us in conducting internal assessments include service fee, quality of service, and value added to us;

(iii). If no comparable market price is available, our responsible department shall conduct arm's length negotiation with the relevant connected person to determine the terms in line with the relevant pricing policies based on the value of the relevant service and the actual costs and expenses incurred;

(iv). After arm's length negotiation with the relevant connected person, our responsible department will report to our senior management who will approve individual transactions as appropriate;

(v). The finance department is responsible for preparing the accounting records, accounting, reporting, and statistical analysis of the continuing connected transactions, and for submitting the same to the Board for filing on a regular basis. The financial department will also regularly collect and monitor the transaction amount of continuing connected transactions to ensure timely assessment on whether the annual caps are exceeded. The finance department is also responsible for identifying and reviewing the list of connected persons and the continuing connected transactions, and submitting the same to the Board for filing on a regular basis;

(vi). Our audit committee shall conduct periodic examination of the overall situation of the continuing connected transactions, and report the review opinions to the Board;

(vii). Our independent non-executive Directors will also conduct annual review on the non-exempt continuing connected transactions to ensure that such transactions have been entered into on normal commercial terms, are fair and reasonable, and conducted according to the terms of the relevant framework agreements; and

(viii). The auditor of our Company shall issue a letter to the Board to express opinions on the continuing connected transactions of the Group on an annual basis. The Company shall allow its auditor to review and check the relevant accounts to facilitate them to express opinions.

The independent non-executive Directors also made appropriate enquiries with the management to ensure that they have sufficient information to review the transactions and the internal control procedures. So all independent non-executive Directors confirmed that the transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. under normal commercial terms or better; and

3. in accordance with the agreements related to the above continuing connected transactions, the terms of which are fair and reasonable and for the overall benefit of the Shareholders.

Based on the work performed, the auditor of the Company confirmed to the Board that nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions:

1. have not been approved by the Board;

2. were not in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

3. were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

4. have exceeded the relevant annual caps disclosed in the Prospectus.

Interests in Competitor

The Company does not hold any interests in our competitors.

Share Option Scheme

Pre-IPO Share Incentive Scheme

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

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

Post-IPO Share Option Scheme

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

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

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

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

Category	Option type	Outstanding at January 1, 2018	Granted During year	Exercised during year	Forfeited during year	Transferred to/from other categories	Outstanding at December 31, 2018
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Share Incentive Scheme**						
	December 4, 2014	2,700,000	—	—	—	—	2,700,000
	January 11, 2016	750,000	—	—	—	—	750,000
	July 19, 2016	750,000	—	—	—	—	750,000
	March 6, 2017	1,500,000	—	—	—	—	1,500,000
	January 7, 2018	—	1,362,975	—	—	—	1,362,975
	April 3, 2018	—	4,608,750	—	—	—	4,608,750
	August 26, 2018	—	2,250,000	—	—	—	2,250,000
		5,700,000	8,221,725	—	—	—	13,921,725
Mr. George Chien Cheng LIN	**Pre-IPO Share Incentive Scheme**						
	April 3, 2018	—	25,980,405	—	—	—	25,980,405
		—	25,980,405	—	—	—	25,980,405

Category	Option type	Outstanding at January 1, 2018	Granted During year	Exercised during year	Forfeited during year	Transferred to/from other categories	Outstanding at December 31, 2018
Dr. John J. BALDWIN (note)	**Pre-IPO Share Incentive Scheme**						
	December 4, 2014	150,000	—	—	—	(150,000)	—
	January 11, 2016	750,000	—	—	—	(750,000)	—
	May 11, 2018	—	225,000	—	—	(225,000)	—
		900,000	225,000	—	—	(1,125,000)	—
	Total directors	6,600,000	34,427,130	—	—	(1,125,000)	39,902,130
Category 2: Employees							
	Pre-IPO Share Incentive Scheme						
	March 25, 2013	3,000,000	—	—	—	—	3,000,000
	September 12, 2013	2,250,000	—	—	—	—	2,250,000
	December 4, 2014	7,050,000	—	—	—	—	7,050,000
	January 11, 2016	9,195,000	—	(375,000)	(329,385)	—	8,490,615
	July 19, 2016	375,000	—	—	—	—	375,000
	March 6, 2017	6,150,000	—	—	(366,885)	—	5,783,115
	July 24, 2017	2,250,000	—	—	—	—	2,250,000
	January 7, 2018	—	9,600,000	—	(1,552,500)	—	8,047,500
	April 3, 2018	—	13,826,250	—	(620,715)	—	13,205,535
	June 1, 2018	—	5,250,000	—	—	—	5,250,000
	August 26, 2018	—	6,275,130	—	(60,000)	—	6,215,130
	Post-IPO Share Option Scheme						
	September 28, 2018	—	150,000	—	(150,000)	—	—
	October 29, 2018	—	75,000	—	—	—	75,000
	November 26, 2018	—	500,000	—	—	—	500,000
	December 31, 2018	—	500,000	—	—	—	500,000
	Total employees	30,270,000	36,176,380	(375,000)	(3,079,485)	—	62,991,895

Category	Option type	Outstanding at January 1, 2018	Granted During year	Exercised during year	Forfeited during year	Transferred to/from other categories	Outstanding at December 31, 2018
Category 3: Individual consultants							
	Pre-IPO Share Incentive Scheme						
	September 12, 2013	1,650,000	—	—	—	—	1,650,000
	December 4, 2014	750,000	—	—	(600,000)	150,000	300,000
	January 11, 2016	3,000,000	—	—	(300,000)	750,000	3,450,000
	March 15, 2016	1,050,000	—	—	—	—	1,050,000
	May 11, 2018	—	900,000	—	—	225,000	1,125,000
	June 1, 2018	—	675,000	—	(675,000)	—	—
	Total individual consultants	6,450,000	1,575,000	—	(1,575,000)	1,125,000	7,575,000
	Total all categories	43,320,000	72,178,510	(375,000)	(4,654,485)	—	110,469,025
	Exercisable at the beginning and end of the year	25,598,745					39,232,575
	Weighted average exercise price (US$)	0.23	0.36	0.23	0.20	0.26	0.31

Note: As disclosed on note 12 of the audited consolidated financial statements for the year ended December 31, 2018. Dr. John J. BALDWIN resigned and was removed from the list of the Directors of the Company on August 26, 2018. And his share options granted under the Pre-IPO Share Incentive Scheme were reclassified as category 3 individual consultants in 2018. The terms of share options granted to Dr. John J. BALDWIN was unchanged.

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

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

Principal Risks and Uncertainties

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

- **Drug approval related to dorzagliatin:**

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

- **Our clinical trials may not progress as expected:**

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

- **Company reliance on third parties:**

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

- **Dorzagliatin as cornerstone therapy:**

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

- **National Reimbursement Drug List entry is not certain:**

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

- Retention of key staff members:

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

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

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

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

Key Relationships

- Key customers

  Since we are a pre-revenue biotech Company, we do not have any customer for the year ended December 31, 2018.

- Service Providers and Suppliers

  Our service providers and suppliers are mainly CROs, CMOs and SMOs located in China, providing us with a range of services such as drug discovery, development, clinical trial expertise, and clinical and commercial manufacturing. We are heavily reliant on our suppliers to provide us services regarding our clinical trials, preclinical studies, as well as our manufacturing. We do not make material purchases of raw materials or equipment. Among our top five suppliers during calendar year 2018, is WuXi AppTec which is a connected person of the Company. For details, please see the "Connected Transactions and Continuing Connected Transactions" section. For the year ended December 31, 2018, the Company's five largest suppliers accounted for 55.1% as compared to 54.7% of the Company's total purchases for the year ended December 31, 2017.

- Hospitals

  Our current registration trials (HMM 301 and HMM 302) are conducted at a total of 110 sites across China. We remain committed to offering the hospitals and doctors related training and full support in conducting the clinical trials. We maintain a close relationship directly, through telephone calls, direct mail, visits, and training sessions. We also work with our CROs and SMOs to ensure the hospitals and doctors have the support they need to guarantee the quality of our clinical trials.

- Licensing Agreement with Roche

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

Employees and Remuneration Policies

As of December 31, 2018, the Company had a total of 115 employees. Additional details of the Company's employee benefits are detailed in the section titled "Environmental, Social and Governance Report" on pages 45 to 77 of this annual report.

Sufficiency of Public Float

The Company has maintained the public float as required by the Listing Rules from the Listing Date to December 31, 2018.

Review of Annual Results

The consolidated financial results of the Group for the year ended December 31, 2018 has been audited by the Company's auditor, Deloitte Touche Tohmatsu and reviewed by the Audit Committee of the Company, which consisting of Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER and Dr. Lian Yong CHEN.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2018 have been audited by Deloitte Touche Tohmatsu, auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

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

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

Hong Kong, March 7, 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the report

Hua Medicine (the "Company" or together with its subsidiaries, the "Group") hereby presents the Environment, Society and Governance ("ESG") report to the public for the year of 2018. This report aims to truthfully present the ESG development and practice of the Group during the year.

Basis of preparation

This report makes reference to the "Environmental, Social and Governance Reporting Guide", as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Group reports on the "comply or explain" provisions of the Environmental, Social and Governance Guidelines for the year ended December 31, 2018.

The data of the Environmental, Social and Governance report is derived from the internal database and other statistical data of the Group.

Scope

This report outlines the Group's efforts and achievements in fulfilling corporate social responsibility and promoting sustainable development from January 1, 2018 to December 31, 2018.

About us

Message from the CEO

2018 is the first year for us to issue the ESG report. We hope to take this opportunity to report the performance of environmental, social and governance management of the Group to the shareholders, and to take more responsibilities for the future. Our core values are deeply embedded within our organization: "For Patients", "Global Innovation", and "Effective Medicines". While relentlessly working towards the Group's operational goal on a daily basis, we also take our environmental, social and governance responsibilities very seriously.

CEO: Chen Li

Diabetes is a major public health issue that is approaching epidemic proportions globally. Statistics from Frost & Sullivan have shown that the prevalence of Type 2 diabetes has already reached 435 million people, among which, 45.8% are undiagnosed. The population of Type 2 diabetes patients in China has reached 120 million people, and 52.3% of them are undiagnosed. Globally US$850bn was spent in 2017 on diabetes care, and there are currently 6 categories of drugs on the market which cannot stop the progression of the disease, or delay the degeneration of pancreatic functions. Diabetes is increasingly becoming a major burden to the global medical system, and global attention and a comprehensive treatment strategy is urgently needed. Hua Medicine has dedicated the last 7 years to address this global challenge by employing global innovation while leveraging the unique China advantages in developing our proprietary global first-in-class oral glucokinase activator, dorzagliatin, which is designed to control the progressive degenerative nature of diabetes by restoring glucose homeostasis in Type 2 diabetes.

We consider environment protection as our major guideline of sustainable development. On one hand, we choose Contract Manufacture Organizations ("CMO") with Good Manufacturing Practices ("GMP") to produce our medicines. These CMOs have higher emission standards which can significantly reduce pollution. On the other hand, we follow the concept of environmental friendly operation. We conduct our daily operations, which incorporate best practices on saving energy, reducing emission, and saving water in order to minimize the impact on the environment.

We consider talent establishment as a major pillar of development of the Group. We strive to lift the happiness and sense of belonging of employees by various approaches such as employee training, employee welfare, career development, social engagement and office environment.

Looking to the future, we will incorporate the concept of sustainable development into the long-term strategy and strive for the unification of economic and social responsibility. We will create a high-quality innovative medicine in China and give back to the global community!

Introduction of the Group

Hua Medicine successfully completed initial public offering and listing on the Hong Kong Stock Exchange (Stock code: 02552. HK) on September 14, 2018.

Hua Medicine is a leading, clinical stage innovative drug development company in China focused on novel therapies for the treatment of Type 2 diabetes. Founded in 2010 at Zhangjiang High-Tech Park, Shanghai, Hua Medicine advanced a first-in-class oral drug dorzagliatin (HMS5552) for the treatment of Type 2 Diabetes. Dorzagliatin is a glucokinase activator, or GKA, designed to control the progressive degenerative nature of diabetes by restoring glucose homeostasis in Type 2 diabetes. By addressing the glucose sensing function of glucokinase, or GK, we believe dorzagliatin has the potential to serve as a first-line standard of care therapy for the treatment of Type 2 diabetes.

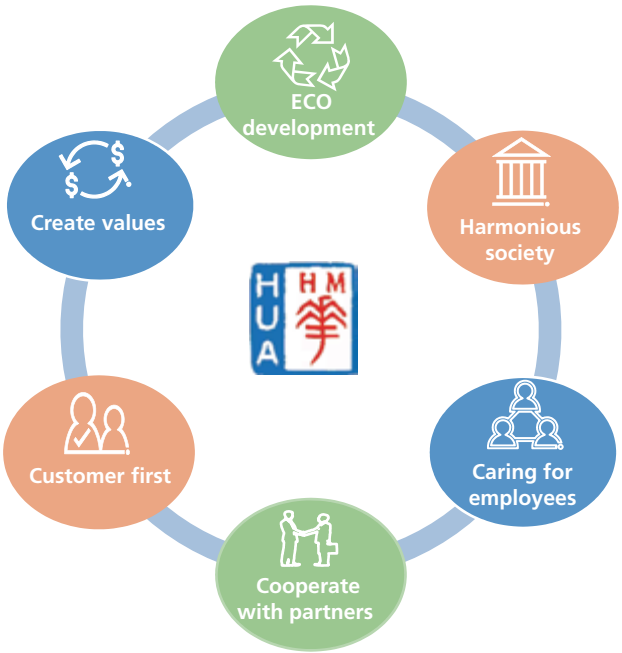
We are currently conducting two Phase III trials in China with dorzagliatin both as a monotherapy and in combination with metformin (the most widely-used oral anti-diabetic drug, or OAD). We expect to complete patient enrollment for our dorzagliatin Phase III trials in China by the middle of calendar year 2019, and to announce Phase III results in the fourth quarter of 2019 or early 2020. Upon achieving positive Phase III results, we plan to submit a new drug application, or NDA, in China for dorzagliatin as a Category 1 drug, and achieve National Medial Products Administration, or NMPA, approval by 2020 or 2021.

Our research mode

Our innovative research adopts a VIC model: VC (venture capital) + IP (intellectual property) + CRO (Contract Research Organization). Accordingly, Hua Medicine was formed first with capital from venture capital to back our team to focus on innovation in China. The team then searches for suitable platforms and technologies, and works closely with CROs for development and clinic trial studies when such project are found. The process is recurring and continuous. We also value quality control and monitoring in project selection, operation management, and clinic trials in order to ensure high quality results and minimize research risk.

Sustainable development strategy

Sustainable development requires both a solid monetary foundation and a long-term plan to coordinate the development of economy, society, resource, population, and environment. Hua Medicine considers sustainable development as the precondition of conducting business. Our target is not only to serve the patients, but also to establish a good enterprise ecosystem. We will always place environment protection and safety as a priority in our operations, and strive to be a positive contributor to our community in this regard.



Major events

In April, Hua Medicine received the Annual Innovative Starup Award of 2018 from Pudong New Area People's Government.

Hua Medicine published "*Dorzagliatin monotherapy in Chinese patients with type 2 diabetes: a dose-ranging, randomised, double-blind, placebo-controlled, phase 2 study*" on The Lancet on May 8, 2018.

Hua Medicine successfully completed initial public offering and listing on the Hong Kong Stock Exchange (Stock code: 02552.HK) on September 14, 2018.

Hua Medicine CEO was elected as "people of the pharmaceutical industry in the 40 years of reform and opening"

Stakeholders and communication channels

According to our standard operations and procedures protocols, the Group has established our major stakeholders as government/ regulatory agencies, applicable medical community/key opinion leaders, shareholders/investors, employees, suppliers/partners, community/public. The Group balances its' own interests with major stakeholders' interests by collecting opinions, comprehensively understanding expectations and discussing issue, while incorporating our ESG responsibilities.

