ANNUAL REPORT
2018

歌礼
ascletis

Ascletis Pharma Inc.
歌禮製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1672

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Dr. Jinzi Jason WU
Mrs. Judy Hejingdao WU[(1)]

JOINT COMPANY SECRETARIES

Mr. Jianjiong WANG[(2)]
Mr. Lok Kwan YIM

REGISTERED OFFICE

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

CORPORATE HEADQUARTER[(3)]

12/F, Building 3
No. 371 Mingxing Road, HIPARK
Xiaoshan District
Hangzhou
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Notes:

(1) Mrs. Judy Hejingdao WU was appointed as an authorised representative of the Company on March 13, 2019 immediately following the resignation of Mr. Jianjiong WANG which became effective on the same day.

(2) Mr. Jianjiong WANG resigned as a joint company secretary of the Company with effect from March 13, 2019 and accordingly Mr. Lok Kwan YIM remained as the sole company secretary of the Company.

(3) The corporate headquarter of the Group moved to 12/F, Building 3, No. 371 Mingxing Road, HIPARK, Xiaoshan District, Hangzhou, Zhejiang Province, PRC in March 2019.

Corporate Information

HONG KONG LEGAL ADVISER

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

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

COMPLIANCE ADVISER

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

STOCK CODE

1672

COMPANY WEBSITE

www.ascletis.com

Chairman's Statement

Dear Shareholders,

2018 was a critical and exciting year for the Company as we made significant progresses across all aspects of our business. The Company has developed to become a fully integrated innovative R&D driven platform covering the entire value chain from discovery and development to manufacturing and commercialization.

The Company has three commercial or near-commercial products: (1) Ganovo® (Danoprevir), as the first approved Category 1 HCV direct-acting antiviral agent (DAA) in China, generated sales revenue of RMB72.3 million in 2018; (2) Partnership with Shanghai Roche Pharmaceuticals Ltd. on Pegasys®, a first-line treatment for Hepatitis B, validated our established commercial infrastructure and capability; and (3) As a pan-genotypic, best-in-class HCV NS5A inhibitor, Ravidasvir's NDA was accepted in August 2018 and designated for priority review in October 2018.

Focusing on viral, cancer and fatty liver diseases, the Company has built an innovative R&D pipeline consisting of the first/best-in-class drug candidates at various clinical development stage from antibody immunotherapy and small molecules to RNAi therapeutic, including ASC22, a Phase II-ready, subcutaneously administered PD-L1 antibody with potential to be a first-in-class Hepatitis B cure and ASC40, a Phase II-ready, first-in-class fatty acid synthase (FASN) inhibitor for non-alcoholic steatohepatitis (NASH).

We would like to give our sincere thanks to our patients, doctors and shareholders. The trust you place in the Company is what keeps us going for bigger commercial success and developing more innovative medicines for unmet medical needs in China and the rest of the world. We must also thank our dedicated employees, who make the impossible possible.

Dr. Jinzi Jason WU
Chairman & Chief Executive Officer

Financial Summary

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

	For the year ended December 31,		
	2016	2017	**2018**
	RMB'000	*RMB'000*	***RMB'000***
Revenue			
Sale of products	—	—	**72,273**
Collaboration revenue	32,976	53,202	**90,578**
Promotion service revenue	—	—	**3,474**
Total	32,976	53,202	**166,325**
Gross profit	32,976	53,202	**153,946**
Profit/(Loss) before tax	(31,873)	(80,441)	**(19,870)**
Profit/(Loss) for the year	(31,873)	(86,931)	**(19,745)**
Profit/(Loss) attributable to the owner of the Group	(26,807)	(53,935)	**(7,258)**
Net profit margin	(96.7%)	(163.4%)	**(11.9%)**
	RMB	*RMB*	***RMB***
Earnings per share – Basic	N/A	(9.03 cents)	**(0.84 cents)**

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

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

Corporate Profile

OUR MISSION

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

OVERVIEW

Ascletis is an innovative R&D driven biotechnology company with two commercial products. Led by a management team with deep expertise and a proven track record, Ascletis has developed a fully integrated platform covering the entire value chain from discovery and development to manufacturing and commercialization. Ascletis is now commercializing two drugs, Ganovo® (Danoprevir), the first direct-acting anti-viral agent for Hepatitis C developed domestically for China, and Pegasys® (Peginterferon alfa-2a), a well-established pegylated interferon for Hepatitis B and C partnered with Shanghai Roche Pharmaceuticals Ltd. ("**Shanghai Roche**"). Ravidasvir is a near-commercial stage Hepatitis C virus (HCV) drug, which NDA was accepted in August 2018 and was granted priority review in October 2018.

Ascletis' R&D pipeline consists of first/best-in-class drug candidates from antibody-based immunotherapy, small molecules and siRNA at various clinical development stages, addressing unmet medical needs in three therapeutic areas: viral, cancer and fatty liver diseases. For anti-viral therapeutic areas, ASC22, licensed from Suzhou Alphamab Co., Ltd. ("**Alphamab**") for viral indications, is a first-in-class, Phase II-ready programmed cell death ligand-1 (PD-L1) antibody to treat Hepatitis B and other viral diseases. ASC22 is differentiated from other PD-1 or PD-L1 antibodies since it is the only late-stage antibody against PD-1 or PD-L1, which is subcutaneously administered and room temperature stable with clinical safety data from more than 500 patients of oncology indications. ASC09 is a Phase IIa-completed, potential best-in-class protease inhibitor to treat HIV Type-1 infections. ASC21 is an investigational new drug (IND) approved HCV 5B nucleoside inhibitor. For cancer therapeutic area, ASC06 is the first systemically delivered siRNA-based liver cancer drug candidate that has completed phase I and phase I extension clinical trials. For fatty liver diseases therapeutic area, besides an in-house developed preclinical drug candidate with global rights for non-alcoholic steatohepatitis (NASH), ASC40, licensed from 3-V Biosciences Inc. ("**3-V Biosciences**"), is a first-in-class, Phase II-ready small molecule fatty acid synthase (FASN) inhibitor for NASH.

Ganovo® (Danoprevir) has generated sales of RMB72.3 million in 2018. We obtained from Shanghai Roche, an exclusive promotion right in Mainland China for Pegasys®, a leading pegylated interferon as a first-line treatment for Hepatitis B in November 2018 and began to promote Pegasys® in December 2018.

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

Corporate Profile

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

Field	Target	Indication	Products/Drug Candidate	Pre-clinical	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From	Commercial Rights
Anti-viral	NS3/4A	HCV	Ganovo® (Danoprevir)							Roche	Greater China
	Interferon receptor	HBV	Pegasys® (Peginterferon alfa-2a)							Roche	Mainland China
	Interferon receptor	HCV	Pegasys® (Peginterferon alfa-2a)							Roche	Mainland China
	NSSA	HCV	Ravidasvir							PRESIDIO	Greater China
	NSSB	HCV	ASC21							Medivir	Greater China
	Protease	HIV	ASC09							Janssen	Greater China and Macau
	PD-L1	HBV	ASC22							康宁杰瑞	Greater China
	Undiscloised	HBV	lead Identification							N/A	Global
Cancer	VEGF&KSP	Liver Cancer	ASC06							Alnylam	Greater China
Fatty Liver Disease	FASN	NASH	ASC40							3-V BIOSCIENCES	Greater China
	Undisclosed	NASH	lead Identification							N/A	Global

Management Discussion and Analysis

Business review

During the year of 2018, the Group made significant progress with respect to its business.

- **Ganovo® (Danoprevir) NDA approval and sales of RMB72.3 million**

  On June 8, 2018, the NDA approval for Danoprevir was granted by the China Food and Drug Administration (CFDA). We have received the GMP certification to manufacture tablet formulations of Danoprevir shortly after receiving NDA approval for Danoprevir and commenced manufacturing shortly thereafter. 19 days later, on June 27, 2018, we registered our first sales in China. Since then, we have gradually commenced nationwide sales of Ganovo® (Danoprevir) in eastern, southern, northeastern, northern and central China. During the Reporting Period, the Group recorded RMB72.3 million sales of products through the commercialization of Ganovo® (Danoprevir) in China. At the same time, we have made significant progress on the reimbursement coverage of Ganovo®. As at the date of the annual report, Ganovo® has been enrolled in the Basic Medical Insurance of Tianjin, Chengdu and is eligible for Shaoxing government funding subsidy.

- **Pegasys® promotion income of RMB3.5 million**

  On November 20, 2018, we obtained exclusive promotion right in Mainland China for Pegasys®, a leading pegylated interferon as a first-line treatment for Hepatitis B, from Shanghai Roche and we have been promoting Pegasys® since December 1, 2018. During the Reporting Period, the Group recorded RMB3.5 million promotion income through the commercialization of Pegasys® in Mainland China.

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

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

- **Commercial capability**

  With the successful launch of Ganovo®, the Group has demonstrated strong development capability and established a solid commercial presence in China in the area of hepatitis. By the end of 2018, the Group has built a commercialization team of approximately 150 members, covering more than 1,000 hospitals strategically located in regions where Hepatitis C and B are most prevalent in China. Our commercial team has identified and educated approximately 6,000 specialists and KOLs in the hepatitis field. We have entered into 21 distribution agreements with different distributors that cover 207 direct-to-patient (DTP) pharmacies, hospital-linked pharmacies and other pharmacies through our distributors, either directly or through their sub-distributors. Ganovo® (Danoprevir) has been distributed to all of the 207 DTP pharmacies by the end of 2018.

Management Discussion and Analysis

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

  The Group has focused on building and advancing our first/best-in-class R&D pipeline after successfully launching Ganovo® (Danoprevir), including but not limited to: (1) Cure for Chronic Hepatitis B – ASC22, a first-in-class immunotherapy to potentially offer clinical cure for chronic Hepatitis B; (2) HIV protease inhibitor – ASC09, of which the Group has focused on chemistry, manufacturing and control which are required to initiate a phase IIb clinical trial in China which is planned for 2020; (3) IND-approved HCV NS5B nucleotide inhibitor – ASC21, of which the Group has focused on development and optimization of active pharmaceutical ingredient (API), formulation and IND-enabling studies; (4) FASN inhibitor for NASH – ASC40, an orally bioavailable, first-in-class inhibitor of FASN. FASN is a key enzyme in the de novo lipogenesis (DNL) pathway and catalyzes the biosynthesis of palmitate, which can then undergo further modifications into other fatty acids and complex lipids.

Commercialized products

- **Ganovo®**

  As disclosed in our Prospectus and the interim report dated August 31,2018, Hepatitis C is one of the leading causes of chronic liver diseases, including cirrhosis and liver cancer, in China. Hepatitis C had a prevalence rate of 1.82% in China in 2017, with 25.2 million estimated HCV-infected patients. The diagnosis rate of Hepatitis C has historically been low due to the lack of awareness and effective treatment, and the relatively minimal symptoms experienced by most patients. In 2017, there were approximately 350,000 new infections and 2,000 re-infections of HCV.

  Ganovo® (Danoprevir) is our first commercialized product. We obtained the NDA approval from CFDA on June 8, 2018, and have begun to commercialize Ganovo® in China. We made our first sales in China on June 27, 2018. Since then, we have gradually commenced nationwide sales of Ganovo® in eastern, southern, northeastern, northern and central China. The Group recorded RMB72.3 million sales of products through the commercialization of Ganovo® (Danoprevir) in China during the Reporting Period.

  We believe that Ganovo® Regimen has the following advantages:

  – Higher cure rate. Ganovo® Regimen demonstrated a 97% cure rate (SVR12) in a phase III clinical trial completed on 140 HCV patients, which is substantially higher than the current primary regimen in China.

  – Shorter treatment duration. The 12-week duration of our Ganovo® Regimen is significantly shorter than the treatment duration of 48 to 72 weeks for HCV treatment using interferon regimen. We believe that our shorter duration regimen will increase compliance to the treatment and improve patient tolerability.