Stakeholders	Expectations	Communication Channels
Government/ Regulatory Agencies	• Comply with the law • Promote industry innovation	• Compliance report and information disclosure, hire third parties to provide professional services • Increase research capability
Shareholders/ Investors	• Protect shareholders' rights and interests • Satisfactory investment return • Compliance management	• Regularly hold shareholder meetings • Timely publish press releases and announcements, disclose operational information • Maintain a trusted relationship with investors • Improve the legal risk control system
Employees	• Protect employees' rights and interests • Provide equal job opportunities • Health and safety • Democratic management and humanitarian caring	• Labor contract and employee handbook • Performance evaluation and assessment mechanism • Regular safety drills • Establish trade unions and organize cultural and sports activities
Medical Community	• Provide safe and high quality drug • Protect the safety of patients • Protect the privacy of patients • Listen to patients feedbacks	• Enhance drug research • Product quality control • Protect patients personal information • Timely collect feedbacks, establish complaints channel
Suppliers/ Partners	• Fulfill contracts • Mutual development • Create a win-win condition	• Start a long-term strategical cooperation • Provide fair purchasing guide • Management visits
Community/ Publics	• Create an environmental friendly office • Hold community charity events	• Create a resource saving office • Actively attend industry forums, management give public speeches

Promoting environmental-friendly operation

Environmental-friendly research

In order to promote the innovation of China's pharmaceutical industry, the National New Drug Research and Development Coordination Leading Group established the "1035 Project": Independently innovate 10 drugs, build 5 drug screening platforms, 5 drug safety evaluation centers, and 5 drug clinical research centers. Under the impetus of the project, City of Shanghai, Ministry of Science and Technology and Chinese Academy of Sciences have jointly established the National Biomedical Technology Industrial Base in Zhangjiang. They also have established a series of research centers represented by the Drug Metabolism Center, the National Pharmaceutical Engineering Research Center, the National Engineering Research Center for Modernization of Traditional Chinese Medicine, and the Shanghai Traditional Chinese Medicine Standardization Center, and gradually built a platform for drug innovation in China. The project has attracted many innovative enterprises, and Zhangjiang Pharmaceutical Valley – a leading technology park has risen in the area. Zhangjiang has a large number of scientific research institutions and service platforms. The incubators on the platform provide services from enterprises and platforms in every aspect of new drug development: from drug screening, pharmacological evaluation, clinical research, pilot scale amplification, registration certification to mass production. Because of the success of Zhangjiang Pharmaceutical Valley's life sciences ecosystem, Hua Medicine as a biotechnology company that develops innovative drugs, can and has relied principally on these partners and others in Shanghai for its development of dorzagilatin.

Due to our VIC model which relies principally on our CRO partners to do the actual laboratory work, we do not produce any polluting gases or directly emit greenhouse gases. In our daily operations, Hua Medicine indirectly emits greenhouse gases. The main energy used is electricity. Electricity is relatively clean, compared to coal, and the pollution to the air is lighter and the amount of pollutants discharged is less.

In addition, no hazardous waste is generated in our operations, so there is no need to adopt operating protocol for the management and disposal of hazardous waste. For non-hazardous waste such as domestic garbage, the Group has avoided the generation of waste from the source, and has been carrying out various types of recycling work and unified disposal of waste.

The emission category of Hua Medicine

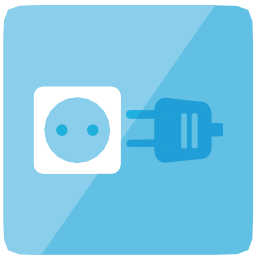
Emission Category	Polluting Source	Precaution methods
Exhaust gas	**Direct emissions:** No direct emissions **Indirect emissions:** Mainly the consumption of purchased electricity	Improve energy efficiency and strictly monitor power consumption
Waste water	**Rain**	The generated rainwater is discharged into the nearby roads' rainwater pipe through the rain drain in the office.
	Employees' working area sewage	The domestic sewage is pretreated with grease traps and septic tanks and discharged into the sewage treatment plant through the municipal sewage pipe network. The domestic sewage meets the water quality requirements of the sewage treatment plant.
Solid Waste	**Domestic garbage:** Kitchen waste, plastic bags, waste paper, etc.	Domestic garbage such as office waste is properly disposed at the designated location of the sanitation department; the catering residue generated in the kitchen and restaurant is placed in bins with covers, and disposed as required.

The emission data of Hua Medicine

Greenhouse gas	From January 1, 2018 to December 31, 2018
Scope1 (Car Fuel)	25,126 Ton
Scope2 (Purchased Electricity)	181,758 Ton
Total	206,884 Ton
Greenhouse gas Emission Per Capita (As of December 31, 2018)	1,799 Ton

Environmental-friendly office

The Group minimizes energy consumption and achieves sustainable development in its operations. We also cultivate employee awareness through training, and strive to minimize the impact of management operations on the environment. In our daily work, we ask our employees to do the following:



Turn off the power before leaving work

Reasonably set the air conditioning temperature

Properly set computer energy saving mode

Use energy saving lamps

Properly set copier energy saving mode

Reasonable use of water cooler

Promote paperless office

Save the use of office supplies

Promote low-carbon travel

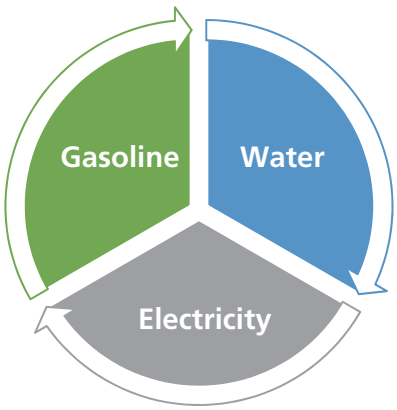
Create green office environment

Properly sort garbage/Recycle

Save Water

Energy saving

The Group strictly abides by the "Environmental Protection Law of the People's Republic of China" and the "Interim Provisions on the Administration of Pollution Discharge Permits" and actively responds to the environmental protection and resource conservation measures implemented by the government. We legally obtain various energy sources without any issue. The main energy consumption of Hua Medicine includes:



The energy usage of Hua Medicine is as follow:

Energy	**From January 1, 2018 to December 31, 2018**
Executive Electricity Consumption	288,504 Wh
Electricity Consumption Per Capita (As of December 31, 2018)	2,509 Wh
Executive Water Consumption	929 Ton
Water Consumption Per Capita (As of December 31, 2018)	8 Ton
Gasoline Consumption	9,612 Litre
Gasoline Consumption Per Capita (As of December 31, 2018)	84 Litre

Establishing a people-oriented company

Employment and talent

Employment

The Group strictly abides by relevant employment laws and regulations, such as the "Labor Law of the People's Republic of China", the "Labor Contract Law of the People's Republic of China", the "Employment Promotion Law of the People's Republic of China" and the "Contract Law of the People's Republic of China." The aim of the Group is the formulation and implementation of a comprehensive human resource scheme to ensure the Group manages its highly talented and growing talent pool well. In addition, when terminating an employees' labor contract, the Group will issue notices and pay compensation to employees in accordance with applicable laws and regulations. In total, 10 employees resigned from Hua Medicine in 2018.

As an innovative pharmaceutical company, the R&D team forms the core of our Group. We always prioritize people-oriented principles in our human resources practices, as we consider employees as the most important assets of the Group. Based on the employment principle of "legitimacy, fairness, voluntary, and negotiation", we have recruited outstanding scientific research talent globally through internal recommendation and external recruitment. By the end of 2018, the total number of employees at Hua Medicine was 115.

Work Schedule

Hua Medicine non-R&D personnel enjoy a 5-day 8-hour work schedule with working hours from 8:30 to17:00, including a half-hour lunch break; R&D personnel enjoy flexible working hours due to the needs of their work. All employees who work overtime can apply for extra day-offs.

Vacation

In order to increase employees' work enthusiasm and happiness, in addition to public holidays, the employees of the Group also enjoy marriage leave, maternity leave, paternity leave, compassionate leave, annual leave, bereavement leave, work-related injury leave and sick leave. The number of holiday days is based on the country and local regulations. Employees will still have their basic salary package during holidays and leaves.

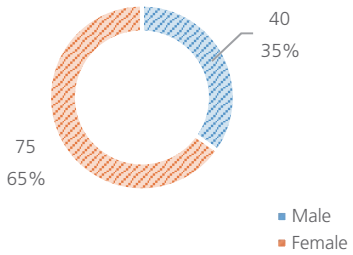
Compensation

Hua Medicine provides employees with competitive compensation. The Group adheres to the concept that the salary will be paid based on job position, capability, performances and market level. At the same time, it combines the development strategy of the company to formulate an overall compensation strategy to ensure attracting, motivating and retaining excellent talents.

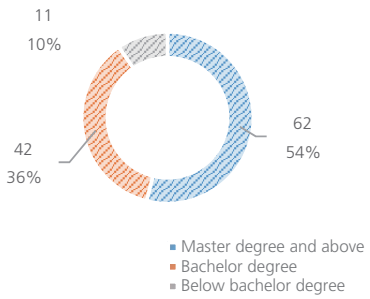
Non-R&D Personnel 40

R&D Personnel's 75

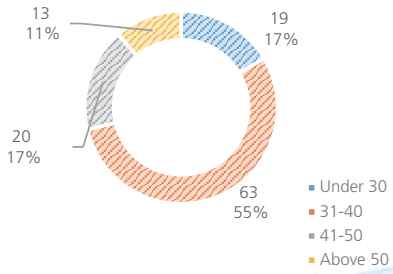
EMPLOYEE NUMBER BY GENDER



EMPLOYEE NUMBER BY EDUCATION



EMPLOYEE NUMBER BY AGE GROUP



KPI

In addition to the fixed bonus, the Group also sets a milestone KPI award. The employees set the annual career goals at the beginning of the year, and line manager shall track and review the target KPI through regular communication mechanism to determine the employees' bonus for the current year. Through setting annual goals, monitoring execution, and assessment feedback, the closed loop of KPIs is formed to help employees achieve personal growth.

Labor principle

The Group strictly abides by various national and regional laws and regulations, including but not limited to the "Labor Law" and the" Prohibition of the Use of Child Labor". The Group has compiled and continuously improved the "Employee Handbook". The Group signed labor contracts with each employee to protect employees' legitimate rights and interests. In 2018, Hua Medicine insists on legal employment. There is no forced labor and illegal use of child labor.

In terms of safeguarding the legal rights and interests of employees, the Group established trade unions as a voice channel for employees to build a harmonious labor relationship. The trade union stipulation clearly states that the trade union should safeguard the legal rights and interests of the employees and serve the employees wholeheartedly. The Group shall build the trade union to be more energetic and stronger, and to become a trusted, service-oriented and innovative "employees' home". By organizing cultural and sports activities and conducting symposiums, the trade union timely communicates the opinions of employees to the management of the Group, and urges them to improve and change. The trade union will truly become the bridge between the employees and the Group.

The founding ceremony of Hua Medicine trade union

Employee safety and health

The Group is always focused on the safety of its employees and is committed to improving the safety performance of Hua Medicine. The Group strictly implements the "Safety Production Law of the People's Republic of China", "Administrative Measures for Emergency Plan for Production Safety Accidents", "Prevention and Control of Occupational Diseases Law of the People's Republic of China" and other laws and regulations. We firmly carry out safety production and occupational health management.

Safe operation

The Group carries out the principle of fire prevention based on "prevention first, prevent and eliminate together", in order to improve the Group's ability to eliminate fire hazards, fight small fire, and provide fire prevention trainings. The Group focuses on comprehensive improvement of the fire safety management level, optimization of the fire safety environment, and effective prevention of the occurrence of fire accidents. In 2018, no work-related death or injury occurred.

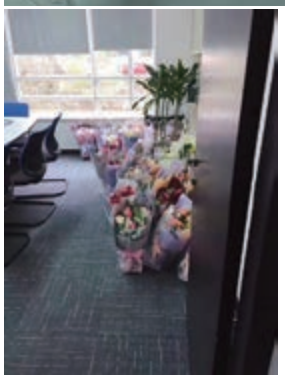
According to the national fire and safety production laws and regulations, Hua Medicine regularly conducts fire protection training and drills. In 2018, 36 employees took part in 1 fire training.

Employee health and welfare

Hua Medicine actively carries out various kinds of cultural and sports activities, integrate positive ideas into the life style of employees. We offer gym membership and a badminton court membership to all employees, and encourage employees to do physical exercise in their leisure time. In addition, we also provide employees with nutritious lunch meals, additional commercial medical insurance and annual medical examination services to fully protect the health of our employees.

Hua Medicine focuses on improving employees' sense of belonging and pays attention to gender equality. The Group distributes holiday gifts to employees, holds monthly birthday parties to create warmth and a positive energy among our people.

Greeting cards and bouquets on the Women's Day



Hua Medicine Annual Meeting

Hua Medicine Team Building

Training and employee development

Talent is an important asset and advantage for the Group to achieve our strategic goals in sustainable manner. We always adhere to the strategy of "talent make us strong". We constantly improve the multi-level training system, actively build talent development channels and leadership models to improve the selection mechanism to provide a strong guarantee for the development of employees.

Our training is customized and diversified to meet the employees' various needs in different positions for sustainable development. The trainings include new employee orientation, production and quality assurance staff training, GMP and drug management regulations training, leadership training and others. By strengthening the training and assessment of employees, we can ensure they meet the requirements for the job and the Group's quality, environmental, health and safety standards.

TRAINING COVERAGE IN 2018
100%

TRAINING PARTICIPANTS IN 2018
438

(Management participants are 62, non-management participants are 376;
Male participants are 148, female participants are 290.)

AVERAGE TRAINING HOUR IN 2018
36 Hours

The training of project
leadership and communication
Training Course

The training of influence,
high performance, good habit

New employee orientation

Producing high-quality medicines

Product and quality management

Hua Medicine strictly abides by the "Drug Administration Law of the People's Republic of China", "The Regulations for the Implementation of the Drug Administration Law of the People's Republic of China", "The Product Quality Law of the People's Republic of China", "The Code for the Quality Management of Pharmaceutical Production", "The Measures for the Reporting and Monitoring of Adverse Drug Reactions", and other laws and regulations. In addition, we comply with the relevant guidelines for drug development, clinical research, production and transportation, etc. formulated by the International Council for Harmonization (ICH). According to relevant regulations and guidelines, Hua Medicine conducts research and development, clinical research, formulation production and product release in terms of drug safety, effectiveness, uniformity and stability to ensure the provision of safe, effective and high quality pharmaceutical products. During the reporting period, Hua Medicine cooperated with many well-known CMOs in the industry to strictly control the safety and the quality of products and ensure the rights and interests of drug users through systematic production management and quality management. During the reporting period, no major quality accidents or major quality complaints occurred.

Regulations and Standards

Hua Medicine established a strict policies and standards system which covers the compliance and quality processes of the drug full-life cycle, enhances the standards, requirements and systems of Hua Medicine, and clearly stipulates the regulations, quality standards and quality inspection programs that active pharmaceutical ingredients (API) and finished drugs should follow during the phases of commercial production preparation and the clinical trial. Hua Medicine's policies and standards system is divided into four levels: policies, guidelines, standard operating procedures ("SOPs") and templates/ forms.


QUALITY AGREEMENT
质量协议

The cover page of Quality Agreement

As the pilot enterprise of Marketing Authorization Holder ("MAH"), Hua Medicine currently cooperates with CMOs that are certified by qualified materials for APIs and finished drugs. We evaluate CMOs' qualifications include compliance, manufacturing capabilities, plant facility equipment applicability, quality management system integrity, material and transportation management capabilities. After assessing compliance, Hua Medicine and CMO must sign a quality agreement in addition to the service contract. The quality agreement defines the work content, responsibility, rights and obligations of the two parties in production management, quality management, etc., clarifies the qualifications, licenses, production quality management system and process standards that the supplier should have, and establishes strict specific operational standards regarding to supplier's quality management, product quality deviations, and complaint handling methods, etc..

Organizations and Structure

All employees are involved in the quality management work. The Corporate Quality and Drug Safety Board, comprised of a cross-functional senior management team, is the company's highest quality decision maker that is responsible for quality strategy, goal setting and implementation monitoring, delivering information, questions and decisions through regular quality committee management review meetings (daily meetings and/or special meeting).

Hua Medicine owns a professional quality management team, quality assurance department is responsible for the establishment, maintenance and implementation of an effective quality management system to ensure compliance with Hua Medicine's internal policies, standards and requirements, while managing daily quality issues.