  – Superior safety and tolerability profile. No grade 3 or higher laboratory liver function abnormalities were observed in our phase III clinical trial of the Ganovo® Regimen. Moreover, there was no discontinuation of use due to adverse events. The rate of serious adverse events potentially related to the use of Ganovo® Regimen was approximately 0.7%.

  – Potent anti-viral activity. In pre-clinical studies, Ganovo® demonstrated potent activity against HCV NS3/4A protease derived from HCV genotypes 1 through 6 with sub-nanomolar to nanomolar potencies. In clinical trials, our Ganovo® Regimen has shown an overall cure rate of over 97% (SVR12) against HCV genotypes 1 and 4 infections.

Management Discussion and Analysis

- **Pegasys®**

  The Group entered into a partnership with Shanghai Roche in November 2018 and obtained exclusive rights to promote Pegasys® in China.

  Pegasys® is a long-acting modified form of interferon (IFN), a naturally occurring protein produced by the body to fight viruses, approved to treat Hepatitis B and C. Shanghai Roche had sold and promoted Pegasys®, a leading pegylated interferon treatment for more than 15 years in China. We began our exclusive sales and promotion of Pegasys® in China from December 1, 2018 and recorded RMB3.5 million income from the marketing promotion of Pegasys® during the Reporting Period.

  We believe that Pegasys® will contribute remarkably to our marketing promotion income in the coming years based on the following:

  – Pegasys® is the leading pegylated interferon treatment for Hepatitis B and C in China. It has been sold in China for more than 15 years and is well recognized and accepted by the clinical community.

  – The Group has a well-established track record in clinical development and has demonstrated solid commercial execution in China in the area of viral hepatitis. Leveraging on our entrenched presence in viral hepatitis, the success of Ganovo® and strong branding of Pegasys®, we will continue to build on these strengths to promote Pegasys®.

Near Commercial-stage product

- **Ravidasvir**

  We filed the NDA for Ravidasvir on July 31, 2018 and received the acceptance letter from the CFDA on August 1, 2018, which is sooner than what we expected as disclosed in the Prospectus. In October 2018, Ravidasvir was granted priority review by the CFDA. We plan to leverage on our regulatory and commercial experience of Ganovo® to accelerate the approval and commercialization of Ravidasvir.

  We have developed Ravidasvir to be a best-in-class, pan-genotypic inhibitor targeting the HCV NS5A protein. Ravidasvir offers superior anti-viral activity, a higher genetic barrier to resistance and a better safety profile compared to our competitors' NS5A inhibitors approved in China. By the end of 2018, there were 3 phase III clinical trials of Ravidasvir completed globally: (1) Ravidasvir/Danoprevir (RDV/DNV) Regimen phase II/III clinical trial in China for genotype 1 patients; (2) Ravidasvir/Sofosbuvir (RDV/SOF) Regimen phase III clinical trial outside of China for genotypes 1, 2, 3 and 6 patients; (3) RDV/SOF Regimen phase III clinical trial outside of China for genotype 4 patients.

  We believe that, based on the clinical trials, Ravidasvir has the potential to address the limitations of the current primary regimen for HCV in the following aspects:

  – Best-in-class NS5A inhibitor. Our RDV/DNV Regimen demonstrated a 99% cure rate (SVR12) in the phase II/III clinical trial in China with 410 HCV genotype 1 patients who completed the 12-week treatment and 12-week follow-up.

  – Pan-genotypic anti-viral activity against genotypes 1 to 6. In vitro studies have shown that Ravidasvir has potent anti-viral activity against HCV genotypes 1 to 6. Two phase III clinical trials of RDV/SOF Regimen demonstrated an overall cure rate of 97% (SVR12) in genotypes 1, 2, 3 and 6 and a 95% cure rate (SVR12) in genotype 4. In genotype 3 patients with and without cirrhosis, RDV/SOF Regimen demonstrated superior cure rates of 96% and 97%, respectively, (SVR12) in Asian patients with HCV.

Management Discussion and Analysis

- Highly efficacious for patients infected by HCV with baseline NS5A resistance mutations. The RDV/DNV Regimen demonstrated a 100% cure rate (SVR12) for patients with baseline NS5A resistance mutations in our phase II/III clinical trial. 6 patients in our phase II clinical trial (EVEREST) had baseline NS5A resistance mutations and 100% of these patients achieved SVR12. 19% of HCV patients in China carry baseline NS5A resistance mutations. Competitors' products demonstrated a cure rate of 20% (SVR12) in treating patients infected by HCV genotype 1b with baseline NS5A resistance mutations.
- Efficacious for hard-to-cure genotypes. Phase III clinical trial of RDV/SOF Regimen demonstrated a 99% cure rate (SVR12) in genotype 1a patients and a 97% cure rate (SVR12) in genotype 3 patients.
- Efficacious in cirrhotic patients. Phase III clinical trial of RDV/SOF Regimen demonstrated a 96% cure rate (SVR12) in cirrhotic patients.
- Efficacious for HCV/HIV co-infected patients. Phase III clinical trial of RDV/SOF Regimen demonstrated a 97% cure rate (SVR12) in HCV/HIV co-infected patients.

Drug candidates in the pipeline

- **ASC22**

  Phase II-ready PD-L1 antibody for Hepatitis B cure. ASC22, as a PD-L1 single domain antibody fragment crystallizable (Fc) fusion, has the advantages of subcutaneous injection and good stability at room temperature. These characteristics would be of great value to improve patients' compliance to treatment and quality of life. ASC22 is a potential global first-in-class immunotherapy to offer clinical cure for chronic Hepatitis B infections.

  In January 2019, we announced that we have obtained exclusive rights in Greater China for ASC22 for viral indications from Alphamab. To date, Alphamab and 3D Medicines (Beijing) Co., Ltd. have studied ASC22, also known as KN035, in multiple oncology clinical trials, including two pivotal trials, with more than 500 patients in China, U.S, and Japan. ASC22 has demonstrated good human safety profile.

- **ASC40**

  Phase II-ready NASH drug candidate. In February 2019, we announced that we have obtained exclusive rights in Greater China for ASC40, a Phase II-ready FASN inhibitor for the treatment of NASH, from 3-V Biosciences. ASC40 is an orally bioavailable, first-in-class inhibitor of FASN. FASN is a key enzyme in the DNL pathway and catalyzes the biosynthesis of palmitate, which can then undergo further modifications into other fatty acids and complex lipids. Dysregulation of FASN activity is found in a number of different diseases, including liver diseases and cancer. Non-alcoholic fatty liver disease (NAFLD) and the more advanced disease of NASH can progress to significant liver diseases, including cirrhosis and hepatocellular carcinoma.

Management Discussion and Analysis

- **ASC09**

  Phase IIa-completed HIV drug candidate. ASC09 is a potential best-in-class protease inhibitor to treat HIV type-1 infections. ASC09 has an unprecedented high genetic barrier to resistance and has completed phase I and phase IIa clinical trials, which have shown potent anti-viral activity. Our studies have shown that ASC09 requires seven mutations before HIV develops resistance to ASC09, indicating ASC09 to have high genetic barrier to resistance compared to other approved protease inhibitors. Lopinavir, a HIV protease inhibitor, is approved and marketed in China. Lopinavir has a relatively low genetic barrier to resistance, and therefore has lower efficacy for protease-inhibitor resistant HIV patients. In addition, compared to Darunavir, a best-in-class protease inhibitor among approved protease inhibitors globally, virological studies suggest that ASC09 is a promising candidate for 72% clinical isolates resistant to Darunavir. The clinical trials have also shown that ASC09 is safe and well-tolerated. These characteristics make ASC09 a promising HIV drug therapy candidate for both treatment-naïve and treatment-experienced patients. We are working towards initiating a phase IIb clinical trial in China in 2020.

- **ASC06**

  Phase I-completed liver cancer drug candidate. We aim to develop ASC06 as the first systemically delivered therapeutic drug to treat liver cancer in China by using RNA interference ("**RNAi**"), a breakthrough approach to drug discovery and development. ASC06 has been designed to silence two genes critical for growth of liver cancer cells — vascular endothelial growth factor ("**VEGF**") and kinesin spindle protein ("**KSP**"). ASC06 has completed phase I and phase I extension clinical trials, which have shown that 50% of patients who received 0.7 mg/kg dose achieved stable disease and one patient achieved a complete response. We are working towards initiating a phase II clinical trial in China in 2020.

- **ASC21**

  IND-approved HCV NS5B nucleotide polymerase inhibitor. ASC21 is an NS5B nucleotide polymerase inhibitor that has shown in in vitro studies to have potent, pan-genotypic anti-viral activity and a high genetic barrier to resistance. The Group has focused on development and optimization of API, and formulation of ASC21, which has received IND approval on March 13, 2019.

- **Pre-clinical programs**

  We have two wholly-owned, in-house pre-clinical programs at discovery stage. One is to develop novel therapies to achieve high functional cures for Hepatitis B. The other is to develop breakthrough therapies for NASH.

The Group's Facilities

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

Management Discussion and Analysis

During the Reporting Period, we set up 4 new subsidiaries, including the following two onshore operating subsidiaries:

Ascletis Biopharmaceutical (Hangzhou) Co., Ltd., a wholly-owned subsidiary of Ascletis BioScience, registered in Hangzhou Economic & Technology Development Area ("**HEDA**"), to build a high-end preparation-manufacturing center and R&D center; and

Ascletis XinNuo Medicine (Hangzhou) Co., Ltd., a wholly-owned subsidiary of Ascletis BioScience, registered in Hangzhou Xiaoshan Economic & Technology Development Zone ("**XETZ**") to support future distribution efforts. The Group's headquarters is expected to move to XETZ to enjoy more competitive incentives and benefits.

Future and Outlook

We are closely monitoring the continuing healthcare reform in China, especially the 2019 rollout of the centralized procurement "4+7" generics drug bidding pilot scheme launched by the State Council in late 2018. We are of the view that the savings from the generic price cuts will enable China to have future economics shift towards favorable innovative drug pricing policies. Innovation will continue to be a significant driver for the future growth of China healthcare industry and innovation-driven biotechnology companies will continue to benefit from new favorable policies. An example of such policies includes the formation of the National Healthcare Security Administration ("**NHSA**") which will accelerate the national-level negotiation between the government and pharmaceutical companies. We view that new innovative drugs such as Ganovo® (Danoprevir), may benefit from faster enrollment into the national medical reimbursement insurance catalogue.

We will continue to invest and focus our efforts on innovative first/best-in-class drug candidates and commercialization. Through our unrelenting efforts over the past six years, the Group has transformed from an anti-viral small molecule focused company to an integrated innovative biopharmaceutical leader with biologics, small molecule and siRNA technology expertise. Over the next few years, the Group will be focusing on the following key goals:

1. Invest in innovative R&D to pivot from first-in-China to first-in-class globally
    - Commerce enrollment of clinical trials of ASC40 for treatment of NASH
    - Commence enrollment of clinical trials of ASC22 for clinical cure of chronic Hepatitis B
    - Progress our in-house preclinical drug candidates towards INDs and clinical trials
2. Ramp up our sales and commercialization efforts
    - Further expansion of Ganovo® reimbursement coverage
    - Leverage on our market leadership in viral hepatitis, Ganovo® success and strong Pegasys® branding, to scale up and expand Ganovo® and Pegasys® promotion and marketing efforts
    - Complement our product portfolio and strengthen market position through potential upcoming approval of Ravidasvir, an all-oral, interferon-free HCV drug treatment regimen
3. Significant efforts on business development to expand product offering and pipeline
    - Execute on our strategy of China focus and going global
    - Consistent with the ASC22 and ASC40 partnerships we had announced in early 2019, we will continue our efforts to seek for global first-in-class and/or best-in-class partnerships with exclusive China rights and the potential to share global economics with our partner(s) and/or invest in our partner(s)

Management Discussion and Analysis

Financial Review

Revenue

The Group has begun to commercialize Ganovo® (Danoprevir) in China following the new drug application (NDA) approval granted by the CFDA on June 8, 2018. Before that, the Group had not commercialized any products and therefore did not generate any revenue from product sales. The revenue consists of (i) the milestone and upfront payments in relation to the Group's in-licensing arrangement on Ganovo® (Danoprevir) being recognized over the performance of the Group's obligations; (ii) sales of products from Ganovo® (Danoprevir); and (iii) Pegasys®'s promotion services. As a result, the revenue of the Group increased by 212.6% from approximately RMB53.2 million for the year ended December 31, 2017 to approximately RMB166.3 million for the year ended December 31, 2018. The increase was mainly attributed to (i) the RMB90.6 million revenue we recognized in the first half of 2018 primarily due to the recognition of upfront and milestone payments we received from Roche in relation to our in-licensing arrangement on Ganovo® (Danoprevir); (ii) the RMB72.3 million from the sales of products during the commercialization of Ganovo® (Danoprevir) in China; and (iii) the RMB3.5 million received from Shanghai Roche for the promotion of Pegasys® in December 2018.