Based on the business of Hua Medicine, the company established the Joint Quality Committee ("JQC"), which is led by Hua Medicine and participated by suppliers ("CMO"). The committee is responsible for quality, compliance, risk management and continuous improvement in the process of cooperation, and regularly reviews of quality indicators for both parties.

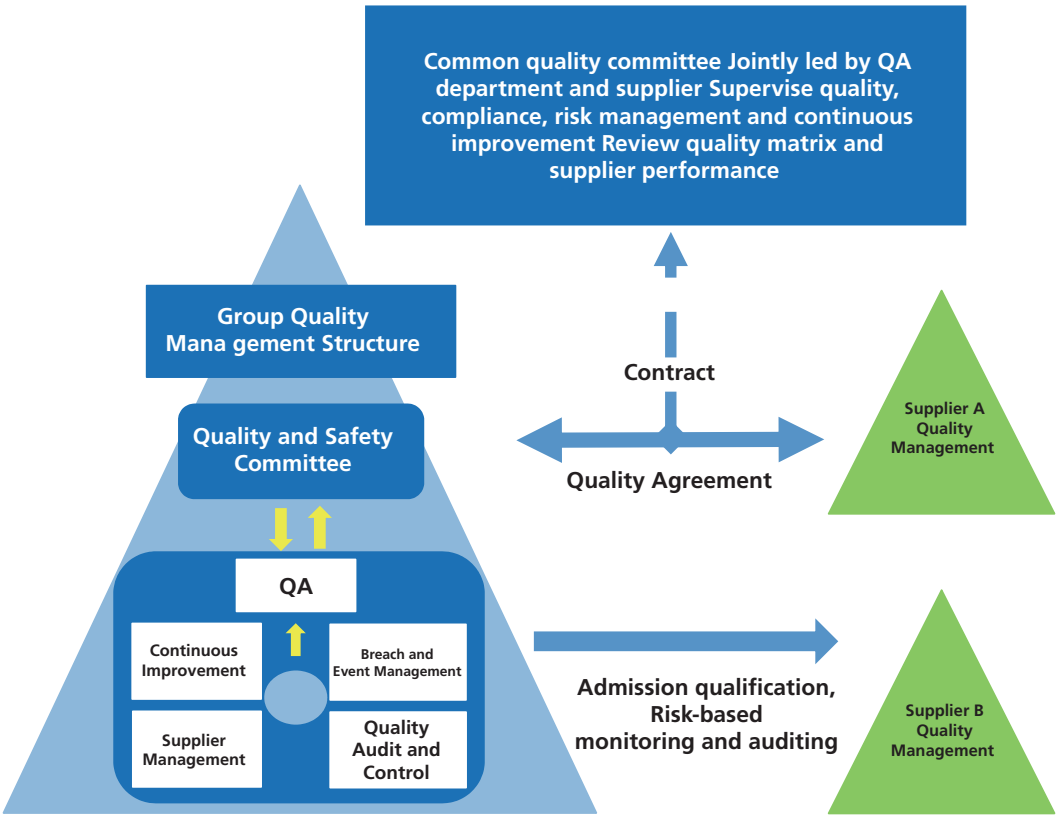
The chemistry, manufacturing & controls ("CMC") and the quality assurance department ("QA") conduct full-life cycle, full-process coverage quality controls for clinical research drugs. The Group adheres to the concept of "Quality comes from design". At the initial stage of drug research and development, we fully consider safety, compliance, formula complexity, production error rate and other factors to guarantee that medicine's safety, effectiveness and stable quality. At the stage of drug production, the CMC department is responsible for setting quality key indicators during each step, and the QA department is responsible for formulating KPIs and internal control strategies for these steps. QA department staff perform quality check in plants ("QIP") to ensure that products meet quality standards and then issue certificate of analysis ("COA") to downstream hospitals.

The introduction to Hua Medicine CMC department

Average working experience of 13.4 years
All have been employed by leading pharmaceutical companies/CRO/CMO
4 employees (40% of the department employees) have overseas experience
5 employees (50% of the department employees) have GK project experience

The introduction to Hua Medicine QA department

Average QA-related working experience of 15 years
All have been employed by leading pharmaceutical companies/CRO/CMO
70% of the employees have pharmaceutical/chemical graduate and above degrees



Quality Management Model

Quality Management System

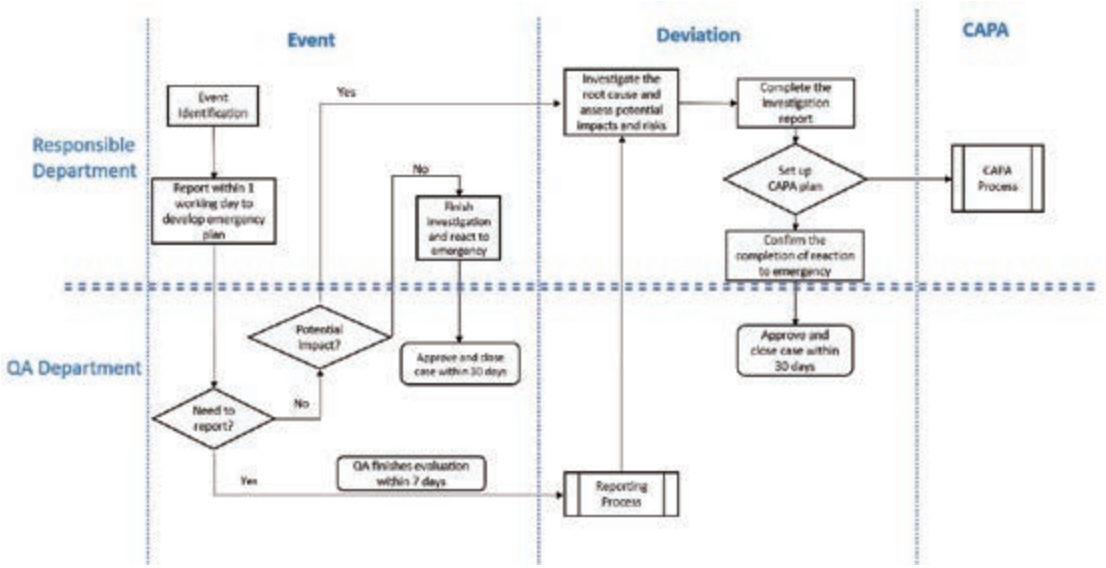
Quality audit

Hua Medicine has established a comprehensive audit system, including quality audit and quality control for clinical research organization, quality audit for material suppliers and CMOs, internal compliance internal audit and other forms of audit system. Through external audits, we regularly assess partner compliance and quality system maturity, risk management capabilities and management processes. Through internal audits, we examine the internal business process compliance. We follow up on the issues identified by the audit through the corrective action and preventive action system (CAPA) to ensure the relevant corrective actions are completed timely.

Quality issues

In response to quality-related issues arising during the production process and after product delivery, the Group has developed the "Event and Deviation Management Procedures". Employees must report to their supervisors/managers and QA directly within one working day after discovering an incident. The Group will assign an incident investigator who is responsible for recording the incident, notifying the relevant affected departments, and taking remedial measures/emergency measures if necessary. The incident investigator shall notify the QA department which shall conduct a risk assessment of the incident to determine whether the investigation is performed according to "Event and Deviation Management Procedures" and to determine whether it is required to be escalated. Disposal of materials or products affected by the deviation shall be performed after the investigation and the product impact assessment is complete. Events and deviations include but are not limited to complaint trends, processes/methods, documents/records, manufacturing/packaging, plants/facilities, products/materials/components, instruments/equipment, quality systems, sampling, testing, inspection results, transportation/storage, environmental monitoring, etc.

Since Hua Medicine is still at the research stage and not producing commercially, the Group currently has no need to compile product and service complaint system and consumer data protection policy. However the relevant processes are being drafted for the future needs. For the complaints about related products and services in the clinical stage, the Group has established a "Breach Investigation and Management System" (a breach is a problem that impacts the safety of potential test takers). The system provides detailed rules for reporting, investigating, following up and reporting breaches.



The flow chart of event and deviation

Intellectual property management

Hua Medicine highly values the protection of intellectual property. The Group believes in innovation and combines the innovation in technology, product, model and group governance to ensure that our technology level is advanced in the market. Hua Medicine aims to become a first-class pharmaceutical company with sustainable development potentiality and independent intellectual property. During the reporting period, the Group invested a total of RMB 269,065,000 in research and development.

As of January 2019, the Group had a total of 53 patents granted. The Group has protected the core intellectual property HMS5552 in a comprehensive manner. As of January 2019, the HMS5552 compound patent has obtained 11 authorized patents, and the intermediate synthesis formula has obtained 10 authorized patents. The oral formulation have also entered the approval stage of many regulatory agencies.

Hua Medicine strictly abides by the "Patent Law of the People's Republic of China". During the reporting period, the Group formulated and improved a number of intellectual property management regulations, and refined processes such as intellectual property rights declaration, management, rights protection, and innovation incentives. The Group's intellectual property management system is implemented in production, research and development and other aspects. While effectively protecting the Group's intellectual property rights, the system has clarified the ownership of the Group's intellectual property rights, stimulated the enthusiasm of employees for invention and creation, and strengthened the management of technology research and development results. When cooperating with suppliers, Hua Medicine inserted intellectual property protection clauses in the service contract, which stipulated the obligations and reasonable measures for the partners to protect the trade secrets, and also divided the ownership of the intellectual property generated while working with the suppliers.

Drug Target	Patent coverage	Current status
GKA	HMS5552 Compound	Received 11 patents in 12 countries and regions
GKA	HMS5552 Process	Received 11 patents in 15 countries and regions
GKA	HMS5552 Formulation	1 patent has been granted, 4 applications are in progress
mGluR	mGluR Compound	In application process
AMPK	AMPK Compound	Received 31 patents in 18 countries and regions

Hua Medicine Patents as of January 2019

Supply chain management

Hua Medicine highly values supply chain management. The Group established a reasonable and effective supplier entry and supplier evaluation system to ensure that the procurement process complies with the Group's regulation and national laws. The products and services we purchased also meet the quality and safety requirements of the country and the Group. Currently, Hua Medicine has 63 R&D related suppliers and 62 administration related suppliers. For 63 R&D related suppliers (mostly CMO, CRO, etc.), 44 of them are located in Eastern China, 11 are located in Northern China, 3 are in other regions of China, and the remaining 5 are in foreign countries.

Regulation and document

The Group issued "Outsourcing Service Purchasing Process" and the "General Purchasing Process" as guidance for supplier management. The guidance provides clear regulations on the procurement of project research, supplier selection, contract drafting, approval flow, supplier evaluation and management.

Supplier entry

In terms of supplier entry, Hua Medicine chooses to cooperate with the well-known partners in the industry. After the potential cooperation is confirmed, the Group will carefully verify both the domestic and international certifications of the suppliers, such as the 2010 revised version of the "Good Manufacturing Practices" (GMP) certification, FDA/EU audit certification, etc. The Group will also send technicians to comprehensively examine the technical capabilities, working environment and safety level of the partners to ensure the professionalism and stability of the supplier services.

During the reporting period, Hua Medicine strengthened the management and control of supplier contracts. Before the service contract is drafted, the QA department will be involved into the process in advance to ensure a reasonable and effective quality agreement is signed with the supplier to define the quality management mode, quality control details and their respective rights, responsibilities and obligations involved in future cooperation.

Supplier evaluation

Hua Medicine regularly conducts a comprehensive assessment of suppliers to ensure that they maintain a high level of service during the cooperation period. The Group regularly performs internal and external on-site audits to suppliers. The audit is adjusted according to the requirements of national laws and regulations, supplier's confidential levels and related risks. The audit focuses on the production process of outsourced drugs, which includes raw material procurement, quality inspection, materials release, production management, etc. In terms of environmental protection, Hua Medicine focuses on the availability of environmental impact assessment reports, sewage permits, waste gas and wastewater emission standards, environmental protection process flaws and environmental protection facilities. In addition, Hua Medicine also pays attention to the management level of suppliers in safety production, ensures that supplier's management and preventive measures for safety hazards are effective, and that suppliers carry out safety training programs as required. After the completion of the audit, the Group formulates rectifications for non-compliance suppliers so that they can improve the production process to ensure the effectiveness of their quality system.

In addition to the audits, the QA department conducts a comprehensive assessment of the supplier's service quality, supply chain capabilities and financial capabilities every two years. The evaluation dimensions of service quality include but are not limited to the yield rate, complaint rate, audit findings rectification, deviation resolution rate, and environmental, health and safety conditions. The assessment dimensions of supply chain capabilities include but are not limited to on-time delivery rate, cargo damage rate, etc. The QA department verifies and revises the quality agreement signed between the Group and the supplier every three years to ensure that the terms of the agreement reflect the status of cooperation accurately and timely. The CMC department also irregularly checks the accuracy of data submitted by suppliers in experiments to ensure the quality of the products.

Supply risk management

Based on the factors such as the location and production capacity of the existing supplier's policy environment, Hua Medicine continuously evaluates the risk level of the supply chain and formulates corresponding plans. At the same time, the Group also continuously develops other cooperation channels and strategic partnerships, reserves its own technology packages, and eliminates the exclusive supply channels caused by non-market factors as much as possible.

Interaction and communication

The relationships with suppliers are very important for Hua Medicine. The Group continuously communicates with suppliers to solve the difficulties and bottlenecks in production and development. At the same time, the Group also strives to maintain a good business relationship with suppliers. We conduct multi-level communications through management visits, supplier award, invitation to participate in annual meetings and other non-material incentives to achieve a better cooperation.

Supplier Award in Hua Medicine Annual Dinner

Creating a corruption-free environment

Hua Medicine attaches great importance to internal control compliance. We consider business ethics, employee integrity, and anti-corruption as the red line in operation and management. The Group controls the corruption through institutional, cultural and regulatory levels to create a clean, honest and fair business environment. During the reporting period, no major corruption cases involving bribery, money laundering, etc. were found in the Group.

Regulations

Through the segregation of duties, Hua Medicine encourages employees to actively identify corruption. The Group's Anti-Fraud Policy stipulates that the management of the Group has the responsibility to check whether there is corruption, misappropriation of corporate funds and other fraudulent acts. Any fraud that is discovered or suspected should be reported to the internal audit department immediately, and the internal audit department will coordinate with the legal department, other internal departments or external units to conduct investigations. The Anti-Fraud Policy also stipulates the follow-up investigation process, the event processing procedure, and the division of responsibilities.

Corporate culture

The Group's Employee Handbook indicates that Hua Medicine has very high legal and ethical standards for all of its business practices. All employees, regardless of their position, should promote the integrity of the Group, good reputation and brand, and smooth administration and business operations. In the orientation and other special trainings, the Group will also advocate specific laws and regulations and other topics related to anti-fraud on the basis of the business ethics framework.

Insider information management training

Monitoring execution

Hua Medicine has formulated the "Hotline Reporting Policy and Procedures", which stipulates that the Audit Committee shall receive, retain, investigate and handle reports submitted by employees regarding accounting, internal control and auditing matters, including internal control fraud or attempted fraud, or other matters that violate the Group's accounting policies. The Group has set up a designated mailbox "whistleblow@huamedicine.com" to allow employees to make public, secret or anonymous reports. The policy also clearly sets forth the management of information, confidential or otherwise, for public disclosure, including to news outlets and online forums.

Enhancing public benefits

Even though we are a pre-revenue enterprise, Hua Medicine has always incorporated fulfilling its social responsibility as an indispensable part of our business operation. The Group insists on mobilizing reasonable resources within its capabilities, combining core business capabilities with community feedback and returning to society with gratitude.

As one of the leaders in the China innovation pharmaceutical industry, the management of the Group has repeatedly appeared in public forums such as industry forums, industry seminars, and corporate forums in recent years. They have voluntarily shared experiences and ideas with colleagues in the pharmaceutical industry, academic institutions, and the public as managers, scientists and trailblazers to contribute to the development of the pharmaceutical industry, and in return received social recognition.

In 2019, Hua Medicine will continue to actively contribute to the pharmaceutical industry and carry out various social welfare events, donations, forums to increase Hua Medicine's social value.

The First Drug Listing License Holder System and Industrialization Development Forum

Pudong Science and Technology Commission–Unicorn Forum of pharmaceutical and health

The 3rd Medical Health Industry Innovation and Supervision Forum

Attend and exhibit in Zhangjiang Science City

Hua Medicine VP was elected as VP of the Women's Federation of ZhangJiang Science City.

Appendix: "ESG Reporting Guide" Content Index

Item	Descriptions		Hua Medicine Related sections/Claim
A. Environmental			
A1. Emission	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to emissions of waste gas and greenhouse gas, discharge into water and land, generation of hazardous and non-hazardous waste	Promoting environmental-friendly operation – Environmental-friendly research
	A1.1	The types of emissions and respective emissions data	Promoting environmental-friendly operation – Environmental-friendly research
	A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	Promoting environmental-friendly operation – Environmental-friendly research
	A1.3	Total hazardous waste produced and, where appropriate,intensity	Not applicable
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity	To be disclosed in the future
	A1.5	Description of measures to mitigate emissions and results achieved	Promoting environmental-friendly operation – Environmental-friendly office
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Promoting environmental-friendly operation – Environmental-friendly research

Item	Descriptions		Hua Medicine Related sections/Claim
A2. Use of Resources	General Disclosure	Policies on effective use of resources	Promoting environmental-friendly operation – Energy saving
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	Promoting environmental-friendly operation – Energy saving
	A2.2	Water consumption in total and intensity	Promoting environmental-friendly operation – Energy saving
	A2.3	Description of energy use efficiency initiatives and results achieved	Promoting environmental-friendly operation – Environmental-friendly office
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Promoting environmental-friendly operation – Energy saving
	A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not applicable
A3. The Environment and Natural Resources	General Disclosure	Policies on minimizing the significant impact of the issuer on the environment and natural resources	Promoting environmental-friendly operation – Energy saving
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Promoting environmental-friendly operation – Environmental-friendly office

Item	Descriptions		Hua Medicine Related sections/Claim
B. Social			
B1. Employment	General Disclosure	Information on: (a) the policies; (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to remuneration and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other treatments and benefits	Establishing a people-oriented company – Employee and talent
	B1.1	Total workforce by gender, employment type, age group and geographical region	Establishing a people-oriented company – Employee and talent
	B1.2	Employee turnover rate by gender, age group and geographical region	Establishing a people-oriented company – Employee and talent
B2. Health and Safety	General Disclosure	Information on: (a) the policies; (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to provision of a safe working environment and protection of employees from occupational hazards	Establishing a people-oriented company – Employee safety and health
	B2.1	Number and rate of work-related fatalities	Establishing a people-oriented company – Employee safety and health
	B2.2	Lost days due to work injury	Establishing a people-oriented company – Employee safety and health
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Establishing a people-oriented company – Employee safety and health

Item	Descriptions		Hua Medicine Related sections/Claim
B3. Development and Training	General Disclosure	Policies on enhancing the knowledge and skills of employees to perform duties. Describe training activities	Establishing a people-oriented company – Training and employee development
	B3.1	The percentage of employees trained by gender and employment type (e.g. senior management, middle management)	Establishing a people-oriented company – Training and employee development
	B3.2	The average training hours completed per employee by gender and employment type	Establishing a people-oriented company – Training and employee development
B4. Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of child labor or forced labor	Establishing a people-oriented company – Labour principle
	B4.1	Description of measures to review employment practices to avoid child and forced labour	Establishing a people-oriented company – Labour principle
	B4.2	Description of steps taken to eliminate such practices when discovered	Establishing a people-oriented company – Labour principle
B5. Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	Producing high-quality medicines – Supply chain management
	B5.1	Number of suppliers by geographical region	Producing high-quality medicines – Supply chain management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Producing high-quality medicines – Supply chain management

Item		Descriptions		Hua Medicine Related sections/Claim
B6.	Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress	Producing high-quality medicines – Product and quality management
		B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	To be disclosed in the future
		B6.2	Number of products and service related complaints received and how they are dealt with	Producing high-quality medicines – Product and quality management
		B6.3	Description of practices relating to observing and protecting intellectual property rights	Producing high-quality medicines – Intellectual property management
		B6.4	Description of quality assurance process and recall procedures	Producing high-quality medicines – Product and quality management
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	To be disclosed in the future

Item	Descriptions		Hua Medicine Related sections/Claim
B7. Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Creating a corruption – free environment
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Creating a corruption – free environment
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Creating a corruption – free environment
B8. Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Enhancing public benefits
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Enhancing public benefits
	B8.2	Resources (e.g. money or time) contributed to the focus area	Enhancing public benefits

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

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

The Board is of the view that the Company has complied with all applicable code provisions as set out in the CG Code throughout the period from the Listing Date to December 31, 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code.

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

The Company has also established the Code for Securities Transactions by Relevant Officers of the Company (the "**Code**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Code by the relevant officers was noted by the Company.

BOARD OF DIRECTORS

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

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

BOARD COMPOSITION

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

The composition of the Board is as follows:

Executive Directors

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

Non-executive Directors

Robert Taylor NELSEN *(Chairman)*
Lian Yong CHEN

Independent Non-executive Directors

Walter Teh-Ming KWAUK
William Robert KELLER
Junling LIU
Yiu Wa Alec TSUI

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 19 to 24 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

RESPONSIBILITIES OF THE DIRECTORS

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

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

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

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

Records of training received by the Directors for the year ended December 31, 2018 are summarized as follows:

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

Notes:

Types of Training

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

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

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

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

Apart from regular Board meetings, the Chairman should at least annually hold meeting with the Independent Non-executive Directors without the presence of other Directors under the code provision A.2.7 of the CG Code effective January 1, 2019.

As the Shares of the Company were listed on September 14, 2018, only two Board meetings were held during the reporting period, one of which was to approve the Company's interim report for the six months ended June 30, 2018 and the other was to review and approve the remuneration plan for the Company and to receive an update from management on the business plan.

The Board intends to meet at least four times per year in the future, and the Chairman intends to hold at least one meeting per year with the Independent Non-executive Directors without the presence of other Directors.

A tentative schedule for regular Board meetings for 2019 will be provided to the Directors at the beginning of the year. At least 14 days' notice for all regular Board meetings will be given to all Directors and all Directors will be given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying Board papers will be sent to all Directors at least three days in advance of every regular Board meeting.

The attendance records of the Directors at the Board meetings of the Company during the reporting period are as follows:

Name of Directors	Attendance
Executive Directors	
Li CHEN	2/2
George Chien Cheng LIN	2/2
Non-executive Directors	
Robert Taylor NELSEN (Chairman)	2/2
Lian Yong CHEN	2/2
Independent Non-executive Directors	
Walter Teh-Ming KWAUK	2/2
William Robert KELLER	2/2
Junling LIU	1/2
Yiu Wa Alec TSUI	2/2

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are available on the Company's website and the Stock Exchange's website. The terms of reference of Strategy Committee is available on the Company's website.

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

AUDIT COMMITTEE

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

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

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

During the reporting period, the Audit Committee held two meetings, one of which was to review the interim report in respect of the period ended June 30, 2018 and the relevant financial disclosure.

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

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

REMUNERATION COMMITTEE

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

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

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

During the reporting period, the Remuneration Committee met once to review and make recommendations to the Board on the remuneration policy and packages and other related matters.

Details of the remuneration of the senior management by band are set out in note 29 to the consolidated financial statements for the year ended December 31, 2018.

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

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

NOMINATION COMMITTEE

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

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

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

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

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

As the Shares were listed on September 14, 2018, the Nomination Committee had not held any meeting during the reporting period.

Board Diversity Policy

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

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

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

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

The Nomination Committee considered that the Board is sufficiently diverse.

Director Nomination Policy

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

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

No candidate was nominated for directorship since the Listing Date to the date of this annual report.

STRATEGY COMMITTEE

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

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

As the Shares were listed on September 14, 2018, the Strategy Committee had not held any meeting during the reporting period.

CORPORATE GOVERNANCE FUNCTIONS

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

The Audit Committee assists the Board at least annually, in reviewing the design, implementation and monitoring of the risk management and internal control systems.

- Risk management

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

- Internal control

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

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

The management has confirmed to the Board and the Audit Committee on the effectiveness and adequecy of the risk management and internal control systems for the year ended December 31, 2018.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries (the "Information Disclosure Policy").

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

As of December 31, 2018, the Company was in the process of establishing an internal audit function and evaluating the appropriate sourcing model of the internal audit team.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2018.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 91 to 94.

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2018 amounted to HK$2.4 million and HK$4.4 million respectively.

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

Service category	**Fees Paid/Payable (RMB'000)**
Audit Services	2,000
Non-audit Services	
– IPO Reporting Accountant	3,078
– Others	678
	5,756

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 19 to 24 of this annual report, for the year ended 31 December 2018 are set out below:

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

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. CHAN Wing Sze has been appointed in place of Ms. Florence Hang Yee CHANG as the Company's company secretary with effect from March 7, 2019. Its primary contact persons at the Company are Mr. George Chien Cheng LIN, Executive Director and Chief Financial Officer.

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

SHAREHOLDERS' RIGHTS

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

CONVENING AN EXTRAORDINARY GENERAL MEETING

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

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

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

PUTTING FORWARDS ENQUIRIES TO THE BOARD

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

CONTACT DETAILS

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

Address	:	No. 275 Edison Road, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai, PRC (For the attention of the Director of Corporate Finance – Ms Emily Yeh)
Tel	:	+86 (21) 5886 9997 (ext. 3289)
Email	:	ir@huamedicine.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

Constitutional Documents

The amended and restated Memorandum and Articles of Association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the year ended December 31, 2018, the Company has not made any changes to its Memorandum and Articles of Association.

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

Policies relating to Shareholders

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

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from January 1, 2019 taking into consideration of various elements including but not limited to the Company's actual and expected financial performance, the level of the Company's debts to equity ratio, return on equity and financial covenants. general economic conditions, business cycle of the Company's business, etc. The Company endeavors to maintain a balance between its Shareholders' interests and the Company's business operation as well as its long-term development goal.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF HUA MEDICINE

(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hua Medicine (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 95 to 171, which comprise the consolidated statement of financial position as of December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Risk of misstatement of research and development expenses	
As disclosed in the consolidated statement of profit or loss and other comprehensive income, for the year ended December 31, 2018, the Group incurred significant research and development ("R&D") expenses, amounted to approximately RMB269 million. A large portion of the Group's R&D expenses are service fees paid to contract research organizations ("CROs"), clinical site management operators ("SMOs"), and contract manufacturing organizations ("CMOs") (collectively referred as "Outsourced Service Providers"). The R&D activities with these Outsourced Service Providers are documented in detailed agreements and are typically performed over an extended period. Allocation of these expenses to the appropriate financial reporting period based on the progress of the research and development projects involves estimation. The accounting policy related to R&D expenses has been disclosed in note 3 of the audited consolidated financial statements for the year ended December 31, 2018.	Our procedures included, among others: • Testing the design and implementation of management's control in relation to the accrual of the R&D expenses; • Inquiring the project managers and inspecting the relevant supporting documents to understand the progress of R&D projects, on a sample basis; • Checking to agreements with the Outsourced Service Providers on a sample basis to challenge and evaluate the reasonableness of the key estimation adopted by the management in setting up the accrual basis for R&D projects; and • Evaluating the reasonableness of the R&D expense accrual by comparing the subsequent progress billing/ correspondence issued by the Outsourced Service Providers with the accrued R&D expenses at the year end.

Other information

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

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

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

Responsibilities of directors and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Joseph Wing Ming Chan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 7, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Other income	6	10,355	11,706
Other gains and losses	7	63,778	(6,557)
Administrative expenses		(100,398)	(31,086)
Finance cost	8	(3,534)	(2,958)
Listing expenses		(38,918)	—
Research and development expenses		(269,065)	(125,337)
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	25	(3,266,216)	(126,456)
Loss before tax	9	(3,603,998)	(280,688)
Income tax expense	10	—	—
Loss and total comprehensive expense for the year		(3,603,998)	(280,688)
Loss and total comprehensive expense for the year attributable to:			
– Owners of the Company		(3,602,726)	(272,714)
– Non-controlling interests		(1,272)	(7,974)
		(3,603,998)	(280,688)
LOSS PER SHARE	14	RMB	RMB
Basic and diluted		(10.07)	(2.64)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018

	Notes	As of December 31, 2018 RMB'000	2017 RMB'000
Non-current assets			
Plant and equipment	16	5,328	2,641
Intangible assets	17	859	—
Prepayments and other receivables	18	9,552	10,855
		15,739	13,496
Current assets			
Prepayments and other receivables	18	24,337	23,364
Prepayments to related parties	19	6,863	20,090
Other financial assets	20	—	16,101
Bank balances and cash	21	1,443,310	172,733
		1,474,510	232,288
Current liabilities			
Trade and other payables	22	76,033	12,377
Amounts due to related parties	23	—	23,320
Deferred income	24	1,600	7,300
		77,633	42,997
Net Current Assets		1,396,877	189,291
Total Assets Less Current Liabilities		1,412,616	202,787
Non-current liabilities			
Deferred income	24	9,128	6,528
Financial liabilities at FVTPL	25	—	1,138,789
		9,128	1,145,317
Net Assets (Liabilities)		1,403,488	(942,530)

	Notes	As of December 31, 2018 RMB'000	2017 RMB'000
Capital and reserves			
Share capital	26	7,209	48
Treasury shares held in trust	26	(797)	—
Reserves		1,397,076	(953,928)
Equity (deficit) attributable to owners of the Company		1,403,488	(953,880)
Non-controlling interests		—	11,350
Total Equity (Deficit)		1,403,488	(942,530)

The consolidated financial statements on pages 95 to 171 were approved and authorized for issue by the directors of the Company on March 7, 2019 and are signed on its behalf by:

Dr. Li Chen
DIRECTOR

Mr. George Chien Cheng Lin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2018

	Attributable to owners of the Company								
	Share capital RMB'000	Treasury shares held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note 1)	Share option reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000 (Note 1)	Total (deficit) equity RMB'000
At January 1, 2017	48	—	—	(5,015)	11,385	(676,560)	(670,142)	3,946	(666,196)
Loss and total comprehensive expense for the year	—	—	—	—	—	(272,714)	(272,714)	(7,974)	(280,688)
Subsidiary's ordinary share issued to non-controlling investors	—	—	—	120,850	—	—	120,850	15,203	136,053
Effect of put option granted to non-controlling investors to convert their equity interests in subsidiary to the Company's redeemable convertible preferred shares	—	—	—	(136,053)	—	—	(136,053)	—	(136,053)
Recognition of equity-settled share-based payment	—	—	—	—	4,179	—	4,179	175	4,354
At December 31, 2017	48	—	—	(20,218)	15,564	(949,274)	(953,880)	11,350	(942,530)

	Attributable to owners of the Company								
	Share capital RMB'000	Treasury shares held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note 1)	Share option reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000 (Note 1)	Total (deficit) equity RMB'000
At December 31, 2017	48	—	—	(20,218)	15,564	(949,274)	(953,880)	11,350	(942,530)
Loss and total comprehensive expense for the year	—	—	—	—	—	(3,602,726)	(3,602,726)	(1,272)	(3,603,998)
Subsidiary's ordinary share issued to non-controlling investors	—	—	—	61,532	—	—	61,532	2,580	64,112
Effect of put option granted to non-controlling investors to convert their equity interests in subsidiary to the Company's redeemable convertible preferred shares	—	—	—	(64,112)	—	—	(64,112)	—	(64,112)
Repurchase of subsidiary's ordinary shares from non-controlling investors	—	—	—	12,765	—	—	12,765	(12,765)	—
Option exercised to purchase ordinary shares	—	—	549	—	—	—	549	—	549
Shares issued upon initial public offerings and over-allotment	738	—	776,193	—	—	—	776,931	—	776,931
Conversion of redeemable convertible preferred shares into ordinary shares	327	—	5,149,139	—	—	—	5,149,466	—	5,149,466
Recognition of equity-settled share-based payment	—	—	—	—	58,393	—	58,393	107	58,500
Transaction costs attributable to issue of new shares	—	—	(34,534)	—	—	—	(34,534)	—	(34,534)
Shares issued to trust and convert to treasury shares (note 26(f), (j))	53	(53)	—	—	—	—	—	—	—
Capitalization Issue (note 26(g))	6,043	(744)	(5,299)	—	—	—	—	—	—
Repurchase of vested share options to satisfy withholding tax obligation (Note 2)	—	—	—	—	(896)	—	(896)	—	(896)
At December 31, 2018	7,209	(797)	5,886,048	(10,033)	73,061	(4,552,000)	1,403,488	—	1,403,488

Notes:

1. To accommodate the needs of certain investors in the People's Republic of China (the "PRC") in the Company's Series C preferred share financing, Hua Medicine (Shanghai) Co., Ltd., the Company's subsidiary located in the PRC ("Hua Shanghai"), issued 711,111 ordinary shares to those investors ("Series C PRC Investors") for cash consideration of US Dollar ("US$") 16,000,000 (RMB equivalent 103,659,000) in April 2016 as the initial closing and 933,334 ordinary shares for cash consideration of US$21,000,000 (RMB equivalent 136,053,000) in March 2017 as the second closing. To accommodate the needs of certain PRC investors in the Company's Series D Preferred Share financing, Hua Shanghai issued 899,758 ordinary shares to those investors ("Series D PRC Investors") for cash consideration of US$10,000,000 (RMB equivalent 64,112,000) in January 2018. The Company recognized non-controlling interests based on the proportion share of net assets of Hua Shanghai on each investment date and the loss and other comprehensive expenses from Hua Shanghai attributable to non-controlling interests subsequently. Concurrently with the investment in Hua Shanghai, the Company wrote the Series C PRC Investors and Series D PRC Investors put options to convert their equity interests in Hua Shanghai to the Company's Series C and Series D preferred shares respectively. The Group recognized the gross obligations from such put options over Hua Shanghai as financial liabilities at FVPTL as set out in note 25. The debit in equity on initial recognition of the written options net of deemed gains from the contributions by Series C PRC Investors and Series D PRC Investors is presented as other reserves.