We expect that our revenue for the next few years will be generated mainly from our sales of Ganovo® (Danoprevir) and Ravidasvir upon its approval. We filed the NDA for Ravidasvir on July 31, 2018 and received the acceptance letter from the CFDA on August 1, 2018.

Cost of Goods Sold

The cost of goods sold of the Group was approximately RMB12.4 million for the year ended December 31, 2018 as we commenced manufacturing of Ganovo® (Danoprevir) shortly after receiving NDA approval on June 8, 2018. The Group did not incur any cost of goods sold for the year ended December 31, 2017.

The cost of goods sold of the Group consists of direct labor costs, cost of raw materials, overhead and the royalties fee to Roche. Direct labor costs primarily consist of salaries, bonus and social security costs for the employees.

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

Unlike the case for Danoprevir, in which certain API manufacturing capabilities were not available at our manufacturing facility at the time of Danoprevir's NDA filing, subsequently when we built our manufacturing facility, manufacturing the APIs and tablet formulation for Ravidasvir in-house has been contemplated.

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

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

Management Discussion and Analysis

Gross Profit

The gross profit of the Group increased by 189.4% from approximately RMB53.2 million for the year ended December 31, 2017 to approximately RMB153.9 million for the year ended December 31, 2018. The increase in the gross profit was mainly attributed to (i) sales of Ganovo® (Danoprevir) and (ii) milestone and upfront payments from Roche.

Other Income and Gains

The other income and gains of the Group increased by 151.7% from approximately RMB49.6 million for the year ended December 31, 2017 to approximately RMB124.8 million for the year ended December 31, 2018, primarily because (i) the Group recorded RMB73.0 million in government grants for the year ended December 31, 2018 and RMB31.4 million for the year ended December 31, 2017, respectively; and (ii) net foreign exchange gain was RMB23.6 million for the year ended December 31, 2018, mainly arising from the translation of the U.S. dollar dominated-cash portion into Renminbi due to the appreciation of U.S. dollar against Renminbi; (iii) bank interest income was RMB25.0 million for the year ended December 31, 2018 and RMB10.2 million for the year ended December 31, 2017,

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

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

	Year ended December 31,			
	2018		2017	
	RMB'000	**%**	*RMB'000*	*%*
Bank interest income	**25,006**	**20.0**	10,207	20.6
Interest income from loans to a related party	—	—	69	0.1
Dividend income from financial assets at fair value through profit or loss	**3,191**	**2.6**	7,065	14.2
Changes in fair value of financial assets at fair value through profit or loss	—	—	831	1.7
Government grants	**73,018**	**58.5**	31,413	63.3
Foreign exchange gain, net	**23,598**	**18.9**	—	—
Others	—	—	8	0.1
Total	**124,813**	**100**	49,593	100

Selling and Distribution Expenses

The selling and distribution expenses of the Group represented 35.3% of the overall revenue of the Group for the year ended December 31, 2018, primarily because we increased our sales and marketing activities as we began the commercialization of Ganovo® (Danoprevir) from June 8, 2018. The selling and distribution expenses primarily consist of staff cost for our sales personnel, the expenses for marketing promotion activities and travel expenses. The Group did not incur any selling and distribution expenses for the year ended December 31, 2017.

Management Discussion and Analysis

Administrative Expenses

The administrative expenses of the Group increased significantly by 128.9% from RMB37.5 million for the year ended December 31, 2017 to RMB85.8 million for the year ended December 31, 2018, primarily due to (i) the recognition of Listing expenses of RMB37.0 million; and (ii) an increase in staff salary and welfare of RMB7.9 million and general office expenses of RMB3.5 million as a result of the continuing expansion of the Group's business.

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

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

	Year ended December 31,			
	2018		2017	
	RMB'000	**%**	*RMB'000*	*%*
Staff salary and welfare	**22,745**	**26.5**	14,862	39.7
Utilities, rent and general office expenses	**18,600**	**21.7**	15,095	40.3
Agency and consulting fee	**5,524**	**6.4**	6,349	16.9
Others	**1,893**	**2.2**	1,171	3.1
Listing expenses	**37,027**	**43.2**	—	—
Total	**85,789**	**100**	37,477	100

Research and Development Expenses

Our research and development costs primarily consist of third-party contracting costs, clinical trial expenses and staff costs.

The research and development expenses of the Group increased by 25.5% from approximately RMB114.3 million for the year ended December 31, 2017 to approximately RMB143.5 million for the year ended December 31, 2018, for developing our drug candidates. The following table sets forth the components of our research and development costs for the period indicated:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Clinical trial expenses	**60,338**	48,650
Staff costs	**49,474**	36,403
Third-party contracting costs	**17,433**	16,595
Depreciation and amortization	**9,196**	4,870
Others	**7,011**	7,807
Total	**143,452**	114,325

Management Discussion and Analysis

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Ravidasvir	**114,569**	83,049
Danoprevir	**8,467**	23,745
Others[(Note)]	**20,416**	7,531
Total	**143,452**	114,325

Note: "Others" includes research and development costs of ASC09, ASC21, and pre-clinical programs.

Other Expenses

Other expenses primarily include foreign exchange loss and donations. The other expenses of the Group decreased by 65.8% from approximately RMB31.4 million for the year ended December 31, 2017 to approximately RMB10.8 million for the year ended December 31, 2018, mainly due to (i) the decrease of foreign exchange loss from RMB31.0 million for the year ended December 31, 2017, to nil for the year ended December 31, 2018, resulting from the appreciation of the U.S. dollar against the Renminbi; and (ii) donations of RMB9.2 million for the year ended December 31, 2018. The following table sets forth the components of other expenses for the period indicated:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Foreign exchange loss, net	**—**	31,048
Donation	**9,227**	296
Changes in fair value of financial assets at fair value through profit or loss	**831**	—
Loss on disposal of items of property, plant and equipment	**—**	11
Write-off of items of properety, plant and equipment	**551**	—
Others	**146**	79
Total	**10,755**	31,434

Management Discussion and Analysis

Income Tax Credit/(Expense)

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

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	**—**	6,375
Overprovision in prior years	**—**	(10)
Deferred tax	**(125)**	125
Total tax (credit)/charge for the year	**(125)**	6,490

We recorded loss before tax of RMB80.4 million for the year ended December 31, 2017, and loss before tax of RMB19.9 million for the year ended December 31, 2018, respectively. We have tax losses arising in the PRC of RMB238.0 million and RMB388.7 million for the year ended December 31, 2017 and 2018, respectively, which are expected to expire in one to five years for offsetting our future taxable profits.

Inventories

The inventories of the Group consist of raw materials used in the manufacturing of Danoprevir, which increased by 34.8% from approximately RMB62.2 million as at December 31, 2017 to approximately RMB83.9 million as at December 31, 2018, primarily as a result of the increased production volume for Ganovo® (Danoprevir), and the Ravidasvir upcoming commercialization. The following table sets forth the inventory balances as of the dates indicated:

	December 31, 2018	December 31, 2017
	RMB'000	*RMB'000*
Raw material	**47,889**	62,211
Work in progress	**32,138**	—
Finished goods	**3,850**	—
Total	**83,877**	62,211

We continued to increase our inventory of raw materials for the manufacturing of Danoprevir and Ravidasvir as we make progress with Danoprevir's commercialization efforts, and in preparation of Ravidasvir's launch.

Management Discussion and Analysis

Contract Liabilities

Under HKFRS 15, we recognize performance obligations that we have not yet satisfied but for which we have received consideration as contract liabilities. Our contract liabilities mainly represent unrecognized milestone and upfront payments in relation to our in-licensing arrangement.

The contract liabilities of the Group decreased from RMB41.0 million as at December 31, 2017 to RMB0.2 million as at December 31, 2018, because all of Roche's upfront payment were recognized as revenue.

Trade Receivables

The Group had no trade receivables as at December 31, 2017 and RMB56.1 million as at December 31, 2018.

	December 31, 2018 ***RMB'000***	December 31, 2017 *RMB'000*
Trade receivables	**56,123**	—
Less: Impairment of trade receivables	**—**	—
Total	**56,123**	—

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. In view of the before mentioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	December 31, 2018 ***RMB'000***	December 31, 2017 *RMB'000*
Less than 3 months	**56,123**	—

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

	December 31, 2018 ***RMB'000***	December 31, 2017 *RMB'000*
Value-added tax recoverable	**18,160**	24,999
Prepayments	**13,721**	21,056
Interest receivable	**10,418**	4,635
Deposits and other receivables	**1,664**	4,078
Prepaid expenses	**3,261**	1,970
Prepaid income tax	**1,363**	1,363
Total	**48,587**	58,101

Management Discussion and Analysis

Our value-added tax recoverable represented value-added taxes paid with respect to our procurement that can be credited against future value-added tax payables. Our value-added tax recoverable decreased from RMB25.0 million as of December 31, 2017 to RMB18.2 million as of December 31, 2018, as we received RMB11.8 million value-added taxes refund in August 2018, which was in line with our increased purchases of raw materials.

Our prepayments primarily represented the amounts relating to our purchase of raw materials and others. Our prepayments decreased by 34.8% from RMB21.1 million as of December 31, 2017 to RMB13.7 million as of December 31, 2018. Prepayments to supplier as at the end of December 31, 2018 are due within one year. None of the above assets is past due or impaired.

We had RMB4.6 million and RMB10.4 million interests receivable as of December 31, 2017 and December 31, 2018, respectively, which represent the expected interest to be received on time denominated deposits.

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

Financial Assets at Fair Value through Profit or Loss

We had no financial assets at fair value through profit or loss of the Group as the end of December 31, 2018, as all of our wealth management products reached maturity (as at December 31, 2017: RMB143.8 million).

Cash and Cash Equivalents and Pledged Time Deposits

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

	December 31, 2018 *RMB'000*	December 31, 2017 *RMB'000*
Cash and bank balances	**1,301,468**	106,521
Time deposits	**1,871,781**	504,954
Total	**3,173,249**	611,475
Less:		
Pledged time deposits for bills payable	—	(4,108)
Cash and cash equivalents	**3,173,249**	607,367

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

Management Discussion and Analysis

Trade and Other Payables

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

	December 31, 2018 *RMB'000*	December 31, 2017 *RMB'000*
Trade payables	**7,635**	8,859
Bills payable	**6,556**	4,108
Total	**14,191**	12,967

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

	December 31, 2018 *RMB'000*	December 31, 2017 *RMB'000*
Trade payables, gross		
– Less than 1 month	**6,913**	8,837
– Between 1 and 3 months	**3,984**	—
– Between 3 and 6 months	**3,294**	4,130
	14,191	12,967

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

	December 31, 2018 *RMB'000*	December 31, 2017 *RMB'000*
Other payables	**40,071**	24,848
Accrued expenses	**17,354**	1,028
Payroll payable	**15,030**	9,428
Taxes other than income tax	**371**	1
Contract liabilites	**230**	40,956
Total	**73,056**	76,261

Our other payables and accruals decreased by 4.2% from RMB76.3 million as of December 31, 2017 to RMB73.1 million as of December 31, 2018, mainly as a result of (i) an increase of RMB35.3 million in other payables in relation to the Listing expenses; and (ii) a decrease of RMB41.0 million in contract liabilities was mainly due to the completion of collaboration activities.

Other payables increased by 61.3% from approximately RMB24.8 million as at December 31, 2017 to approximately RMB40.1 million as at December 31, 2018, which including RMB35.3 million unpaid IPO listing expense, and most of 2017 other payables have been paid in 2018. Other payables are non-interest-bearing and are due within one year.

The payroll payable are the annual bonus of 2018 accrued and December 2018 salary accrued, which are due within one year.

Management Discussion and Analysis

The accrued expenses as at 31 December 2018 mainly represented the accrued R&D expenses which are actually incurred but not yet invoiced, these are non-interest-bearing and are due within one year.

Deferred Income

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

	December 31, 2018 *RMB'000*	December 31, 2017 *RMB'000*
Government grants		
– Current	**6,158**	10,000
– Non-current	**6,786**	22,070
Total	**12,944**	32,070

Intangible Assets

The intangible assets of the Group increased by 106.5% from approximately RMB36.5 million as at December 31, 2017 to approximately RMB75.4 million for as at December 31, 2018, due to new milestone payments to Presidio and Medivir.

Our intangible assets primarily represent a patent that was transferred from Presidio to us in relation to the Presidio Licensing Agreement, under which we made upfront and/or milestone payments to Presidio. Our intangible assets also include patent rights licensed to us by Medivir in relation to the Medivir Licensing Agreement under which we made an upfront payment to Medivir. The useful economic lives of these intangible assets are 10 to 15 years, which we consider to be reasonable considering that the duration of the patent right is shorter than the anticipated duration of sales of product. The amortization of intangible assets begins on the transfer date of patent because it is the date from which the intangible assets are available for use by us.

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

Management Discussion and Analysis

Liquidity and Capital Resources

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

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

	December 31, 2018 *RMB'000*	December 31, 2017 *RMB'000*
Net cash used in operating activities	**(96,590)**	(198,056)
Net cash used in investing activities	**(817,471)**	(644,542)
Net cash from financing activities	**2,560,142**	549,362
Net increase/(decrease) in cash and cash equivalents	**1,646,081**	(293,236)
Cash and cash equivalents at the beginning of the period	**123,697**	418,973
Effect of foreign exchange rate changes, net	**12,114**	(2,040)
Cash and cash equivalents at the end of the period	**1,781,892**	123,697

As at December 31, 2018, cash and cash equivalents were mainly denominated in Renminbi, United States dollars and Hong Kong dollars.

Operating Activities

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

For the year ended December 31, 2018, we had net cash flows used in operating activities of RMB96.6 million, primarily as a result of operating loss before changes in working capital of RMB30.4 million. The negative changes in working capital mainly due to (i) an increase of RMB57.6 million in trade receivables in relation to our product sales; (ii) an increase in inventories of RMB21.7 million as a result of increased volume of our production for Ganovo® (Danoprevir); (iii) a decrease in prepayments, other receivables and other assets of RMB15.3 million mainly as received result of the receipt of RMB11.8 million value-added taxes refund in August 2018; and (iv) an increase in bank interest of RMB19.2 million.

For the year ended December 31, 2017, we had net cash used in operating activities of RMB198.1 million, primarily as a result of operating loss before changes in working capital of RMB91.9 million and the negative effect of the changes in working capital. The negative changes in working capital mainly consisted of: (i) a decrease in contract liabilities of RMB53.2 million; (ii) an increase in inventories of RMB43.5 million mainly because we increased our purchase volume of raw materials for Danoprevir in anticipation of its upcoming commercialization; and (iii) an increase in prepayments, other receivables and other assets of RMB33.8 million mainly as a result of our increased value-added tax recoverable. These cash outflows were partially offset by an increase in trade and bills payables of RMB13.0 million and an increase in deferred income of RMB11.1 million.

Management Discussion and Analysis

Investing Activities

Our cash used in investing activities mainly consisted of our cash in time deposits with original maturity of over three months, purchase of property, equipment and construction in progress and purchase of intangible assets, which primarily represent milestone payments made to Presidio and Medivir pursuant to the relevant licensing agreements.

For the year ended December 31, 2018, our net cash used in investing activities was RMB817.5 million, primarily attributable to: (i) an increase in time deposits with original maturity of over three months of RMB903.6 million; and (ii) the purchases of wealth management products of RMB229 million partially offset by proceeds from disposals of wealth management products of RMB372 million.

For the year ended December 31, 2017, our net cash used in investing activities was RMB644.5 million, primarily attributable to: (i) the purchase of wealth management products of RMB843.5 million; and (ii) an increase in time deposits with original maturity of over three months of RMB487.8 million, partially offset by proceeds from disposals of wealth management products of RMB706.1 million.

Financing Activities

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

For the year ended December 31, 2018, our net cash flows used in financing activities was RMB2,560.1 million, primarily attributable to issue of Shares of RMB2,970.8 million, purchase of Shares from non-controlling shareholders of RMB250.0 million and dividend paid of US$9.1 million (equivalent to approximately RMB57.8 million) we declared in February 2018.

For the year ended December 31, 2017, our net cash flows from financing activities was RMB549.4 million, primarily attributable to capital contribution from non-controlling shareholders of RMB482.1 million in relation to our Round Two Financing (as defined in the Prospectus).

Capital Expenditures

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

	December 31, 2018	December 31, 2017
	RMB'000	*RMB'000*
Plant and machinery	**6,854**	217
Motor vehicles	**2,146**	32
Office equipment	**951**	800
Leasehold improvements	**—**	868
Construction in progress	**5,912**	29,202
Total	**15,863**	31,119

Management Discussion and Analysis

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2018, there were no significant investments held by the Group. For the year ended December 31, 2018, we did not have material acquisitions or disposals of subsidiaries, associates and joint ventures.

Indebtedness

Borrowings

As at December 31, 2017 and 2018, the Group did not have any indebtedness. As of the date of this annual report, the Group had available bank facilities of RMB170.0 million, RMB163.4 million of which were unutilized as of the same date.

Contingent Liabilities, Charges of Assets and Guarantees

As at December 31, 2018, the Group were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, and did not have any contingent liabilities, that, we expected would materially adversely affect our business, financial position or results of operations.

As at December 31, 2017 and 2018, the Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

Contractual Commitments

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

The Group had the operating lease commitments in the amount of approximately RMB7.1 million and RMB5.9 million as at December 31, 2018 and December 31, 2017, respectively.

The Group had the capital commitments in the amount of approximately RMB11.5 million and RMB1.8 million as at December 31, 2018 and December 31, 2017, respectively.

Gearing Ratio

Gearing ratio is calculated using total liabilities divided total assets and multiplied by 100%. As at December 31, 2018, the gearing ratio of the Group was 2.8% (as at December 31, 2017: 12.2%).

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

	December 31, 2018	December 31, 2017
Current ratio[(1)]	**36.0**	8.8
Quick ratio[(2)]	**35.1**	8.2

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

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

Our current ratio increased from 8.8 as of December 31, 2017 to 36.0 as of December 31, 2018, and our quick ratio increased from 8.2 as of December 31, 2017 to 35.1 as of December 31, 2018, primarily due to an increase in cash and cash equivalents.

Management Discussion and Analysis

Foreign Exchange

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

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. The Group seek to limit our exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. During the Reporting Period, the Group did not enter into any currency hedging transactions. The revenue denominated in USD represented 100% and 54.5% of the total revenue of the Company for the year ended December 31, 2017 and 2018, respectively.

Employees, Remuneration Policies and Directors' Remuneration

As at December 31, 2018, the Group had a total of 279 employees, 276 of which were located in the PRC and 3 consultants were located abroad, and over 62% of our employees obtained a bachelor's degree or higher. The table below sets forth the Group's employees by function as disclosed:

	Numbers of employees	**% of total**
Management	6	2
Research and development	35	13
Commercialization	140	50
Manufacturing	64	23
Operations	34	12
Total	279	100

The Group's total staff costs for the year ended December 31 2018 was RMB101.6 million, compared to RMB51.3 million for the year ended December 31, 2017.

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

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

The Remuneration Committee considers and recommends to the Board on the remuneration and other benefits paid by the Company to the Directors by reference to the Company's operating results, individual performance and comparable market rates. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Details of Directors' remuneration are set out in note 7 to the consolidated financial statements.

Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Jinzi Jason WU (吳勁梓), aged 56, is the Founder of our Group. Dr. Wu was appointed as a Director on February 25, 2014 and was appointed as the chairman of the Board on March 30, 2018. Dr. Wu was re-designated as an executive Director on April 27, 2018. Dr. Wu has served as the chief executive officer of our Group since April 2013. Dr. Wu is primarily responsible for overall management of our Group. Dr. Wu is also involved for research and development of Danoprevir, Ravidasvir, ASC21, ASC22, ASC40, ASC09 and ASC06. Dr. Wu also holds the following positions with other members of our Group: (1) a director of PowerTree since January 2011; (2) a director and chief executive officer of Ascletis BioScience since April 2013; (3) a director and chief executive officer of Ascletis Pharmaceuticals since September 2014; (4) a director of Ascletis Pharma (China) since March 2018; (5) a director and chief executive officer of Ascletis Biopharma since April 2018; (6) a director and chief executive officer of Ascletis XinNuo Medicine (Hangzhou) Co., Ltd. ("Ascletis Xinnuo Medicine") since July 2018; and (7) a director of AP11 Limited ("AP11") since November 2018. Dr. Wu has more than 20 years of experience in pharmaceutical research and development, GMP manufacturing and commercialization in big pharmaceutical and biotech companies. Prior to founding Ascletis, from June 2008 to February 2011, he served as a vice president of HIV Drug Discovery Performance Unit at GlaxoSmithKline ("GSK") in the U.S., a global pharmaceutical company whose shares are listed on the London Stock Exchange (ticker symbol: GSK) and American Depository Receipt on the New York Stock Exchange (ticker symbol: GSK), where he was mainly responsible for discovery and development of multiple pre-clinical and clinical stage drug candidates. From June 2004 to June 2008, Dr. Wu served as a vice president of Pre-clinical and Basic Research at Ambrilia (formerly known as Procyon), a global biotech company headquartered in Montreal Canada, whose shares were listed on the Canada Stock Exchange (ticker symbol: AMB) and were later delisted on March 4, 2011, where he was mainly responsible for overseeing research and development in areas of anti-viral and anti-cancer drugs. From 2002 to 2004, Dr. Wu also served at PhageTech Inc., an antibiotic discovery company, as a vice president of research and development. Dr. Wu also worked at Immunex Corporation as a group leader of small molecule drug discovery in 2002 prior to joining PhageTech Inc. From 1997 to 2000, Dr. Wu served as a senior scientist at Novartis Pharmaceuticals Corporation, a global pharmaceutical company whose shares are listed on the Swiss Exchange (ticker symbol: NOVN) and American Depository Receipt on the New York Stock Exchange (ticker symbol: NVS), where he was mainly responsible for drug screening. Dr. Wu received his bachelor's degree in physiology from Nanjing University (南京大學) in the PRC in July 1985, his master's degree in physiology from Nanjing University in the PRC in June 1988 and his doctorate degree in cancer biology from University of Arizona in the U.S. in August 1996.