2. Pursuant to the trust arrangement established by the Company to administer the Pre-IPO Share Incentive Scheme (as defined and detailed in note 27), the Company has, amongst other options, the right to reduce the number of ordinary shares to be delivered to the employees as one of the means for the employees to settle the withholding tax obligation paid on behalf of the employees by the Group. During the year ended December 31, 2018, certain employees under the Pre-IPO Share Incentive Scheme agreed with the Company to reduce numbers of vested share options in order to settle the withholding tax obligation paid on their behalf by the Group. This settlement is accounted for as a repurchase of the vested equity instruments by the Company and the repurchase consideration payable to the employees (a financial liability) and has been set off with receivable of withholding tax paid on behalf of employees (a financial asset).

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Loss before tax	(3,603,998)	(280,688)
Adjustments for:		
Loss on changes in fair value of financial liabilities at FVTPL	3,266,216	126,456
Bank interest income	(1,226)	(1,191)
Income from government grants	(8,655)	(9,724)
Depreciation of plant and equipment	1,534	637
Amortization of other intangible assets	7	—
Financial cost	3,534	2,958
Share-based payment expense	58,500	4,354
Gain from changes in fair value of other financial assets	(259)	(1,761)
Net unrealized foreign exchange (gain) loss	(63,763)	8,830
Loss (gain) on disposal of plant and equipment	7	(24)
Operating cash flows before movements in working capital	(348,103)	(150,153)
Increase in prepayments and other receivables	(973)	(22,058)
Decrease (increase) in prepayments to related parties	13,227	(19,756)
Increase in trade and other payables	63,894	7,070
Decrease (increase) in value added tax recoverable	1,303	(9,542)
Increase in deferred income	5,555	1,109
Decrease in amounts due to related parties	(4,326)	(5,364)
NET CASH USED IN OPERATING ACTIVITIES	(269,423)	(198,694)
INVESTING ACTIVITIES		
Interest received from bank	1,226	1,191
Proceeds from disposal of plant and equipment	2	43
Purchase of plant and equipment	(4,230)	(2,419)
Purchase of intangible assets	(866)	—
Proceeds on disposal of other financial assets	16,360	276,660
Placement of other financial assets	—	(261,000)
NET CASH FROM INVESTING ACTIVITIES	12,492	14,475

	Note	Year ended December 31 2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		776,931	—
Prepayments from investors for the issue of the Company's convertible redeemable preferred shares		—	19,017
Proceeds from exercise of share options		549	—
Proceeds from the issue of the Company's convertible redeemable preferred shares		673,909	20,792
Proceeds from the issue of subsidiary's ordinary shares and written put options over subsidiary		64,112	136,053
Repayment to investors		(12,577)	—
Transaction costs for the issue of the Company's convertible redeemable preferred shares		(3,534)	(2,958)
Payments relating to issue costs		(34,534)	—
NET CASH FROM FINANCING ACTIVITIES	34	1,464,856	172,904
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,207,925	(11,315)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		172,733	192,901
Effect of exchange rate changes		62,652	(8,853)
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		1,443,310	172,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

1. General information

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

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

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

The Group has consistently applied the accounting policies which conform with IFRSs, which are effective for the financial year beginning on January 1, 2018 throughout the current and previous reporting period.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC - Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[1]

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

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

[1] Effective for annual periods beginning on or after January 1, 2019

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

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

[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

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

Except as disclosed below, the directors of the Company anticipate that application of the new and amendments to IFRSs will have no material impact on the Group's future financial statements.

IFRS 16 *Leases*

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

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

Furthermore, extensive disclosures are required by IFRS 16.

At December 31, 2018, the Group has non-cancellable operating lease commitments of approximately RMB6,056,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

IFRS 16 *Leases* (Continued)

In addition, the Group currently considers refundable rental deposits paid of RMB1,530,000 as of December 31, 2018 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements would result in changes in measurement, presentation and disclosure as indicated above. The management of the Group assessed that such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not result in a significant impact to the financial performance of the Group upon adoption of IFRS 16.

The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an arrangement contains a lease", which already existed prior to the date of initial application. In addition, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic Environment). Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and recognized the cumulative effect of initial application to opening accumulated losses without restating comparative information.

3. Significant accounting policies

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and complied with the Hong Kong Companies Ordinance.

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

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

3. Significant accounting policies (Continued)

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

3. Significant accounting policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

Changes in the Group's interests in existing subsidiaries

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

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

Leasing

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

The Group as lessee

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

3. Significant accounting policies (Continued)

Foreign currencies

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

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

Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specially, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are designated as grants related to assets and recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets; while the government grants whose primary condition is to compensate for research projects or other than purchase, construct or otherwise acquire long-term assets are designated as grants related to income. Some of the grants related to income have future related costs expected to be incurred, and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance.

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

3. Significant accounting policies (Continued)

Plant and equipment

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

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets - research and development expenditure

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

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

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

3. Significant accounting policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets - research and development expenditure (Continued)

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any).

Retirement benefit costs

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

Short-term employee benefits

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

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

3. Significant accounting policies (Continued)

Share-based Payments

Equity-settled share-based payment transactions

Share options/restricted shares/restricted stock units granted to employees

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

The fair value of the equity-settled share-based payments is determined at the grant date without taking into consideration all non-market vesting conditions and the equity-settled share-based payments are expensed by tranche (each date on which any portion of option granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of option granted shall be vested is hereinafter referred to as a "Tranche") over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group reviews its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share option reserve.

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

If the Company repurchases vested equity instruments, the payment made to the employee shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognized as an expense.

Share options granted to individual consultants

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

3. Significant accounting policies (Continued)

Taxation

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

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

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

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

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

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

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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income as directly in equity, respectively.

3. Significant accounting policies (Continued)

Impairment on tangible and intangible assets

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

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

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

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

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

3. Significant accounting policies (Continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquirer of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

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

Financial assets at FVTPL

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

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

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets measured at amortized cost, exchange differences are recognized in profit or loss in the 'other gains and losses' line item (note 7).

Impairment of financial assets

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Definition of default

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

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

Credit-impaired financial assets

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

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

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

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

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

Write-off policy

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL

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

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

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

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

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

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

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

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

Because the Group's convertible redeemable preferred shares contained multiple embedded derivatives, the convertible redeemable preferred shares are designated as at FVTPL. For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible redeemable preferred shares, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. The remaining amount of change in the fair value of liability is recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in the "loss on changes in fair value of financial liabilities at FVTPL" line item. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability. Fair value is determined in the manner described in note 25.

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

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

Financial liabilities at amortized cost

Other financial liabilities including trade and other payables and amounts due to related parties are subsequently measured at amortized cost, using the effective interest method.

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (note 7).

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Treasury shares

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

4. Critical accounting judgements and key source of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgement, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Research and development expenses

Development expenses incurred on the Group's drug product pipelines are capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Research and development expenses which do not meet these criteria are expensed when incurred. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. All expenses incurred for research and development activities were regarded as research expenses and therefore were expensed when incurred.

5. Segment information

For the purpose of resources allocation and performance assessment, the Group's chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is present.

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

6. Other income

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Bank interest income	1,226	1,191
Government grants and subsidies related to income (note)	9,129	10,515
	10,355	11,706

Note:

The government grants and subsidies related to income have been received to compensate for the expenses of Group's research and development. Some of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to incomes were recognized in profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance. Details of these grants related to assets are set out in note 24.

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

7. Other gains and losses

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
(Loss) gain on disposal of plant and equipment	(7)	24
Net foreign exchange gain (loss)	63,479	(8,315)
Gain from changes in fair value of other financial assets		
– realized	259	1,660
– unrealized	—	101
Others	47	(27)
	63,778	(6,557)

8. Finance cost

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Transaction cost for the issue of the Company's convertible redeemable preferred shares and written put option over subsidiary	3,534	2,958

9. Loss before tax

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Depreciation for plant and equipment	1,534	637
Amortization for intangible assets	7	—
Staff cost (including directors' emoluments):		
– Salaries and other benefits	78,348	29,623
– Retirement benefit scheme contributions	6,177	3,070
– Share-based payment	58,500	4,354
	143,025	37,047
Auditors' remuneration	2,000	493
Minimum operating lease payment in respect of rented premises	4,677	2,358

10. Income tax expense

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

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

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

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive expense as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Loss before tax	3,603,998	280,688
Income tax expense calculated at 25%	901,000	70,172
Tax effect of income not taxable for tax purpose	2,164	2,629
Tax effect of expenses that are not deductible for tax purpose	(835,561)	(40,664)
Effect of research and development expenses that are additionally deducted	42,833	18,643
Tax effect of tax losses not recognized	(110,436)	(50,780)
Income tax expenses recognized in profit or loss	—	—

The Group has unused tax losses of RMB822,776,000 and RMB408,287,000 available for offset against future profits at December 31, 2018 and 2017 respectively. Deferred taxation had not been recognized on the unused tax losses due to the unpredictability of future profit streams.

10. Income tax expense (Continued)

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
2018	—	27,254
2019	38,151	38,151
2020	44,942	44,942
2021	94,820	94,820
2022	203,120	203,120
2023	441,743	—
	822,776	408,287

11. License agreement

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

In 2017, the Company made US$1,000,000 milestone payment to Roche upon the commencement of clinical trial Phase III in the mainland China for the Licensed Product, which was recorded as research and development expenses as incurred.

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

12. Directors' and chief executive's emoluments

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

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

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

	Fees RMB'000	Salaries and other benefits RMB'000	Performance based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2017						
Executive director						
Dr. Li CHEN*	—	2,275	1,037	46	669	4,027
Non-executive directors						
Dr. Lian Yong CHEN	—	—	—	—	—	—
Mr. Robert T. NELSEN	—	—	—	—	—	—
Mr. Bryan ROBERTS	—	—	—	—	—	—
Mr. Daniel AUERBACH	—	—	—	—	—	—
Mr. Frank YU	—	—	—	—	—	—
Dr. John J. BALDWIN	—	—	—	—	84	84
Mr. Xiao Chuan QIU	—	—	—	—	—	—
Dr. Ge LI (note 4)	—	—	—	—	—	—
	—	2,275	1,037	46	753	4,111

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

* Chief Executive Officer

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

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

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

Note 4: Dr. Ge LI resigned as director and was removed from the list of the directors of the Company on December 26, 2017.

The executive directors' emoluments shown above were for their service in connection with the management of the affairs of the Company and the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

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

Certain directors of the Company were granted share options, restricted shares and restricted stock units in respect of their services to the Group. Details of the share-based payment transactions are set out in note 27.

13. Five highest paid employees

The five highest paid individuals of the Group included two directors of the Company (2017: one), details of whose remuneration are set out in note 12 above. Details of the remuneration for the remaining three highest paid employees (2017: four) are as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Salaries and other benefits	4,094	3,685
Retirement benefit scheme contributions	112	137
Performance based bonus	740	1,650
Share-based payment	9,496	1,124
	14,442	6,596

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

	Year ended December 31	
	2018	2017
	No. of employees	No. of employees
Hong Kong Dollars ("HK$")		
HK$1,500,001 to HK$2,000,000	—	3
HK$2,000,001 to HK$2,500,000	—	1
HK$4,500,001 to HK$5,000,000	—	1
HK$5,000,001 to HK$5,500,000	1	—
HK$5,500,001 to HK$6,000,000	2	—
HK$13,500,001 to HK$14,000,000	1	—
HK$36,500,001 to HK$37,000,000	1	—

Certain non-directors highest paid employees were granted share options in respect of their services to the Group. Details of the share-based payment transactions are set out in note 27.

14. Loss per share

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

Loss figures are calculated as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	(3,602,726)	(272,714)

Number of Shares:

	Year ended December 31	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	357,864,458	103,486,850

The computation of basic and diluted loss per share for the years ended December 31, 2018 and 2017 respectively excluded the unvested restricted shares and restricted stock units of the Company. Details of these restricted shares and restricted stock units are set out in note 27.

The weighted average numbers of shares for the purpose of basic earnings per share for the years ended December 31, 2018 and 2017 were calculated based on the assumption that the Capitalization Issue (as defined in note 26) of the share allotment as disclosed in note 26(g) has been adjusted retrospectively.

The computation of diluted loss per share for the year ended December 31, 2018 did not assume conversion of the convertible redeemable preferred shares, the exercise of share options, the overallotment options, the restricted shares or the restricted stock units since their assumed conversion or exercise would result in a decrease in loss per share. The computation of diluted loss per share for the year ended December 31, 2017 did not assume conversion of the convertible redeemable preferred shares, the exercise of share options or the restricted shares, since their assumed conversion or exercise would result in a decrease in loss per share.

15. Dividends

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

16. Plant and equipment

	Motor vehicles RMB'000	Furniture fixtures and equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost				
At January 1, 2017	574	1,273	—	1,847
Additions	452	1,967	—	2,419
Disposals	(166)	(56)	—	(222)
At December 31, 2017	860	3,184	—	4,044
Additions	—	2,120	2,110	4,230
Disposals	—	(250)	—	(250)
At December 31, 2018	860	5,054	2,110	8,024
Accumulated depreciation				
At January 1, 2017	460	509	—	969
Charge for the year	160	477	—	637
Eliminated on disposals	(154)	(49)	—	(203)
At December 31, 2017	466	937	—	1,403
Charge for the year	109	1,037	388	1,534
Eliminated on disposals	—	(241)	—	(241)
At December 31, 2018	575	1,733	388	2,696
Carrying amount				
At December 31, 2018	285	3,321	1,722	5,328
At December 31, 2017	394	2,247	—	2,641

16. Plant and equipment (Continued)

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

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

17. Intangible assets

	Software RMB'000
Cost	
At January 1, 2017 and December 31, 2017	—
Additions	866
At December 31, 2018	866
Amortization	
At January 1, 2017 and December 31, 2017	—
Charge for the year	7
At December 31, 2018	7
Carrying amount	
At December 31, 2018	859
At December 31, 2017	—

The above items of intangible assets are software, which are amortized, using the straight-line method after taking into account of their estimated residual values, over 10 years.

18. Prepayments and other receivables

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Prepayments for research and development services	21,157	21,795
Utility and rental deposits	1,530	608
Value add tax recoverable - non- current	9,552	10,855
Others	1,650	961
	33,889	34,219
Analysis as		
– current	24,337	23,364
– non-current (note)	9,552	10,855
	33,889	34,219

Note: Value added tax recoverable represent amounts paid by the Group for purchases. Value added tax recoverable was recorded as other non-current assets as of December 31, 2017 since it was expected to be deducted from future value added tax payables arising on the Group's revenue which are not expected to be generated within the next 12 months from December 31, 2017. In June 2018, the General Tax Bureau of the Ministry of Finance announced a new tax policy,《關於2018年退還部分行業增值稅留抵稅額有關稅收政策的通知》(Caishui [2018] No. 70), that allows the refund of non-deductible valued added tax recoverable from local tax bureaus for companies in qualified industries including pharmaceuticals. Pursuant to Caishui [2018] No. 70, the value added tax recoverable as of December 31, 2017 was refunded during the year ended December 31, 2018. The value added tax recoverable generated in 2018, which is not in the scope of the above said rule, is recorded as prepayments and other receivables as non-current assets as of December 31, 2018.