Mrs. Judy Hejingdao WU (何淨島), aged 45, was appointed as a Director on March 30, 2018 and was re-designated as an executive Director on April 27, 2018. Mrs. Wu also served as a Director of our Company from September 9, 2015 to September 26, 2016. Mrs. Wu has served as a vice president of our Group since January 2014. Since joining our Group, Mrs. Wu has actively participated in the daily operations of our Group and she is primarily responsible for overseeing operations of our Group, including management of our human resource and general affairs of our Group, among others. Mrs. Wu also holds the following positions with other members of our Group: (1) a director and a vice president of Ascletis BioScience, where she is mainly responsible for operations of the Company since January 2014; and (2) a vice president of Ascletis Pharmaceuticals where she is mainly responsible for operations of the Company since September 2014. Mrs. Wu received her bachelor's degree in industrial design from Zhejiang University (浙江大學) in the PRC in July 1996.

Directors and Senior Management

Independent Non-executive Directors

Dr. Ru Rong JI, aged 55, was appointed as an independent non-executive Director on April 27, 2018 (effective from August 1, 2018). Dr. Ji is primarily responsible for supervising and providing independent judgement to our Board. Dr. Ji has over 20 years of experience in neuroscience, pain and anaesthesiology research. Dr. Ji has been employed by Duke University as a professor in anaesthesiology and neurobiology, with tenure since April 2012. He was also appointed as professor of Cell Biology in 2018. Before joining Duke University, Dr. Ji worked at Harvard University Medical School where he was first appointed as an instructor since July 1998, then promoted to assistant professor in January 2002 and promoted to associate professor in 2007. Prior to 1998, Dr. Ji also conducted postdoctoral research in neurobiology at Beijing Medical University (北京醫科大學) in the PRC, which is currently known as Peking University Health Science Center (北京大學醫學部), at Karolinska Institute in Sweden and at Johns Hopkins University in the United States. Dr. Ji received his bachelor's degree in science from Nanjing University in the PRC in July 1985 and a doctorate degree in science focusing on neurobiology at Shanghai Institute of Physiology, Chinese Academy of Sciences (中國科學院上海生理研究所) in the PRC in October 1990. Dr. Ji was appointed as a Yangtze River Scholar (長江學者) by the Ministry of Education of China in January 2015. Dr. Ji was appointed as the co-director of Center for Translational Pain Medicine at Duke University School of Medicine in December 2017.

Dr. Yizhen WEI (魏以楨), aged 44, was appointed as an independent non-executive Director on April 27, 2018 (effective from August 1, 2018). Dr. Wei is primarily responsible for supervising and providing independent judgement to our Board. Dr. Wei has over 18 years of experience in clinical medicine industry. Since December 1999, Dr. Wei has served several positions at Fuwai Hospital - China Academy of Medical Science (中國醫學科學院阜外醫院), including resident physician from December 1999 to September 2003, attending physician from September 2003 to July 2009 and consultant physician then. Dr. Wei was appointed as a medical appraisal expert of Beijing Medical Association (北京市醫學會) in December 2013. Dr. Wei has served as a member of the Cardiovascular Committee of the National Cardiovascular Disease Center since August, 2016. Dr. Wei received his bachelor's degree in clinical medicine in English (英文醫學) from China Medical University (中國醫科大學) in the PRC in July 1998 and his doctorate degree in Surgery from Chinese Academy of Medical Science & Peking Union Medical College (中國醫學科學院北京協和醫學院) in the PRC in January 2008.

Directors and Senior Management

Mr. Jiong GU (顧炯), aged 46, was appointed as an independent non-executive Director on April 27, 2018 (effective from August 1, 2018). Mr. Gu is primarily responsible for supervising and providing independent judgement to our Board. Mr. Gu is also the chairman of the audit committee of our Board. Since September 2013 and October 2015, Mr. Gu has served as the chief financial officer of CMC Capital Partners (華人文化產業投資基金), an investment fund specializing in media and entertainment investment in the PRC and globally, and CMC Holdings Limited (華人文化有限責任公司), an investment platform focusing on media and entertainment investments, respectively. From January 2010 to August 2013, Mr. Gu served as the chief financial officer in BesTV New Media Co., Ltd., a PRC company principally engaged in the provision of technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through media source platforms, whose shares are listed on Shanghai Stock Exchange (stock code: 600637). From April 2004 to December 2009, Mr. Gu successively worked at TStarcom Telecom Co., Ltd. (UT斯達康通訊有限公司) and its holding company, UTStarcom Inc. a global telecom infrastructure provider specialized in the provision of packet optical transport and broadband access products to network operators, whose shares are listed on Nasdaq (ticker symbol: UTSI), where he was responsible for accounting and financial matters. From July 1995 to April 2004, Mr. Gu had worked for Ernst & Young's Shanghai office and was the senior manager of the audit department when he left the firm. From June 2015, Mr. Gu has been appointed as the independent non-executive director of Xinming China Holdings Limited (新明中國控股有限公司) (stock code: HK.2699) and Chen Xing Development Holdings Limited (辰興發展控股有限公司) (stock code: HK.2286). From March 2017, he has been appointed as the independent non-executive director of Amlogic (Shanghai) Co., Ltd. From September 2018, he has been appointed as the independent non-executive director of Dafa Properties Group Limited (stock code: HK6111). Mr. Gu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since April 2004. Mr. Gu received his bachelor's degree in finance management from Fudan University (復旦大學) in the PRC in July 1995.

Ms. Lin HUA (華林), aged 45, was appointed as an independent non-executive Director on April 27, 2018 (effective from August 1, 2018). Ms. Hua is primarily responsible for supervising and providing independent judgement to our Board. Since May 2016, Ms. Hua has served as the managing director of Beijing Highgrove Cultural Communication Co., Ltd. (北京海格羅府文化傳播有限公司), a company primarily conducted cultural communication activities including organizing exhibitions and introducing and marketing foreign brands into PRC, where she was mainly responsible for overall management of its Greater China operations. From April 2010 to April 2016, Ms. Hua had worked for Yang Guang Xin Ye Real Property Co., Ltd. (陽光新業地產股份有限公司), a real estate development and management company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000608) and served as a vice president of commercial management department when she left. From May 2003 to March 2010, Ms. Hua worked at Verakin Group Company Ltd. (同景集團有限公司), a company primarily conducted real estate development, education, healthcare and tourism and served as board secretary and head of Beijing headquarter when she left. From October 2002 to April 2003, Ms. Hua served as an assistant to producer and program director at China Central Television. From September 1996 to June 2000, Ms. Hua worked at Daiko Pacific International Advertising Inc. (大廣太平洋國際廣告有限公司), an international advertising company, and she served as a creative director when she left. Ms. Hua received her bachelor's degree in industrial design from Zhejiang University in July 1996 and her master degree in distributed computing system from the University of Greenwich in the U.K in June 2002.

Directors and Senior Management

SENIOR MANAGEMENT

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

Dr. Zhengqing LI (李正卿), aged 52, was appointed as our Chief Medical Officer and President of R&D Greater China in March 2019. Dr. Li has more than 20 years of experience in drug research and development including 15 years in the United States and 8 years in China. Dr. Li joined the Company from Merck Sharp & Dohme (China), where he served as Global Vice President and General Manager of R&D Center China since 2011. Dr. Li spent the early part of his tenure for building MSD China into a fully integrated development organization with more than 600 employees. Under Dr. Li's leadership, Merck Sharp & Dohme (China) has been responsible for the successful approvals of more than 20 product filings in China, including Keytruda, Zepatier, Isentress and HPV vaccines (Gardasil and Gardasil 9). Prior to Merck Sharp & Dohme (China), Dr. Li was the vice president and head of clinical research at Bristol-Myers Squibb China from 2010 to 2011. Dr. Li served as Executive Director of Global Biometric Science at Bristol-Myers Squibb USA from 2006 to 2010. He contributed to clinical development and regulatory success of multiple products in the United States during his tenure with Pfizer and Procter & Gamble pharmaceuticals. Dr. Li. obtained his Ph.D. in Biostatistics from the University of Wisconsin-Madison.

Dr. Lindi TAN (陳琳麗), aged 39, was appointed as our Chief Financial Officer in November 2018. Dr. Tan is a seasoned healthcare professional with deep knowledge in the biotech sector. Prior to joining the Group, Dr. Tan held roles at SeaTown Holdings International and Temasek International. Dr. Tan was the global healthcare analyst at SeaTown Holdings International and was responsible for driving multi-asset healthcare investments. At Temasek International, she held an investment role in the life sciences team and was the staff officer to the chief investment officers/heads of investments. Dr. Tan obtained her Ph.D. in Public Health with a focus on Molecular Microbiology and Immunology from Johns Hopkins University in the United States. Dr. Tan also went to Imperial College London where she received First Class Honors for B.Sc. in Biochemistry.

Ms. (Helen) Yuemei YAN (言月梅), aged 49, was appointed as the Sales Director of the Group in November 2016 and was appointed a Vice President of the Company in April 2018. Ms. Yan has over 18 years of experience in sales management. Prior to joining our Group, Ms. Yan served several roles at Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司) including sales managers and national sales director from November 2005 to October 2016, where she mainly in charge of sales for products of cardiovascular and virology therapeutic area. From June 2001 to October 2005, Ms. Yan served as Medicine Representative in Hangzhou Merck Sharp & Dohme Pharmaceuticals Limited (杭州默沙東製藥有限公司). From August 1988 to June 2001, Ms. Yan served as a nurse at Ningbo No. 1 Hospital (寧波市第一醫院). Ms. Yan obtained her master degree in business administration from Asia Metropolitan University in Malaysia in June 2018 and obtained her college degree in nursing from Zhejiang University (浙江大學) in the PRC in December 1999 through part-time study.

Dr. (Vivian) Yi CHEN (陳怡), aged 55, was appointed as Vice President of our Group in charge of general corporate affairs in March 2018. Prior to joining our Group, Dr. Chen worked as a director at Abbott Diabetes Trading (Shanghai) Co., Ltd. (雅培貿易(上海)有限公司) from July 2015 to December 2017 where she was mainly responsible for market access affairs. From August 2012 to August 2014, Dr. Chen serves as a vice president at Shanghai Branch of Eli Lilly and Company (Suzhou) Limited (禮來蘇州製藥有限公司上海分公司) where she was mainly responsible for corporate affairs and government relations. From May 2011 to July 2012, Dr. Chen worked as a director of public policy and government relations in the PRC at Becton Dickinson Medical Device (Shanghai) Co., Ltd. (碧迪醫療器械 (上海) 有限公司). From March 2006 to May 2011, Dr. Chen served as a director at the R&D based Pharmaceutical Association Committee of China Association of Enterprises with Foreign Investment (中國外商投資企業協會藥品研製和開發行業委員會). From 1995 to 2003, Dr. Chen successively served as an economist at Department of Labor of the United States and a consultant at the World Bank in Washington D.C in the United States. Dr. Chen received her bachelor's degree in world economy from Fudan University (復旦大學) in the PRC in July 1985, her master's degree in economics from the University of Utah in the U.S. in August 1990 and her doctorate degree in economics from University of Utah in the U.S. in June 1998. Dr. Chen was also appointed as a director of the China Health Economics Association (中國衛生經濟學會) in May 2017.

Directors and Senior Management

SOLE COMPANY SECRETARY

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

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

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

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group during the year, a discussion and analysis on the Group's future business development and the financial and operational key performance indicators employed by the Directors in measuring the performance of the Group's business are set out in the sections headed "Financial Summary" on page 5 of this annual report, "Corporate Profile" on pages 6 to 7 and "Management Discussion and Analysis" on pages 8 to 26 of this annual report.

Environmental Policies and Performance

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

To the best knowledge of the Group, during the year ended 31 December 2018, the Group has complied with the relevant environmental and occupational health and safety laws and regulations in China and we did not have any incidents or complaints which had a material and adverse effect on our business, financial condition or results of operations during the Reporting Period.

Report of Directors

BUSINESS REVIEW (Continued)

Compliance with Relevant Laws and Regulations

For the year ended December 31, 2018, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations which have significant impact on the Group. The Board and senior management within their respective duties in conjunction with internal and external professional advisors monitored the Group's policies and practices on compliance with legal and regulatory requirements. Changes in the applicable laws, rules and regulations which have significant impact on the Group (if any) were brought to the attention of relevant employees and relevant operation units from time to time. During the Reporting Period, various works of the Board and senior management were in compliance with the relevant applicable laws and regulations, the articles of association of the Company, charters of the board committees, internal policies and the relevant provisions of various internal control systems. Decision-making process was legitimate and effective. Directors and senior management performed in a diligent and responsible manner and the resolutions of the board meetings were implemented faithfully. Meanwhile, the Company has timely performed its disclosure obligations which were in strict compliance with the requirements of the listing rules or manuals of the Hong Kong Stock Exchange.

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

To the best knowledge of the Group, during the year ended December 31, 2018, there were no material breaches of the Group's internal rules or applicable laws and regulations relating to the promotion and distribution of the Group's pharmaceutical products by its employees or distributors and the Group has complied with all relevant rules and regulations that have significant impact on it.

Report of Directors

BUSINESS REVIEW (Continued)

Key Relationship with Stakeholders

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

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

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

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

Report of Directors

BUSINESS REVIEW (Continued)

Key Risks and Uncertainties and Risk Management

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

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

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc, and proactively setting up appropriate risk management and internal control mechanism which is embedded in daily operation management. The Group's financial risk management objectives and policies are set out in note 33 to the consolidated financial statements in this annual report.

Events after Reporting Period

Significant events that have an effect on the Group subsequent to the financial year ended December 31, 2018 are set out in note 34 to the consolidated financial statements in this annual report.

Report of Directors

DIRECTORS

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

Executive Directors

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

Non-executive Director

Mr. Wei FU *(Note)*

Independent Non-executive Directors

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

Note: With effect from December 24, 2018, Mr. Wei FU resigned as a Non-executive Director of the Company. Mr. Wei FU resigned from the Board due to his other business engagements requiring more of his time and dedication which may affect his time commitment to the Company.

Biographies of the Directors and Senior Management

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 27 to 29 of this annual report.

Service Contracts of the Directors

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

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

Remuneration of the Directors and Five Highest Paid Individuals

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 7 and 8 to the consolidated financial statements in this annual report.

Employees and Remuneration Policies

A review of the employees and remuneration policies of the Group during the year are set out in the section headed "Management Discussion and Analysis" on pages 8 to 26 of this annual report.

Report of Directors

DIRECTORS (Continued)

Independence of Independent Non-Executive Directors

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

NON-COMPETE UNDERTAKING

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

Our Controlling Shareholders have confirmed in writing to the Company of their compliance with the Non-compete Undertaking during the year ended December 31, 2018. No new business opportunity was informed by the Controlling Shareholders as at December 31, 2018.

The independent non-executive Directors have reviewed the implementation of the Non-compete Undertaking based on the information and confirmation provided by or obtained from the Controlling Shareholders, and are of the view that the Non-compete Undertaking has been complied with by our Controlling Shareholders for the year ended December 31, 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Saved as disclosed in this annual report, as at December 31, 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

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

CONNECTED TRANSACTIONS

Details on related party transactions for the year ended December 31, 2018 are set out in note 30 to the consolidated financial statements. There was no connected transaction nor continuing connected transaction of the Group which has to be disclosed in accordance with the Chapter 14A of the Listing Rules during the Reporting Period.

Report of Directors

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

As at December 31, 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares/ underlying Shares(1)	Approximate percentage of shareholding interest
Dr. Wu	Beneficial owner	552,393,664 (L)	49.29%
	Interest of spouse	44,827,414 (L)	4.00%
Mrs. Wu	Beneficiary of a trust(2)	44,827,414 (L)	4.00%
	Interest of spouse	552,393,664 (L)	49.29%

Notes:

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

(2) Mrs. Wu is the manager of Lakemont 2018 GRAT, a trust created by Dr. Wu on April 26, 2018 under the laws of the State of Delaware for the benefit of his family members, which holds interest in the Company through Lakemont Holding LLC (together with Lakemont 2018 GRAT, the "Family Trust"). Mrs. Wu exercises the voting rights of the Shares held by the Family Trust and is a beneficiary of the Family Trust.

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

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

As at December 31, 2018, so far as it was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Report of Directors

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

Interests in shares or underlying shares of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of shareholding interest
JJW11 Limited[2]	Beneficial owner	64,945,019 (L)	5.80%
Mr. Wei FU	Interest of controlled corporations[3] [4]	138,721,095 (L)	12.38%
CBC Investment Twelve Limited[3]	Beneficial owner	66,431,512 (L)	5.93%
CBC Investment Fifteen Limited[4]	Beneficial owner	72,289,583 (L)	6.45%

Notes:

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

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

(3) Each of CBC Investment Ascletis Limited (as the sole shareholder of CBC Investment Twelve Limited ("**CBC 12**")), CBC Investment Eleven Limited ("**CBC 11**", holding approximately 72.73% equity interest in CBC Investment Ascletis Limited), C-Bridge Healthcare Fund II. L.P. (as the sole shareholder of CBC 11), C-Bridge Healthcare Fund GP II. L.P. (as general partner of C-Bridge Healthcare Fund II. L.P.), C-Bridge Capital GP, Ltd., (as general partner of C-Bridge Healthcare Fund GP II. L.P.), TF Capital II, Ltd. (holding approximately 38.34% equity interest in C-Bridge Capital GP, Ltd.), Kang Hua Investment Company Limited (holding approximately 52.17% equity interest in TF Capital II, Ltd.), Dan YANG (as the sole shareholder of Kang Hua Investment Company Limited) and Wei FU (holding approximately 47.83% equity interest in TF Capital II, Ltd.) is deemed to be interested in the Shares held by CBC 12 under the SFO.

(4) Each of CBC Investment Seven Limited ("**CBC 7**", as the sole shareholder of CBC Investment Fifteen Limited ("**CBC 15**")), C-Bridge Healthcare Fund, L.P. (holding approximately 57.14% equity interest in CBC 7), C-Bridge Healthcare Fund GP, L.P. (as general partner of C-Bridge Healthcare Fund L.P.), C-Bridge Capital GP, Ltd., (as general partner of C-Bridge Healthcare Fund GP, L.P.), TF Capital II, Ltd. (holding approximately 38.34% equity interest in C-Bridge Capital GP, Ltd.) and Kang Hua Investment Company Limited (holding approximately 52.17% equity interest in TF Capital II, Ltd.), Dan YANG (as the sole shareholder of Kang Hua Investment Company Limited) and Wei FU (holding approximately 47.83% equity interest in TF Capital II, Ltd.) is deemed to be interested in the Shares held by CBC 15 under the SFO.

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

Report of Directors

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

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

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2018, the Group's sales to its five largest customers accounted for 77.2%, as compared to 100% of the Group's total revenue for the year ended December 31, 2017. The Group's sales to the largest customer accounted for 54.5%, as compared to 100% of the Group's total revenue for the year ended December 31, 2017.

Major Suppliers

For the year ended December 31, 2018, the Group's five largest suppliers accounted for 58.5%, as compared to 55.7% of the Group's total purchase amounts for the year ended December 31, 2017. The Group's single largest supplier accounted for 21.0%, as compared to 15.5% 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 best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACTS

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

DIRECTORS' PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts or otherwise in relation thereto in accordance with the Articles of Association. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group during the year ended December 31, 2018.

Report of Directors

RESULTS AND DIVIDENDS

The Group's loss for the year ended December 31, 2018 and the Group's financial position at that date are set out in the consolidated financial statements on pages 62 to 130. The Board does not recommend any payment of final dividend for the year ended December 31, 2018. Details of dividend declared prior to the Listing during the Reporting Period are set out in note 10 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the Reporting Period are set out in note 23 to the consolidated financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 35 to the consolidated financial statements in this annual report.

The Company's reserves available for distribution to the shareholders of the company as at December 31, 2018 amounted to RMB3.0 billion.

CHARITABLE DONATIONS

During the Reporting Period, charitable and other donations made by the Group amounted to RMB9,227,000 (2017: RMB296,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Reporting Period are set out in note 12 to the consolidated financial statements in this annual report.

USE OF PROCEEDS FROM LISTING

In connection with the Company's initial public offering, 224,137,000 ordinary shares of US$0.0001 each were issued at a price of HK$14.00 per share for a total cash consideration, before expenses, of approximately HK$3,137,918,000 (equivalent to RMB2,730,284,000). Dealings in these shares on the Stock Exchange commenced on August 1, 2018.

Report of Directors

USE OF PROCEEDS FROM LISTING (Continued)

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2018:

Use of proceeds	Planned applications *(HK$ million)*	Percentage of total net proceeds *(%)*	Actual usage up to December 31, 2018 *(HK$ million)*	Unutilized net proceeds as at December 31, 2018 *(HK$ million)*
For the Core Products				
For the continued research and development of the Core Product pipeline, consisting of approximately (i) 4% for initiating and conducting a number of phase IV clinical trials for Ganovo® and Ravidasvir; (ii) 6.0% for initiating and conducting bridging studies, a phase IIb clinical trialand a phase III clinical trial (if needed), for ASC09; (iii) 6.0% for initiating and conducting bridging studies, a phase II clinical trial and a phase III clinical trial for ASC06; (iv) 10.0% for other research and development costs and to supplement funding for the research and development of the Core Product as necessary; and (v) 4.0% for staff compensation	892.6	30.0	93.1	799.5
For commercialization of Ganovo® and Ravidasvir, consisting of approximately (i) 12.0% for hiring additional commercialization personnel and providing in-house and external training and (ii) 13.0% for marketing activities	743.9	25.0	52.9	691.0
For the other assets and other purposes				
For pursuing in-licensing of new drug candidates	446.3	15.0	—	446.3
For research and development of ASC21	297.5	10.0	8.8	288.7
For supporting the research and development infrastructure and the early development of the two in-house drug programs at discovery stage for HBV and NASH	297.5	10.0	1.8	295.7
For the working capital and other general corporate purposes	297.5	10.0	15.5	282.0
Total	2,975.3(1)	100.0	172.1	2,803.2

Notes:

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

Report of Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

EQUITY-LINKED AGREEMENTS

Save as disclosed in our Prospectus, there was no equity-linked agreement entered into by the Company during the year ended December 31, 2018.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Thursday, June 6, 2019. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Monday, June 3, 2019 to Thursday, June 6, 2019, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, May 31, 2019.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 45 to 56 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

TAX RELIEF AND EXEMPTION

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

PRE-EMPTIVE RIGHTS

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

Report of Directors

AUDITORS

The Company has appointed Ernst & Young as the auditor of the Company for the year ended December 31, 2018. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

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

Hangzhou, the People's Republic of China, March 23, 2019

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the period from January 1, 2018 to July 31, 2018.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code since the Listing Date up till December 31, 2018, except for a deviation from the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Dr. Wu. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

As the Shares were listed on the Stock Exchange on August 1, 2018, the Model Code and Written Guidelines were not applicable to the Company during the period from January 1, 2018 to July 31, 2018.

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

BOARD OF DIRECTORS

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

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

The Board of the Company currently comprises the following Directors:

Executive Directors

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

Independent Non-executive Directors

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

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

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 27 to 29 of this annual report.

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

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

Board Meetings and Directors' Attendance Records

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

During the Reporting Period the Company did not convene an AGM and the Board convened five Board meetings and the Directors' attendances are listed below:

Name of Directors	Attendance/ Number of Board Meetings
Dr. Jinzi Jason WU	5/5
Mrs. Judy Hejingdao WU	5/5
Mr. Wei FU *(Note)*	4/4
Dr. Ru Rong JI	5/5
Dr. Yizhen WEI	5/5
Mr. Jiong GU	5/5
Ms. Lin HUA	5/5

Note: With effect from December 24, 2018, Mr. Wei FU resigned as a Non-executive Director of the Company.