19. Prepayments to related parties

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Prepayments for research and development services (note i)		
Shanghai STA Pharmaceutical R&D Co., Ltd.	N/A	2,680
Shanghai SynTheAll Pharmaceutical Co., Ltd.	N/A	5,393
WuXi AppTec (Shanghai) Co., Ltd.	N/A	425
Shanghai MedKey Med-Tech Development Co., Ltd.	N/A	7,288
WuXi Clinical Development Services (Shanghai) Co., Ltd.	N/A	4,304
	—	20,090
Prepaid emolument (note ii)	6,863	—
	6,863	20,090

Note i: All of the above previous related parties are subsidiaries of Wuxi AppTec Co., Ltd. (the "WXAT"). Wuxi Pharmatech Healthcare Fund I L.P., an investor of the Company, is a subsidiary of WXAT. In addition, WXAT is indirectly owned as to more than 20% by Dr. Ge LI and his concert parties. Dr. Ge LI served as a director of the Company from August 2010 to December 2017 and is also an investor of the Company. Wuxi Pharmatech Healthcare Fund I L.P. and Dr. Ge LI together held over 10% equity interests in the Company before the Listing Date. Therefore, WXAT and its subsidiaries were considered as related parties of the Company prior to the Listing Date. After the Listing Date, WXAT's and Dr. Ge LI's interests in the Company in aggregate were diluted below 10% and the Company evaluated that WXAT and its subsidiaries were no longer related parties since then and therefore the corresponding prepayments to these parties as of December 31, 2018 were recorded as "prepayments and other receivables" in note 18.

Note ii: The Company hired a senior management and paid US$2,000,000 (RMB equivalent 13,016,000) as an inducement to join the Company. Pursuant to the employment agreement, the employee would be obligated to remain in the Company's employment for 24 months since the hiring date. If the employee left the Company before the end of the 24 months period, the employee would be obligated to repay the Company a portion of the inducement proportionate to the remaining unfulfilled service period. As such, the Company recognized the inducement as prepayment and amortized it over the required service period.

20. Other financial assets

The Group has entered into contracts of financial product (the "Financial Products") with a bank as of December 31, 2017, which have been classified as financial assets at FVTPL on initial recognition. The return of the Financial Products was determined by reference to the performance of the underlying instruments in the currency market, the interbank market, the bond market, the security and equity market and the derivative financial instruments. The initial investment cost and the expected return rate stated in the contract of the Financial Products as of December 31, 2017 are RMB16,000,000 and 2.8% per annum respectively, which were disposed in the year of 2018. No financial assets at FVTPL were recognized as of December 31, 2018.

21. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The short term bank deposits carry interests at market rates which ranged from 0.01% to 0.30% as of December 31, 2018 (2017: 0.001% to 1.956%) per annum.

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

	Year ended December 31	
	2018	**2017**
	RMB'000	**RMB'000**
US$	1,008,265	141,876
Taiwan Dollars ("TWD")	3	3
HK$	408,764	2

22. Trade and other payables

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Trade payables	55,676	4,022
Payroll and bonus payables	14,867	8,000
Accrued expenses	4,652	—
Others	838	355
	76,033	12,377

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

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Within 30 days	35,118	3,974
31 to 60 days	6,411	—
61 to 180 days	14,147	—
181 to 365 days	—	48
	55,676	4,022

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
US$	570	1,035

23. Amounts due to related parties

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Amounts payable for receipt of research and development services (note i):		
Shanghai STA Pharmaceutical R&D Co., Ltd.	N/A	2,752
WuXi AppTec (Shanghai) Co., Ltd.	N/A	1,319
Shanghai MedKey Med-Tech Development Co., Ltd.	N/A	255
	—	4,326
Receipt in advance from investors for the issue of convertible redeemable preferred shares-non-trade (note ii)	—	18,994
	—	23,320

Note i: As stated in note 19, all the above companies were no longer related parties since the Listing Date and therefore the corresponding payables to these parties as of December 31, 2018 were recorded as "Trade and other payables" in note 22.

Note ii: The amount of the Company as of December 31, 2017 represents the receipt in advance from investors for the issue of convertible redeemable preferred shares. Certain investors participated in Series D convertible redeemable preferred shares ("Series D Preferred Shares") paid RMB18,994,000 to the Company as cash consideration for subscription of series D Preferred Shares during the last week of December 2017 upon agreeing the term sheet of the investment with the Company. The Company recognized the amount as the receipt in advance from investors to purchase series D Preferred Shares as of December 31, 2017. Series D Preferred Shares were subsequently issued in March 2018 as set out in note 25 and therefore the receipt in advance from investors was reclassified to financial liabilities at FVTPL.

23. Amounts due to related parties (Continued)

The aging analysis of the amounts due to related parties presented based on the goods/services receipt date at the end of each reporting period is as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Within 30 days	N/A	4,326

Analysis of amounts due to related parties denominated in currency other than RMB is set out below:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
US$	—	18,994

24. Deferred income

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Government grants received		
– current liabilities	1,600	7,300
– non-current liabilities	9,128	6,528
	10,728	13,828

Movements of income related government grants

	RMB'000
At January 1, 2017	22,443
Government grants received	1,109
Credited to profit or loss	(9,724)
At December 31, 2017	13,828
Government grants received	5,555
Credited to profit or loss	(8,655)
At December 31, 2018	10,728

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

25. Financial liabilities at FVTPL

Upon the completion of the Company's IPO on the Listing Date as of September 14, 2018, all of the outstanding Series A-1, A-2, B, C-1, C-2, C-3, D-1, D-2 and E redeemable convertible preferred shares were converted into 47,892,666 ordinary shares. The history of the issuance of the preferred shares is as following:

In May 2014, the Company issued 5,499,999 Series A-1 convertible redeemable preferred shares ("Series A-1 Preferred Shares") and 20,916,409 Series A-2 convertible redeemable preferred shares ("Series A-2 Preferred Shares"), (Series A-1 Preferred Shares and Series A-2 Preferred Shares) collectively referred to as the "Series A Preferred Shares") with a par value US$ 0.001 per share to a group of investors for a cash consideration of US$5,499,999 (RMB equivalent 33,895,000) or US$1.00 per share and US$15,687,307 (RMB equivalent 96,678,000) or US$0.75 per share, from conversion of existing loans extended by Series A-2 Preferred Shares investors to the Company, respectively.

In January and August 2015, the Company issued 7,142,857 Series B convertible redeemable preferred shares ("Series B Preferred Shares") with a par value of US$0.001 per share to a group of investors including existing preferred share investors for a cash consideration of US$25,000,000 (RMB equivalent 153,050,000) or US$3.5 per share.

In April 2016, the Company issued 794,963 Series C-1 convertible redeemable preferred shares ("Series C-1 Preferred Shares") to a group of investors for a cash consideration of US$8,000,000 (RMB equivalent 52,162,000) or US$10.06335 per share as the initial closing and issued another 298,111 Series C-1 Preferred Shares for a cash consideration of US$3,000,000 (RMB equivalent 20,792,000) or US$10.06335 per share as the second closing.

In April, 2016, the Company issued 1 Series C-2 convertible redeemable preferred shares ("Series C-2 Preferred Shares") and 1 Series C-3 convertible redeemable preferred shares ("Series C-3 Preferred Shares") for a nominal consideration or par value US$0.001 per share to a group of investors. Certain affiliates of the holders of Series C-2 Preferred Shares and Series C-3 Preferred Shares ("Series C Option Holders") entered into a share purchase agreement ("Subsidiary Investment Agreement") with Hua Shanghai, concurrently. Pursuant to the Subsidiary Investment Agreement, Series C Option Holders made an aggregate investment of US$16,000,000 (RMB equivalent 103,659,000) to Hua Shanghai in April 2016 as the initial closing and another aggregate investment of US$21,000,000 (RMB equivalent 136,053,000) to Hua Shanghai in March 2017 as the second closing. Upon the completion of the initial closing and second closing, the Company granted Series C Option Holders an option right ("Series C Share Purchase Option") to convert their equity interests in Hua Shanghai to the Company's Series C-1 Preferred Shares. Before exercise of the Share Purchase Option, those Series C Option Holders hold ordinary shares of Hua Shanghai. Pursuant to the Subsidiary Investment Agreement, Series C Option Holders shall be treated as if they have exercised their Share Purchase Option and converted their equity interest in Hua Shanghai into the Series C-1 Preferred Shares and shall be subject to the same rights and obligations of, and shall rank pari passu with, the holders of the Series C-1 Preferred Shares. On an as-exercised basis upon second closing, the holders of Series C-2 Preferred Shares shall be deemed as holders of 2,981,113 Series C-1 Preferred Shares for deemed preferred shares issue price of US$30,000,000 (RMB equivalent 194,361,000) or US$10.06335 per share and the holders of Series C-3 Preferred Shares shall be deemed as holders of 695,592 Series C-1 Preferred Shares for a deemed preferred shares issue price of US$7,000,000 (RMB equivalent 45,350,900) or US$10.06335 per share. From January through April 2018, Series C Option Holders exercised the Series C Share Purchase Option to convert all their equity interests in Hua Shanghai into Series C-1 Preferred Shares of the Company.

25. Financial liabilities at FVTPL (Continued)

In January 2018, the Company issued 3,599,030 Series D-1 convertible redeemable preferred shares ("Series D-1 Preferred Shares") for a cash consideration of US$39,999,979 (RMB equivalent 254,609,000) or US$11.1141 per share to existing investors and 1 Series D-2 convertible redeemable preferred shares ("Series D-2 Preferred Shares") for a nominal consideration or par value US$0.001 per share to the holders of Series D-2 Preferred Shares. Certain affiliates of the holders of Series D-2 Preferred Shares ("Series D Option Holders") entered into an amended share purchase agreement ("Amended Subsidiary Investment Agreement") with Hua Shanghai, concurrently. Pursuant to the Amended Subsidiary Investment Agreement, Series D Option Holders made a net aggregate investment of US$10,000,000 (RMB equivalent 64,112,000) to Hua Shanghai. Upon the completion of the investment, the Company granted Series D Option Holders an option right ("Series D Share Purchase Option") (Series C Share Purchase Option and Series D Share Purchase Option are collectively referred as "Share Purchase Option") to convert their equity interests in Hua Shanghai to the Company's Series D-1 Preferred Shares. Pursuant to the Amended Subsidiary Investment Agreement, the holders of Series D-2 Preferred Shares shall be treated as if they have exercised their Share Purchase Option and converted their equity interests in Hua Shanghai into the Series D-1 Preferred Shares and shall be subject to the same rights and obligations of, and shall rank pari passu with, the holders of the Series D-1 Preferred Shares. On an as-exercised basis, the holders of Series D-2 Preferred Shares shall be deemed as holders of 899,758 Series D-1 Preferred Shares for deemed preferred shares issue price of US$10,000,000 (RMB equivalent 64,112,000) or US$11.1141 per share. In January 2018, Series D Option Holders exercised the Share Purchase Option to convert their equity interests in Hua Shanghai into Series D-1 Preferred Shares of the Company.

In March 2018, the Company issued 5,064,833 Series E convertible redeemable preferred shares ("Series E Preferred Shares") to a group of investors for a cash consideration of US$67,368,863 (RMB equivalent 425,740,000) or US$13.3013 per share.

The key terms of the Series A-1, A-2, B, C-1, C-2, C-3, D-1, D-2 and E Preferred Shares (collectively "Preferred Shares") are as follows:

25. Financial liabilities at FVTPL (Continued)

Conversion Rights

Each holder of Series A-1, A-2, B, C-1, D-1 and E Preferred Shares shall be convertible, at the option of the holder of Series A-1, A-2, B, C-1, D-1 and E Preferred Shares, into ordinary shares based on a one-for-one basis at any time after the date of issuance of Preferred Shares. And thereafter shall be subject to adjustment and readjustment from time to time for any share dividends, combination or split, being no less than par value.

The Preferred Shares will be automatically converted into ordinary shares at the then applicable conversion price upon the earlier of (1) the closing of a Qualified Initial Public Offering (Qualified IPO), or (2) the date specified by written consent or agreement of majority holders of Preferred Shares.

None of the Series C-2, C-3 and D-2 Preferred Share can be actually converted into Ordinary Shares unless the holders of Series C-2 and C-3 Preferred Share and the holders of Series D-2 exercise their Share Purchase Option and converted their equity interests in Hua Shanghai into the Series C-1 Preferred Shares and Series D-1 Preferred Shares, respectively.

Qualified IPO means the closing of a firm commitment underwritten public offering of the ordinary shares of the Company (or depositary receipts or depositary shares therefor) in the United States pursuant to an effective registration statement under the United States Securities Act of 1933, as amended, certain minimum pre-offering valuation and net proceeds to the Company or in a public offering of the ordinary shares of the Company (or depositary receipts or depositary shares therefor) in another jurisdiction which results in the ordinary shares trading publicly on a recognized international securities exchange approved by the majority holders of Preferred Shares, voting as a single class, so long as such offering satisfies the foregoing pre-offering valuation requirements.

Voting Rights

Each holder of Series A-1, A-2, B and C-1 Preferred Shares are entitled to vote with ordinary shareholders on an as-converted basis. The holders of the Series C-2 and C-3 Preferred Shares and the holders of D-2 Preferred Shares shall each be entitled to such number of votes per share as equals the number of Series C-1 Preferred Shares and Series D-1 Preferred Shares on an as-exercised basis, respectively.

25. Financial liabilities at FVTPL (Continued)

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Company, or the cessation of the business of the Group or of a substantial portion of the business of the Group (the "Liquidation Event"), whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the Members shall be distributed to the Members of the Company in the sequence as follows:

(1) Series E Preferred Shares

(2) Series D Preferred Shares

(3) Series C Preferred Shares

(4) Series B Preferred Shares

(5) Series A Preferred Shares

If there are any assets or funds remaining after the accumulated senior Preferred Shares preference amount has been distributed or paid in full to the applicable holders of senior Preferred Shares, the holders of the less senior Preferred Shares shall be entitled to receive for each less senior Preferred Share held by such holder, the amount equal to 100% of the less senior Preferred Share Issue Price, plus all accrued but unpaid dividends. If the assets and funds thus distributed among the holders of the less senior Preferred Shares shall be insufficient to permit the payment to such holders of the full less senior Preferred Shares preference amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the less senior Preferred Shares.

25. Financial liabilities at FVTPL (Continued)

Dividends

Each holder of Preferred Shares shall be entitled to receive accruing dividends at the rate of 4% per annum based on the actual number of days elapsed. Such dividends shall accrue from day to day, compounded annually, and be cumulative and payable (i) when, as and if declared by the Board of Directors or (ii) upon the occurrence of a Liquidation Event, in which case to the extent required by, and subject to, applicable law, the Board of Directors shall declare such dividends or distributions payable. Each holder of Preferred Shares shall also be entitled to participate on an as-converted basis pro-rata in any dividends or distributions paid to the holders of ordinary shares. In addition, each holder of Preferred Shares is also entitled to dividends on the Company's ordinary shares on an as if converted basis and the sequence of payment of dividends are as follows:

(1) Series E Preferred Shares

(2) Series D Preferred Shares

(3) Series C Preferred Shares

(4) Series B Preferred Shares

(5) Series A Preferred Shares

(6) Ordinary Shares

From inception of the Company through December 31, 2018 and 2017, no dividend was declared or paid and no Liquidation Events occurred, therefore no dividends have been recorded in the consolidated financial statements.

Redemption Rights

The Preferred Shares shall be redeemed by the Company at a price equal to the Preferred Shares issue price per share, plus all accrued but unpaid dividends, at any time on or after four and a half years from the Preferred Share issue date.

25. Financial liabilities at FVTPL (Continued)

Presentation and classification

The Group has designated the Preferred Shares as whole as financial liabilities carried at FVTPL. The change in fair value of the Preferred Shares is charged to profit or loss except for the portion attributable to credit risk change that shall be charged to other comprehensive income. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in the loss on changes in fair value of financial liabilities at FVTPL line item. Management considered that there is no credit risk of the financial liability that drives the change of the fair value of the financial liability.

The gross obligations from Share Purchase Option written represents the Group's obligations to purchase the non-controlling interests of Hua Shanghai in exchange for the Preferred Shares of the Company. As such gross obligations gives rise to a financial liabilities of the Group for the present value of the redemption amount that equals to the fair value of the Preferred Shares of the Company, the Group classified the gross obligations from Share Purchase Option written as financial liabilities at FVTPL in the Group's consolidated statement of financial position.

The fair value of the Preferred Shares, gross obligation from Share Purchase Option written at the end of the reporting period is as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Preferred Shares	—	900,255
Gross obligation from Share Purchase Option written	—	238,534
	—	1,138,789

25. Financial liabilities at FVTPL (Continued)

Presentation and classification (Continued)

The movement of the Preferred Shares, the gross obligation from Share Purchase Options written of the Group is set out below:

	Series A Shares RMB'000	Series B Shares RMB'000	Series C Initial Closing Shares RMB'000	Series C 2nd Closing Shares RMB'000	Series D Shares RMB'000	Series E Shares RMB'000	Total RMB'000
Preferred Shares:							
At January 1, 2017	486,968	207,302	56,184	—	—	—	750,454
Issues during the year	—	—	—	20,792	—	—	20,792
Changes in fair value	120,239	13,703	(3,442)	(1,491)	—	—	129,009
At December 31, 2017	607,207	221,005	52,742	19,301	—	—	900,255
Issues during the year	—	—	—	—	254,609	425,740	680,349
Changes in fair value	2,257,451	549,525	86,812	86,997	157,949	120,282	3,259,016
Converted from Share Purchase Option	—	—	108,035	137,699	64,112	—	309,846
Converted to ordinary shares	(2,864,658)	(770,530)	(247,589)	(243,997)	(476,670)	(546,022)	(5,149,466)
At December 31, 2018	—	—	—	—	—	—	—

As of December 31, 2017, the issued Preferred Shares shall be redeemed by the Company at a price equal to the Preferred Shares issue price per share, plus all accrued but unpaid dividends, within a period of more than two years but not exceeding five years.

25. Financial liabilities at FVTPL (Continued)

Presentation and classification (Continued)

	Series C Initial Closing Share Purchase Option RMB'000	Series C 2nd Closing Share Purchase Option RMB'000	Series D Initial Closing Share Purchase Option RMB'000	Total RMB'000
Gross obligation from Share Purchase Option written:				
At January 1, 2017	105,034	—	—	105,034
Issues during the year	—	136,053	—	136,053
Changes in fair value	(440)	(2,113)	—	(2,553)
At December 31, 2017	104,594	133,940	—	238,534
Issues during the year	—	—	64,112	64,112
Changes in fair value	3,441	3,759	—	7,200
Converted into preferred shares	(108,035)	(137,699)	(64,112)	(309,846)
At December 31, 2018	—	—	—	—

The Group has used the back-solve method to determine the underlying share value of the Group and adopted equity allocation model to determine the fair value of the Preferred Shares and gross obligation from Share Purchase Option written as of December 31, 2017 and the date of conversion of non-controlling interests of Hua Shanghai to the Preferred Shares of the Company.

Key valuation assumptions used to determine the fair value of Preferred Shares and gross obligation from Share Purchase Option written as of December 31, 2017 are as follows:

	At December 31, 2017
Fair value of ordinary shares of the Company	US$2.44
Possibilities under liquidation scenario	75%
Possibilities under redemption scenario	5%
Possibilities under initial public offering scenario	20%
Risk-free interest rate	1.9%
Discount for lack of marketability	24.8%
Volatility	84.8%

On the Listing Date, all the Preferred Shares were converted into ordinary shares used in the fair value of the ordinary shares of the Company as the market price of HK$8.28 (RMB equivalent 7.21).

26. Share capital

	Authorized Number of shares	US$
Ordinary shares of US$0.001 each		
At January 1, 2017 and December 31, 2017	61,670,953	61,671
Increase (note (a))	45,501,211	45,501
Decrease (note (b))	(5,064,833)	(5,065)
Increase (note (c))	1,850,000,000	1,850,000
Increase (note (d))	47,892,669	47,893
At December 31, 2018	2,000,000,000	2,000,000

	Issued and fully paid Number of shares	US$	Shown in the consolidated statement of financial position as RMB'000
Ordinary shares of US$0.001 each			
At January 1, 2017 and December 31, 2017	7,426,154	7,426	48
Issue of shares by exercise share options (note (e))	25,000	25	—
Issue of shares by converting preferred shares into ordinary share (note (d))	47,892,666	47,893	327
Issue of shares held in trust (note (f))	7,800,000	7,800	53
Issue of shares pursuant to capitalization issue (note (g))	884,013,480	884,013	6,043
Issue of shares by initial public offering (note (h))	104,756,000	104,756	717
Issue of shares by exercise of over-allotment option (note (i))	2,980,500	2,981	21
At December 31, 2018	1,054,893,800	1,054,894	7,209
Treasury shares held in trust at December 31, 2018 (note (f))	116,536,062	116,536	797

26. Share capital (Continued)

(a) On January 22, 2018, the authorized share capitals of the Company was increased by an aggregate of 50,000,000 ordinary shares of par value of US$ 0.001 each and 4,498,789 of which were re-designated into 4,498,788 Series D-1 Preferred Shares of the Company of par value of US$0.01 each, and 1 Series D-2 Preferred Share of the Company of par value of US$0.001 each.

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

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

(d) Upon the completion of the international offering and the Hong Kong public offering (together form the "Global Offering"), an aggregate of 47,892,666 Preferred Shares of the Company are converted into ordinary shares and 1 Series C-2 Preferred Shares, 1 Series C-3 Preferred Shares and 1 Series D-2 Preferred Share of the Company are converted as authorized ordinary shares after the Share Purchase Option exercised as set out in note 25.

(e) On March 22, 2018, an employee exercised his right, evidenced by certain option agreements under the Company's pre-IPO share option scheme, to subscribe 25,000 ordinary shares of the Company at the exercise of US$3.5 per share for an aggregate consideration of US$87,500 (RMB equivalent 549,640).

(f) HLYY Limited (the "Nominee") was incorporated in the British Virgin Islands as a limited liability company and is wholly owned by The Core Trust Company Limited (the "Trustee"), an independent third party. On August 26, 2018, the Company entered into a trust deed with the Trustee and the Nominee, pursuant to which the Trustee has agreed to act as the trustee to administer the Pre-IPO Share Incentive Scheme (defined in note 27) and to hold the shares underlying the Pre-IPO Scheme (defined in note 27) and restricted stock units granted under the Pre-IPO Share Incentive Scheme as disclosed in note 27 through the Nominee. On August 27, 2018, the Company allotted and issued 7,800,000 shares to the Nominee at a nominal consideration of US$7,800 (RMB equivalent 53,000). On the Listing Date, the total number of shares held in trust was 117,000,000 as adjusted after the Capitalization Issue, which includes 109,577,025 shares for Pre-IPO Scheme and 7,422,975 shares for restricted stock units under the Pre-IPO Share Incentive Scheme of the Company. As of December 31, 2018, 116,536,062 shares of the sum of US$116,536.06 (RMB equivalent 797,000) are held in trust including 109,577,025 shares for pre-IPO share option scheme and 6,959,037 shares for unvested restricted stock units as disclosed in note 27 and disclosed separately in treasury shares since the Company has control over the Nominee.

26. Share capital (Continued)

(g) On August 26, 2018, a shareholder's resolution was passed under which a total of 884,013,480 shares credited as fully paid at par value to the shareholders on the register of members of the Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional in proportion to the respective shareholdings in the Company by way of capitalization of the sum of US$884,013.48 (RMB equivalent 6,043,000) standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued Shares (the "Capitalization Issue"), in each case to be effective on the Listing Date.

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

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

(j) All the new shares rank pari passu with the existing shares in all respects.

27. Share-based payment transactions

On August 26, 2018, the Company adopted the pre-IPO share incentive scheme (the "Pre-IPO Share Incentive Scheme") and established an employee trust to administer the scheme. A total of 7,800,000 ordinary shares (adjusted as 117,000,000 ordinary shares after the Capitalization Issue) of the Company, representing all the Company's shares underlying the Pre-IPO Scheme (defined as below) and the restricted stock units granted under the Pre-IPO Share Incentive Scheme, were issued to, the Nominee, to hold such shares to satisfy the options and restricted stock units granted upon exercise/vesting. No further Company's shares will be allotted and issued to the Nominee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to the Capitalization Issue, rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme.

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

The history of the issuance of the share option schemes, restricted shares and restricted stock units under the Pre-IPO Share Incentive Scheme and Post-IPO Scheme is as following:

27. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company

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

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

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

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

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

Categories	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	December 4, 2014 ~ August 26, 2018	13,921,725	US$0.07 ~ 0.49
Mr. George Chien Cheng LIN	April 3, 2018	25,980,405	US$0.47
Employees	March 25, 2013 ~ August 26, 2018	61,916,895	US$0.07 ~ 0.47
Individual consultants	September 12, 2013 ~ June 1, 2018	7,575,000	US$0.07 ~ 0.47

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

Category	Date of grant	Number of options	Exercise price per share
Employees	September 28, 2018 ~ December 31, 2018	1,075,000	HK$7.192 ~ 8.3

27. Share-based payment transactions (Continued)

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

(3) Options granted under the Pre-IPO Scheme and the Post-IPO Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 25% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments except for the options granted to non-employees individual consultants on September 12, 2013 and March 15, 2016. The options granted to individual consultants on September 12, 2013 have a contractual term of 10 years and generally vest over a three year period, with 33% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 67% vesting in 24 substantially equal monthly instalments. The options granted to individual consultants on March 15, 2016 have a contractual term of 10 years and vest in 12 equal monthly instalments.

Set out below are details of the movements (as adjusted after the Capitalization Issue) of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2018:

Category	Option type	Outstanding at January 1, 2018	Granted During year	Exercised during year	Forfeited during year	Transferred to/from other categories	Outstanding at December 31, 2018
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Scheme**						
	December 4, 2014	2,700,000	—	—	—	—	2,700,000
	January 11, 2016	750,000	—	—	—	—	750,000
	July 19, 2016	750,000	—	—	—	—	750,000
	March 6, 2017	1,500,000	—	—	—	—	1,500,000
	January 7, 2018	—	1,362,975	—	—	—	1,362,975
	April 3, 2018	—	4,608,750	—	—	—	4,608,750
	August 26, 2018	—	2,250,000	—	—	—	2,250,000
		5,700,000	8,221,725	—	—	—	13,921,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**						
	April 3, 2018	—	25,980,405	—	—	—	25,980,405
		—	25,980,405	—	—	—	25,980,405

27. Share-based payment transactions (Continued)

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

Category	Option type	Outstanding at January 1, 2018	Granted During year	Exercised during year	Forfeited during year	Transferred to/from other categories	Outstanding at December 31, 2018
Dr. John J.	**Pre-IPO Scheme**						
BALDWIN (note)	December 4, 2014	150,000	—	—	—	(150,000)	—
	January 11, 2016	750,000	—	—	—	(750,000)	—
	May 11, 2018	—	225,000	—	—	(225,000)	—
		900,000	225,000	—	—	(1,125,000)	—
	Total directors	6,600,000	34,427,130	—	—	(1,125,000)	39,902,130
Category 2: Employees							
	Pre-IPO Scheme						
	March 25, 2013	3,000,000	—	—	—	—	3,000,000
	September 12, 2013	2,250,000	—	—	—	—	2,250,000
	December 4, 2014	7,050,000	—	—	—	—	7,050,000
	January 11, 2016	9,195,000	—	(375,000)	(329,385)	—	8,490,615
	July 19, 2016	375,000	—	—	—	—	375,000
	March 6, 2017	6,150,000	—	—	(366,885)	—	5,783,115
	July 24, 2017	2,250,000	—	—	—	—	2,250,000
	January 7, 2018	—	9,600,000	—	(1,552,500)	—	8,047,500
	April 3, 2018	—	13,826,250	—	(620,715)	—	13,205,535
	June 1, 2018	—	5,250,000	—	—	—	5,250,000
	August 26, 2018	—	6,275,130	—	(60,000)	—	6,215,130
	Post-IPO Scheme						
	September 28, 2018	—	150,000	—	(150,000)	—	—
	October 29, 2018	—	75,000	—	—	—	75,000
	November 26, 2018	—	500,000	—	—	—	500,000
	December 31, 2018	—	500,000	—	—	—	500,000
	Total employees	30,270,000	36,176,380	(375,000)	(3,079,485)	—	62,991,895

27. Share-based payment transactions (Continued)

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

Category	Option type	Outstanding at January 1, 2018	Granted During year	Exercised during year	Forfeited during year	Transferred to/from other categories	Outstanding at December 31, 2018
Category 3: Individual consultants							
	Pre-IPO Scheme						
	September 12, 2013	1,650,000	—	—	—	—	1,650,000
	December 4, 2014	750,000	—	—	(600,000)	150,000	300,000
	January 11, 2016	3,000,000	—	—	(300,000)	750,000	3,450,000
	March 15, 2016	1,050,000	—	—	—	—	1,050,000
	May 11, 2018	—	900,000	—	—	225,000	1,125,000
	June 1, 2018	—	675,000	—	(675,000)	—	—
	Total individual consultants	6,450,000	1,575,000	—	(1,575,000)	1,125,000	7,575,000
	Total all categories	43,320,000	72,178,510	(375,000)	(4,654,485)	—	110,469,025
	Exercisable at the beginning and end of the year	25,598,745					39,232,575
	Weighted average exercise price (US$)	0.23	0.36	0.23	0.20	0.26	0.31

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

27. Share-based payment transactions (Continued)

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

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme during the year ended December 31, 2017:

Category	Option type	Outstanding at January 1, 2017	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2017
Category 1: Director						
Dr. Li CHEN	**Pre-IPO Scheme**					
	December 4, 2014	180,000	—	—	—	180,000
	January 11, 2016	50,000	—	—	—	50,000
	July 19, 2016	50,000	—	—	—	50,000
	March 6, 2017	—	100,000	—	—	100,000
		280,000	100,000	—	—	380,000
Dr. John J. BALDWIN	**Pre-IPO Scheme**					
	December 4, 2014	10,000	—	—	—	10,000
	January 11, 2016	50,000	—	—	—	50,000
		60,000	—	—	—	60,000
	Total directors	340,000	100,000	—	—	440,000
Category 2: Employees						
	Pre-IPO Scheme					
	March 25, 2013	200,000	—	—	—	200,000
	September 12, 2013	150,000	—	—	—	150,000
	December 4, 2014	470,000	—	—	—	470,000
	January 11, 2016	660,000	—	—	(47,000)	613,000
	July 19, 2016	25,000	—	—	—	25,000
	March 6, 2017	—	410,000	—	—	410,000
	July 24, 2017	—	150,000	—	—	150,000
	Total employees	1,505,000	560,000	—	(47,000)	2,018,000

27. Share-based payment transactions (Continued)

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

Category	Option type	Outstanding at January 1, 2017	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2017
Category 3:						
Individual consultants						
	Pre-IPO Scheme					
	September 12, 2013	110,000	—	—	—	110,000
	December 4, 2014	50,000	—	—	—	50,000
	January 11, 2016	200,000	—	—	—	200,000
	March 15, 2016	70,000	—	—	—	70,000
	Total individual consultants	430,000	—	—	—	430,000
	Total all categories	2,275,000	660,000	—	(47,000)	2,888,000
	Exercisable at the beginning and end of the year	1,046,562				1,706,583
	Weighted average exercise price (US$)	2.31	7.68	NA	3.50	3.52

In August 2018, 105,000 options (1,575,000 as adjusted after the Capitalization Issue) previously granted under the Pre-IPO Scheme to consultants who render services in connection with the Company's clinical trials were cancelled by the Company. As such, in August 2018, the Company recognized immediately share-based compensation expenses totaling RMB1,662,000 that would otherwise have been recognized over the remainder of the applicable vesting periods.