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

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

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

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

Independent Non-executive Directors

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

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

Appointment and Re-election of Directors

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

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

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

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Responsibilities of the Directors

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

During the Relevant Period, the Company organized one training session conducted by the Company's Hong Kong legal adviser for all the Directors. Such training session covers a wide range of relevant topics including directors' duties and responsibilities, risk management and internal controls etc. In addition, relevant reading materials including directors' manual, legal and regulatory updates and seminar handouts have been provided to the directors for their reference and studying. They also received from the Company from time-to-time updates on laws, rules and regulations which may be relevant to their rules, duties and functions as director of a listed company.

Corporate Governance Report

BOARD COMMITTEES

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

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

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

Audit Committee

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

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal controls system of the Group, assist the Board to fulfill its responsibility over the audit, and review and approve connected transactions and to advise the Board.

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

The Audit Committee held two meetings during the Reporting Period to review and consider the interim financial results and reports for the six months ended June 30, 2018 and amendments to its terms of reference.

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

Corporate Governance Report

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

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

Name of Members of the Audit Committee	Attendance/ Number of Meeting(s)
Mr. Jiong GU *(Chairman)*	2/2
Dr. Yizhen WEI	2/2
Ms. Lin HUA	2/2

The Company's annual results for the year ended December 31, 2018 have been reviewed by the Audit Committee.

Remuneration Committee

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

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

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

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended December 31, 2018 is as follows:

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

Details of the Directors' remuneration are set out in note 7 to the consolidated financial statements in this annual report.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

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

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

Nomination Committee

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

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

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

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

Corporate Governance Report

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

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

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

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

Name of Members of the Nomination Committee	Attendance/ Number of Meeting(s)
Dr. Jinzi Jason WU *(Chairman)*	2/2
Dr. Ru Rong JI	2/2
Ms. Lin HUA	2/2

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

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

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

Any internal control defects identified by the internal audit department will be communicated to the department in question with advice for correction and remediation. Before the end of year, the status will be reviewed. The compliance department will also assist in the correction and remediation. Any unresolved control defects at the end of the year will be informed to the management. For the year ended December 31 2018, no material internal control defect was detected.

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

During the year ended December 31, 2018, the Board, as supported by the Audit Committee as well as the management and internal audit department of the Group, reviewed the risk management and internal control systems of the Group and considered that such systems are effective and adequate. Audit Committee has reviewed and considered that the internal audit department of the Group had adequate resources to carry out the assessment and the effectiveness of the risk management and internal control systems for the Reporting Period. The annual review also covered the financial reporting and staff qualifications, experience and relevant resources.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 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 Auditor's Report on pages 57 to 60 of this annual report.

DIVIDEND POLICY

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

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

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

Corporate Governance Report

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2018 is set out below:

Service Category	Fees Paid/ Payable *RMB'000*
Audit Services (Note)	3,447.4
Non-audit Services - internal control advisory services	380.0
TOTAL	3,827.4

Note: the amount of audit service fee also included the audit service fees in connection with the IPO.

COMPANY SECRETARY

The Company has engaged SWCS Corporate Services Group (Hong Kong) Limited, external service provider, and Mr. Lok Kwan YIM has been appointed as one of the Company's joint company secretaries (which later acted as the sole company secretary of the Company following the resignation of Mr. Jianjiong WANG). Its primary contact person at the Company is Lingjie JIANG, the senior supervisor of the Company.

During the Reporting Period, Mr. Jianjiong WANG acted as one of the joint company secretaries of the Company and resigned from his position with effect from March 13, 2019.

Both of Mr. Lok Kwan YIM and Mr. Jianjiong WANG attended sufficient professional training as required under the Listing Rules for the year ended December 31, 2018 to update their skills and knowledge.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting

Pursuant to article 64 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the written requisition of one or more members deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Corporate Governance Report

SHAREHOLDERS' RIGHTS (Continued)

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

CONSTITUTIONAL DOCUMENTS

In preparation for the Listing, the Company has adopted the amended and restated Memorandum and Articles of Association pursuant to a special resolution passed at an extraordinary general meeting on July 11, 2018, which became effective on the Listing Date. Since then, the Company has not made any changes to its Memorandum and Articles of Association. An up–to-date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and of the Stock Exchange.

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Ascletis Pharma Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 130, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition: collaboration arrangements	
The Group entered into collaboration agreements for research, development, manufacturing and commercialisation services. For the year ended 31 December 2018, the Group recognised collaboration revenue of RMB90,578,000. As a part of the accounting for these arrangements, the Group must use significant judgement to determine the performance obligations, the transaction price and the timing of revenue recognition, including the appropriate measure of progress, which is important to our audit. The Group's disclosures about the recognition of collaboration revenue are included in note 2.3 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 5 *Revenue, other income and gains*, which specifically explain the accounting policies and the management judgements.	We inspected the collaboration agreements and discussed with management about the nature, rationale and progress of development of the arrangements. We evaluated management's judgement in determination of performance obligations, measurement of the transaction price, including the constraint on variable consideration and recognition of revenue when the Group satisfies each performance obligation. We performed recalculation of management's model to determine collaboration revenue recognition and the mathematical accuracy. We assessed the basis and inputs used in the calculation to the contractual terms by checking the date of achievement of each milestone event and payments received from the collaboration partner with the relevant documents and the expected date of obtaining new drug certificate of each arrangement at year end. We also evaluated whether appropriate collaboration revenue recognition policy is applied through comparison with relevant accounting standards and industry practice. We reviewed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and the accuracy of the Group's description of the accounting policy related to the collaboration revenue.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
23 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	5	**166,325**	53,202
Cost of goods sold,		**(12,379)**	–
including royalties		**(3,156)**	–
Gross profit		**153,946**	53,202
Other income and gains	5	**124,813**	49,593
Selling and distribution expenses		**(58,633)**	–
Research and development costs		**(143,452)**	(114,325)
Administrative expenses		**(85,789)**	(37,477)
Other expenses		**(10,755)**	(31,434)
LOSS BEFORE TAX	6	**(19,870)**	(80,441)
Income tax credit/(expense)	9	**125**	(6,490)
LOSS FOR THE YEAR		**(19,745)**	(86,931)
Attributable to:			
Owners of the parent		**(7,258)**	(53,935)
Non-controlling interests		**(12,487)**	(32,996)
		(19,745)	(86,931)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT BASIC AND DILUTED (RMB)			
– For loss for the year	11	**(0.84) cents**	(9.03) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 *RMB'000*	2017 *RMB'000*
LOSS FOR THE YEAR	**(19,745)**	(86,931)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company	**12,918**	(3,164)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**12,918**	(3,164)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**12,918**	(3,164)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(6,827)**	(90,095)
Attributable to:		
Owners of the parent	**5,660**	(57,099)
Non-controlling interests	**(12,487)**	(32,996)
	(6,827)	(90,095)

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**88,333**	78,815
Intangible assets	13	**75,402**	36,517
Advance payments for property, plant and equipment		**257**	304
Long-term deferred expenditure		**275**	–
Total non-current assets		**164,267**	115,636
CURRENT ASSETS			
Inventories	14	**83,877**	62,211
Trade and bills receivables	15	**57,623**	–
Prepayments, other receivables and other assets	16	**48,587**	58,101
Financial assets at fair value through profit or loss	17	**–**	143,831
Pledged time deposits	18	**–**	4,108
Cash and cash equivalents	18	**3,173,249**	607,367
Total current assets		**3,363,336**	875,618
CURRENT LIABILITIES			
Trade and bills payables	19	**14,191**	12,967
Other payables and accruals	20	**73,056**	76,261
Deferred income	21	**6,158**	10,000
Total current liabilities		**93,405**	99,228
NET CURRENT ASSETS		**3,269,931**	776,390
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,434,198**	892,026
NON-CURRENT LIABILITIES			
Deferred income	21	**6,786**	22,070
Deferred tax liabilities	22	**–**	125
Total non-current liabilities		**6,786**	22,195
Net assets		**3,427,412**	869,831
EQUITY			
Equity attributable to owners of the parent			
Share capital	23	**764**	9
Reserves	24	**3,426,648**	596,952
		3,427,412	596,961
Non-controlling interests		**–**	272,870
Total equity		**3,427,412**	869,831

Jinzi Jason WU
Director

Judy Hejingdao WU
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

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

Note:

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

	Attributable to owners of the parent							
	Share capital RMB'000	Share premium account* RMB'000	Capital reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	9	92,234	253,408	18,318	(91,610)	272,359	136,725	409,084
Loss for the year	–	–	–	–	(53,935)	(53,935)	(32,996)	(86,931)
Other comprehensive loss for the year:								
Exchange differences on translation of the Company	–	–	–	(3,164)	–	(3,164)	–	(3,164)
Total comprehensive loss for the year	–	–	–	(3,164)	(53,935)	(57,099)	(32,996)	(90,095)
Equity-settled share award arrangements	–	–	775	–	–	775	388	1,163
Capital contribution from non-controlling shareholders	–	–	315,234	–	–	315,234	166,878	482,112
Transfer of shares to non-controlling shareholders	–	–	65,692	–	–	65,692	1,875	67,567
At 31 December 2017	9	92,234	635,109	15,154	(145,545)	596,961	272,870	869,831

* These reserve accounts comprise the consolidated reserves of RMB3,426,648,000 (2017: RMB596,952,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(19,870)**	(80,441)
Adjustments for:			
Bank interest income	5	**(25,006)**	(10,207)
Interest income from loans to a related party	5	**–**	(69)
Dividend income from financial assets at fair value through profit or loss	5	**(3,191)**	(7,065)
Changes in fair value of financial assets at fair value through profit or loss		**831**	(831)
Loss on disposal of items of property, plant and equipment	6	**–**	11
Write-off of items of property, plant and equipment		**551**	–
Depreciation of items of property, plant and equipment	12	**5,794**	2,108
Amortisation of intangible assets	13	**6,186**	3,442
Amortisation of long-term deferred expenditure		**6**	–
Equity-settled share award and option expense	6	**4,266**	1,163
		(30,433)	(91,889)
Increase in inventories		**(21,666)**	(43,464)
Increase in long-term deferred expenditure		**(281)**	–
Increase in trade and bills receivables		**(57,623)**	–
Decrease/(increase) in prepayments, other receivables and other assets		**15,297**	(33,765)
Increase in trade and bills payables		**1,224**	12,967
Decrease in other payables and accruals		**(3,205)**	(50,904)
Decrease/(increase) in deferred income		**(19,126)**	11,086
Interest received		**19,223**	5,641
Cash used in operations		**(96,590)**	(190,328)
Income tax paid		**–**	(7,728)
Net cash flows used in operating activities		**(96,590)**	(198,056)

Consolidated Statement of Cash Flows

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant equipment and construction in progress		**(15,816)**	(15,298)
Proceeds from disposal of items of property, plant and equipment		**–**	10
Purchases of intangible assets	13	**(44,267)**	(20,651)
Purchases of financial assets at fair value through profit or loss		**(229,000)**	(843,500)
Proceeds from disposals of financial assets at fair value through profit or loss		**372,000**	706,110
Dividend income from financial assets at fair value through profit or loss		**3,191**	7,065
Receipt of government grants for property, plant and equipment		**–**	5,160
Increase in time deposits with original maturity of over three months		**(903,579)**	(487,778)
Receipt of repayment of loans to a related party		**–**	4,340
Net cash flows used in investing activities		**(817,471)**	(644,542)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**2,970,782**	–
Share issue expenses		**(102,871)**	–
Capital contribution from non-controlling shareholders		**–**	482,112
Purchase of shares from non-controlling shareholders		**(249,954)**	–
Transfer of shares to non-controlling shareholders		**–**	67,567
Interest paid	27	**–**	(317)
Dividend paid		**(57,815)**	–
Net cash flows from financing activities		**2,560,142**	549,362
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,646,081**	(293,236)
Cash and cash equivalents at beginning of year		**123,697**	418,973
Effect of foreign exchange rate changes, net		**12,114**	(2,040)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,781,892**	123,697
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	18	**3,173,249**	607,367
Time deposits with original maturity of less than three months when acquired, pledged as security for bills payable	18	**–**	4,108
Non-pledged time deposits with original maturity of over three months when acquired		**(1,391,357)**	(487,778)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,781,892**	123,697