27. Share-based payment transactions (Continued)

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

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

	January 7, 2018	April 3, 2018	May 11, 2018	June 1, 2018	August 26, 2018	October 29, 2018	November 26, 2018	December 31, 2018
Grant date option fair value per share (note)	US$0.14	US$0.15 ~ US$0.18	US$0.35	US$0.35 ~ US$0.39	US$0.87 ~ US$0.9	US$0.57	US$0.69	US$0.69
Grant date share price (note)	US$0.15	US$0.24	US$0.49	US$0.49	US$1.05	US$0.85	US$1.02	US$1.06
Exercise price (note)	US$0.07	US$0.25 ~ US$0.47	US$0.47	US$0.25 ~ US$0.47	US$0.37~ US$0.49	HK$7.192	HK$7.97	HK$8.3
Expected volatility	84.45%	86.0%~ 86.3%	84.60%	84.60%	84.70%	75.50%	76.10%	71.50%
Expected life	10 years	5.8 years ~ 6.1years	5.9 years	6 years	6 years	6.1 years	6.1 years	6.1 years
Risk-free rate	2.26%	2.60% ~ 2.63%	2.77%	2.77%	2.75%	2.96%	2.94%	2.55%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%

Note: The grant date option fair value per share, grant date share price and exercise price are adjusted after the Capitalization Issue.

Expected volatility was determined by using the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognized the total expense of RMB56,222,000 and RMB4,031,000 for the years ended December 31, 2018 and 2017, respectively, in relation to share options granted by the Company.

Restricted shares and restricted stock units of the Company

Restricted shares

In April 2010, Dr. Li CHEN entered into a restricted ordinary share purchase agreement with the Company (the "Dr. CHEN's Restricted Ordinary Share Purchase Agreement"), pursuant to which, the Company agreed to issue 2,100,769 ordinary shares of the Company at the price of US$0.001 per share to Dr. Li CHEN, representing 6% of the Company's fully diluted share capital immediately after the Series A Preferred Share financing ("Dr. CHEN's Restricted Shares"). In addition, Dr. Li CHEN granted the Company the right to repurchase, at the discretion of the Company, any portion of the ordinary shares in which Dr. Li CHEN failed to acquire a vested interest in accordance with the vesting conditions as follows:

(1) 2/3 of the Dr. CHEN's Restricted Shares shall be vested in a series of 48 successive equal monthly instalments measured from the closing of Series A Preferred Shares financing;

(2) Each 1/3 of the 1/3 of the Dr. CHEN's Restricted Shares ("Dr. CHEN's Milestone Shares") shall be vested upon the occurrence of any of the 3 milestone events described in the Dr. CHEN's Restricted Ordinary Share Purchase Agreement if Dr. Li CHEN remains in continuous services on these dates;

(3) All unvested Dr. CHEN's Milestone Shares shall vest upon the seventh anniversary of Dr. Li CHEN's hire date if Dr. Li CHEN remains in continuous service on such anniversary date.

27. Share-based payment transactions (Continued)

Restricted shares and restricted stock units of the Company (Continued)

Restricted shares (Continued)

In August 2011, the Company agreed to issue and sell another 500,000 ordinary shares of the Company to Dr. Li CHEN at par value US$0.001 per share without any vesting conditions.

In April 2014, John CHOI, a director of the Company, entered into a restricted ordinary share purchase agreement with the Company (the "John CHOI's Restricted Ordinary Share Purchase Agreement"). Pursuant to which, the Company agreed to issue and sell 1,050,385 ordinary shares of the Company at the price of US$0.001 per share to the John CHOI, representing 3% of the Company's fully diluted share capital immediately after the Series A Preferred Share Financing ("John CHOI's Restricted Shares"). In addition, John CHOI granted the Company the right to repurchase, at the discretion of the Company, any portion of the ordinary shares in which John CHOI failed to acquire a vested interest in accordance with the vesting conditions as follows:

(1) 1/2 of the John CHOI's Restricted Shares ("John CHOI's Instalment Shares") shall be vested in a series of 48 successive equal monthly instalments measured from the hire date of John CHOI;

(2) Each 1/3 of the 1/2 of the John CHOI's Restricted Shares ("John CHOI's Milestone Shares") shall be vested upon the occurrence of any of the 3 milestone events described in the John CHOI's Restricted Ordinary Share Purchase Agreement if John CHOI remains in continuous services on the date;

(3) All unvested John CHOI's Milestone Shares shall vest upon the seventh anniversary of John CHOI's hire date if John CHOI remains in continuous service on such anniversary date.

The board of directors approved the grant of restricted shares to Dr. Li CHEN and John CHOI in May 2014, which was deemed as the grant date of the restricted ordinary shares.

John CHOI was a director of the Company from May 2014 to January 2015 and the Chief Strategy and Business Officer of the Group from November 2010 to December 2017, responsible for evaluating in-licensing opportunities as well as fund raising activities for the Company. John CHOI resigned from his position as Chief Strategy and Business Officer in December 2017 to pursue alternative opportunities in the biopharmaceutical sector in the United States, and has since ceased to be a key management personnel of the Group.

The fair value of the restricted shares of the Company was US$0.36 per share which was determined by the fair value of ordinary shares on the grant date. All the restricted shares were vested as of December 31, 2018. The Group recognized RMB144,000 of share-based payment expenses in relation to the grants of the above restricted ordinary shares for the year ended December 31, 2018 (2017: RMB323,000).

27. Share-based payment transactions (Continued)

Restricted shares and restricted stock units of the Company (Continued)

Restricted stock units

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement including equity incentives of options under Pre-IPO Scheme as disclosed above and the restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 shares of the Company (as adjusted after Capitalization Issue) were granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme on April 3, 2018. Such shares were vested after a qualified IPO is achieved in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. The fair value of the restricted shares of the Company was US$0.24 per share (as adjusted after Capitalization Issue) which was determined by the fair value of ordinary shares on the grant date.

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

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

28. Operating leases

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are from 1 to 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Within one year	3,991	2,657
In the second to the third year inclusive	2,065	2,124
	6,056	4,781

29. Related party transactions

(a) Related party transactions

Purchase of research and development services from related parties:

	From January 1, 2018 to the Listing Date RMB'000 (note)	Year ended December 31, 2017 RMB'000
WuXi AppTec (Shanghai) Co., Ltd.	5,633	5,180
Shanghai SynTheAll Pharmaceutical Co., Ltd.	—	4,893
Shanghai STA Pharmaceutical R&D Co., Ltd.	11,665	8,222
Shanghai MedKey Med-Tech Development Co., Ltd.	8,438	5,948
WuXi Clinical Development Services (Shanghai) Co., Ltd.	10,338	3,763
XenoBiotic Laboratories, Inc.	—	1,951
WuXi HD Biosciences Co., Ltd	2	38

Note: As stated in note 19, all the above companies were no longer related parties since the Listing Date and therefore only the transactions with these parties until the Listing Date are disclosed as related party transactions.

(b) Related party balances

Details of the outstanding balances with related parties are set out in notes 19 and 23 respectively.

29. Related party transactions (Continued)

(c) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the reporting period were as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Short term benefits	21,942	4,650
Post-employment benefits	56	46
Share based payments	20,926	760
	42,924	5,456

30. Capital risk management

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

The capital structure of the Group consists of net debts, which includes convertible redeemable preferred shares (net of bank balances and cash), and equity attributable to owners of the Company, comprising share capital and reserves.

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

31. Financial instruments

(a) Categories of financial instruments

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial Assets at FVTPL	—	16,101
Amortized cost (including cash and cash equivalents)	1,443,310	172,733
Financial liabilities		
Amortized cost	56,514	27,697
Designated as financial liabilities at FVTPL	—	1,138,789

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include other financial assets, bank balances and cash, trade and other payables, amounts due to related parties and financial liabilities at FVPTL. Details of these financial assets and liabilities are disclosed in respective notes.

The risks associated with these financial assets and liabilities include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

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

31. Financial instruments (Continued)

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

Market risk (Continued)

(i) Currency risk

Certain bank balances and cash, trade and other payables, amounts due to related parties, and convertible redeemable preferred shares are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Assets		
US$	1,008,788	141,939
TWD	3	3
HK$	408,764	2
Liabilities		
US$	(570)	(1,158,818)

31. Financial instruments (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Impact on profit or loss		
US$	(50,411)	50,844
HK$	(20,438)	—

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

(ii) Interest rate risk

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

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

31. Financial instruments (Continued)

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

Credit risk

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

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	Over 3 years RMB'000	Total RMB'000	Carrying amount RMB'000
At December 31, 2018					
Trade and other payables	N/A	56,514	—	56,514	56,514
At December 31, 2017					
Trade and other payables	N/A	4,377	—	4,377	4,377
Amounts due to related parties	N/A	23,320	—	23,320	23,320
Financial liabilities at FVTPL	4	—	739,124	739,124	1,138,789

31. Financial instruments (Continued)

(c) Fair value measurements of financial instruments

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

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

The Group's other financial assets including Financial Products (as detailed in note 20) which are measured at fair value at December 31, 2017 are grouped under Level 2 hierarchy. Fair value of these Financial Products was determined by discounted cash flow, which was estimated based on expected return, discounted at a rate that reflects the risk of underlying investments. There is no financial assets measured at fair value at December 31, 2018.

In addition, the Group's financial liabilities at FVTPL are measured at fair value at December 31, 2017 and are grouped under Level 3 of the fair value hierarchy. The fair values estimated based on back-solve method, detail valuation parameters and major assumptions used in the valuation are disclosed in note 25. The Company has become a listed entity on the Stock Exchange on the Listing Date, with its shares traded in an active market. Therefore, the fair value of the financial liabilities at FVTPL before converting into ordinary shares was determined based on a published price quotation available on the Stock Exchange on the Listing Date and was classified as Level 1 of the fair value hierarchy before converting into ordinary shares.

There were no transfers between level 1 and level 2 during the year.

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

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

32. Retirement benefit plans

The employees of the Group's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organized by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are RMB6,177,000 for the year ended December 31, 2018 (2017: RMB3,070,000).

33. Details of subsidiaries

As of December 31, 2018 and 2017, the Company's subsidiaries are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ Registered capital US$	Attributable equity interest held by the Company 2018	2017	Principal activities
Directly held					
Hua Medicine Technology (Hong Kong) Limited ("Hua HK") 華領醫藥技術(香港)有限公司 (formerly known as Hua Medicine Limited)	Hong Kong August 12, 2010	Registered capital of US$1.00 and paid-in capital of US$1.00	100%	100%	Investment holding company
Indirectly held					
Hua Medicine (Shanghai) Co., Ltd. ("Hua Shanghai") 華領醫藥技術(上海)有限公司	The People's Republic of China June 22, 2011	Registered capital of US$25,218,839 and paid-in capital of US$23,441,222.39	100%	92.570% (Note)	Development and commercialization of innovative medicines

Note:

To accommodate the needs of certain PRC Investors in the Company's Series C Preferred Share financing, Hua Shanghai received US$16,000,000 (RMB equivalent 103,659,000) in April 2016 as the initial closing of Series C Preferred Share financing, of which US$711,111 was recorded as paid-in capital, and US$21,000,000 (RMB equivalent 136,053,000), in March 2017 as the second closing, of which US$933,333 was recorded as paid-in capital. Upon the completion of the investments, the Company's interests in Hua Shanghai was diluted from 100% to 92.57% as of December 31, 2017.

In association with the Company's Series D Preferred Share financing, Hua Shanghai received US$10,000,000 (RMB equivalent 64,112,002) in January 2018, of which US$402,424 was recorded as paid-in capital. Upon the completion of the investment, the Company's indirect interests in Hua Shanghai was diluted from 92.57% to 91.885%.

In January 2018, those PRC investors who participated in purchasing Series C-2 Preferred Shares and Series D-2 Preferred Shares exercised the Share Purchase Option to convert their equity interests in Hua Shanghai into Series C-1 Preferred Shares and Series D-1 Preferred Shares, respectively. As a result, those PRC investors disposed all their equity interests in Hua Shanghai to Hua HK. Upon the completion of the equity transfer, the Company's indirect interests in Hua Shanghai increased from 91.885% to 98.767%.

In April 2018, these PRC investors who participated in purchasing Series C-3 Preferred Shares exercised the Share Purchase Option to convert their equity interests in Hua Shanghai into Series C-1 Preferred Shares. As a result, the PRC investors disposed all their equity interests in Hua Shanghai to Hua HK. Upon the completion of the equity transfer, the Company's indirect interests in Hua Shanghai increased from 98.767% to 100%.

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

34. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Financial liabilities at FVTPL RMB'000 (note 25)	Advance from shareholders for the issue of Preferred Shares RMB'000 (note 23)	Payable for issue costs RMB'000	Total RMB'000
At January 1, 2017	855,488	—	—	855,488
Financing cash flows (note i)	156,845	19,017	(2,958)	172,904
Non-cash charges				
Transaction costs for the issue of Preferred Shares (note 8)	—	—	2,958	2,958
Loss on changes in fair value of financial liabilities at FVTPL	126,456	—	—	126,456
Net foreign exchange loss	—	(23)	—	(23)
At December 31, 2017	1,138,789	18,994	—	1,157,783
Financing cash flows (note i)	725,444	—	(38,068)	687,376
Non-cash charges				
Transfer of advance from shareholders upon issuance of preferred shares	19,017	(19,017)	—	—
Transaction costs for the issue of Preferred Shares (note 8)	—	—	3,534	3,534
Transaction costs for the issue of new shares	—	—	34,534	34,534
Loss on changes in fair value of financial liabilities at FVTPL	3,266,216	—	—	3,266,216
Converted into ordinary shares	(5,149,466)	—	—	(5,149,466)
Net foreign exchange loss	—	23	—	23
At December 31, 2018	—	—	—	—

Note i: The financing cash flows represent (i) net proceeds from the issue of the Company's Preferred Shares during years ended December 31, 2018 and 2017, (ii) advance received from investors for the issue of Preferred Shares for the year ended December 31, 2017 and (iii) payment of issue costs that are attributable to the issue of new shares and Preferred Shares.

35. Information of financial position of the Company and movements in the Company's reserves

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

	As of December 31	
	2018	2017
	RMB'000	RMB'000
Non-current Asset		
Investments in a subsidiary	839,194	359,184
Current Assets		
Other receivables	214	66
Prepayment to related parties	6,863	—
Bank balances and cash	1,190,026	66,331
	1,197,103	66,397
Current Liabilities		
Trade and other payables	3,683	1,035
Amounts due to related parties	—	18,994
Amounts due to a subsidiary	5,624	—
	9,307	20,029
Net Current Assets	1,187,796	46,368
Total Assets Less Current Liabilities	2,026,990	405,552
Non-current liability		
Financial liabilities at FVTPL	—	1,038,835
Net Assets (Liabilities)	2,026,990	(633,283)
Capital and Reserves		
Share capital	7,209	48
Reserves	2,019,781	(633,331)
Total Equity (Deficit)	2,026,990	(633,283)

35. Information of financial position of the Company and movements in the Company's reserves (Continued)

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

	Share premium RMB'000	Share option reserve RMB'000	Accumulated deficit RMB'000	Total RMB'000
At January 1, 2017	—	11,396	(505,352)	(493,956)
Loss and total comprehensive expense for the year	—	—	(143,729)	(143,729)
Recognition of equity-settled payment for subsidiary	—	4,354	—	4,354
At December 31, 2017	—	15,750	(649,081)	(633,331)
Loss and total comprehensive expense for the year	—	—	(3,289,796)	(3,289,796)
Option exercised to purchase ordinary shares	549	—	—	549
Shares issued upon initial public offerings and over-allotment	776,193	—	—	776,193
Conversion of redeemable convertible preferred shares into ordinary shares	5,149,139	—	—	5,149,139
Transaction costs attributable to issue of new shares	(34,534)	—	—	(34,534)
Capitalization Issue	(6,043)	—	—	(6,043)
Recognition of equity-settled payment for subsidiary	—	58,500	—	58,500
Repurchase of vested share options to satisfy withholding tax obligation	—	(896)	—	(896)
At December 31, 2018	5,885,304	73,354	(3,938,877)	2,019,781

DEFINITIONS

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

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

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

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