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follow:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PowerTree	British Virgin Islands 13 January 2011	US$101	100%	–	Investment holding
AP11 Limited	British Virgin Islands 20 November 2018	US$100	100%	–	Investment holding
Ascletis Pharma (China) Co., Limited (歌禮製藥(中國)有限公司)	Hong Kong 15 March 2018	HK$100	–	100%	Investment holding
Ascletis BioScience (歌禮生物科技(杭州)有限公司) (ii)	People's Republic of China/ Mainland China 26 April 2013	US$ 100,600,162	–	100%	Research, development and commercialisation of pharmaceutical products

Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ascletis Pharmaceuticals Co., Ltd. ("Ascletis Pharmaceuticals") (歌禮藥業(浙江)有限公司) (i)	People's Republic of China/ Mainland China 24 September 2014	RMB 411,002,100	–	100%	Manufacture, commercialisation research and development of pharmaceutical products
Ascletis Biopharmaceutical (Hangzhou) Co., Ltd. ("Ascletis Biopharma") (歌禮生物製藥(杭州)有限公司) (i)	People's Republic of China/ Mainland China 19 April 2018	RMB 30,000,000	–	100%	Manufacture, research and development of pharmaceutical products
Ascletis XinNuo Medicine (Hangzhou) Co., Ltd. (歌禮欣諾醫藥(杭州)有限公司) (i)	People's Republic of China/ Mainland China 24 July 2018	RMB 5,000,000	–	100%	Sale of pharmaceutical products

(i) These entities are limited liability enterprises established under People's Republic of China (the "PRC") law.

(ii) The entity is registered as a wholly-foreign-owned enterprise under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of these financial statements throughout the Reporting Periods.

These financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Notes to Financial Statements

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Notes to Financial Statements

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 2 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019

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

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

4 No mandatory effective date yet determined but available for adoption

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

Notes to Financial Statements

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB5,434,000 and lease liabilities of RMB6,067,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

Notes to Financial Statements

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

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

HK(IFRIC)-Int 23, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

Plant and machinery	10.00%-33.33%
Motor vehicles	20.00%-25.00%
Office equipment	20.00%-33.33%
Leasehold improvements	22.22%

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

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

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

Software	3-5 years
Intellectual property	10-15 years

Research and development costs

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- 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 at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost as describe above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach

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

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

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

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

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition as payables.

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

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

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of products

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(b) Collaboration revenue

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

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(b) Collaboration revenue (Continued)

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

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

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

Milestone payments

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(b) Collaboration revenue (Continued)

Licences of intellectual property

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

Upfront fees

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

Royalties

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(c) Promotion services

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

Other income

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

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

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an option pricing model, further details of which are given in note 25 to the financial statements.

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

Other employee benefits

Pension scheme

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

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

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

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

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Recognition of collaboration revenue

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

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

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

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Useful lives of intangible assets

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

Useful lives and residual values of property, plant and equipment

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

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

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made for those identified obsolete and slow-moving inventories and inventories with a carrying amount higher than net realisable value. The assessment of the provision required involves management's judgement and estimates on which are influenced by assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. At 31 December 2018, the carrying amount of inventories was RMB83,877,000 (2017: RMB62,211,000).

Notes to Financial Statements

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**75,747**	–
Switzerland	**90,578**	53,202
Total	**166,325**	53,202

(b) Non-current assets

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**147,966**	98,254
Cayman Islands	**16,301**	17,382
Total	**164,267**	115,636

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

Information about a major customer

Revenue of RMB90,578,000 (2017: RMB53,202,000) was derived from collaboration arrangement with a single collaboration partner.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of products	**72,273**	–
Collaboration revenue	**90,578**	53,202
Rendering of promotion services	**3,474**	–
	166,325	53,202

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contract with customers

(i) Disaggregation of revenue information

	2018 RMB'000	2017 RMB'000
Timing of revenue recognition		
Over time		
– Collaboration revenue	**40,956**	53,202
At a point in time		
– Sale of products	**72,273**	—
– Collaboration revenue	**49,622**	—
– Promotion services	**3,474**	—
Total revenue from contracts with customers	**166,325**	53,202

	2018 RMB'000	2017 RMB'000
Geographical markets		
Mainland China		
– Sale of products	**72,273**	—
– Promotion services	**3,474**	—
Switzerland		
– Collaboration revenue	**90,578**	53,202
Total revenue from contracts with customers	**166,325**	53,202

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

	2018 RMB'000	2017 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the Reporting Period:		
Collaboration revenue	**40,956**	53,202

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

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contract with customers (Continued)

(ii) Performance obligations

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

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 60 days from delivery.

Collaboration revenue

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

Promotion services

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

	2018	2017
	RMB'000	*RMB'000*
Other income and gains		
Bank interest income	**25,006**	10,207
Interest income from loans to a related party	**–**	69
Dividend income from financial assets at fair value through profit or loss	**3,191**	7,065
Changes in fair value of financial assets at fair value through profit or loss	**–**	831
Government grants*	**73,018**	31,413
Foreign exchange gain, net	**23,598**	–
Others	**–**	8
	124,813	49,593

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

Notes to Financial Statements

6. LOSS BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold**		**12,379**	–
Depreciation of items of property, plant and equipment	12	**5,794**	2,108
Amortisation of intangible assets*	13	**6,186**	3,442
Write-down of inventories to net realisable value**		**3,739**	–
Minimum lease payments under operating leases		**2,509**	1,798
Auditor's remuneration		**1,830**	300
Research and development costs		**143,452**	114,325
Foreign exchange gain, net		**(23,598)**	–
Government grants		**(73,018)**	(31,413)
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 7)):			
Wages and salaries		**55,363**	35,826
Pension scheme contributions		**13,074**	8,167
Staff welfare expenses		**2,070**	1,672
Equity-settled share award and option expense		**4,266**	1,163
		74,773	46,828
Other expenses:			
Foreign exchange loss, net		**–**	31,048
Donation		**9,227**	296
Changes in fair value of financial assets at fair value through profit or loss		**831**	–
Loss on disposal of items of property, plant and equipment		**–**	11
Write-off of items of property, plant and equipment		**551**	–
Others		**146**	79
		10,755	31,434

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

** The write-down of inventories to net realisable value of RMB3,739,000 for the year ended 31 December 2018 (2017: Nil) is included in "Cost of goods sold" in the consolidated statement of profit or loss.

Notes to Financial Statements

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2018	2017
	RMB'000	*RMB'000*
Fees	**516**	–
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**26,682**	4,295
Pension scheme contributions	**160**	142
	26,842	4,437
	27,358	4,437

(a) Independent non-executive directors

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

	2018	2017
	RMB'000	*RMB'000*
Jiong GU	**129**	–
Lin HUA	**129**	–
Ru Rong JI	**129**	–
Yizhen WEI	**129**	–
	516	–

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

Notes to Financial Statements

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

(b) Executive director, a non-executive director and the chief executive

	Salaries, bonuses, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2018			
Executive director:			
Jinzi Jason WU*	**24,983*****	**80**	**25,063**
Judy Hejingdao WU	**1,699**	**80**	**1,779**
	26,682	**160**	**26,842**
2017			
Executive director:			
Jinzi Jason WU	3,001	71	3,072
Judy Hejingdao WU	1,294	71	1,365
	4,295	142	4,437
Non-executive director:			
Wei FU**	–	–	–
	4,295	142	4,437

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

** Wei FU resigned as an independent non-executive director on 24 December 2018.

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

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

Notes to Financial Statements

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: two directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries, bonus, allowances and benefits in kind	**4,346**	3,316
Pension scheme contributions	**80**	218
Equity-settled share award and option expense	**1,531**	723
	5,957	4,257

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

	Number of employees	
	2018	2017
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–
	3	3

During the year, shares and options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 25 to the financial statements. The fair value of such awarded shares and options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

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

Cayman Islands

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

British Virgin Islands

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

Notes to Financial Statements

9. INCOME TAX (Continued)

Hong Kong

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

Mainland China

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), the subsidiaries which operate in Mainland China are subject to CIT at a rate of 25% on the taxable income. Preferential tax treatment is available to Ascletis BioScience and Ascletis Pharmaceuticals, since they were recognised as High and New Technology Enterprises, and were entitled to a preferential tax rate of 15% during the year (2017: 15%).

The income tax expense/(credit) of the Group for the year is analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	–	6,375
Overprovision in prior years	–	(10)
Deferred tax (note 22)	**(125)**	125
Total tax (credit)/charge for the year	**(125)**	6,490

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

	2018	2017
	RMB'000	*RMB'000*
Loss before tax	**(19,870)**	(80,441)
At the PRC's statutory income tax rate of 25%	**(4,968)**	(20,110)
Effect of tax rate differences in other countries	**(15,031)**	(4,557)
Preferential income tax rates enacted by local authority	**8,484**	9,867
Effect of tax concessions and allowances	**(15,463)**	(9,040)
Tax losses not recognised	**22,385**	23,179
Adjustments in respect of current tax of previous periods	–	(10)
Expenses not deductible for tax	**4,468**	796
Effect of capital gain	–	6,365
Tax (credit)/charge at the Group's effective rate	**(125)**	6,490

Notes to Financial Statements

10. DIVIDENDS

On 1 February 2018, the Company declared a dividend of US$9,120,051 (equivalent to RMB57,815,000) to its shareholders (2017: Nil).

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

The calculation of the basic earnings per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, and assuming the capitalisation issue had been completed on 1 January 2017, as further detailed in note 23 to the financial statements. The number of shares for the year has been arrived at after eliminating the shares of the share award scheme.

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

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017.

The calculation of basic loss per share is based on:

	2018	2017
	RMB'000	*RMB'000*
Loss		
Loss attributable to ordinary equity holders of the parent	**(7,258)**	(53,935)

	Number of shares	
	2018	2017
Shares		
Weighted average number of shares in issue during the year	**869,047,787**	597,221,079

Notes to Financial Statements

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2018						
At 1 January 2018:						
Cost	**8,184**	**1,028**	**3,528**	**1,235**	**67,896**	**81,871**
Accumulated depreciation	**(1,082)**	**(613)**	**(1,172)**	**(189)**	**–**	**(3,056)**
Net carrying amount	**7,102**	**415**	**2,356**	**1,046**	**67,896**	**78,815**
At 1 January 2018,net of accumulated depreciation	**7,102**	**415**	**2,356**	**1,046**	**67,896**	**78,815**
Additions	**6,854**	**2,146**	**951**	**–**	**5,912**	**15,863**
Write-off	**(529)**	**–**	**(22)**	**–**	**–**	**(551)**
Depreciation provided during the year	**(4,380)**	**(171)**	**(972)**	**(271)**	**–**	**(5,794)**
Transfers	**69,483**	**–**	**805**	**–**	**(70,288)**	**–**
At 31 December 2018, net of accumulated depreciation	**78,530**	**2,390**	**3,118**	**775**	**3,520**	**88,333**
At 31 December 2018:						
Cost	**83,798**	**3,174**	**5,238**	**1,235**	**3,520**	**96,965**
Accumulated depreciation	**(5,268)**	**(784)**	**(2,120)**	**(460)**	**–**	**(8,632)**
Net carrying amount	**78,530**	**2,390**	**3,118**	**775**	**3,520**	**88,333**
31 December 2017						
At 1 January 2017:						
Cost	7,537	996	2,782	367	39,124	50,806
Accumulated depreciation	(132)	(398)	(451)	–	–	(981)
Net carrying amount	7,405	598	2,331	367	39,124	49,825
At 1 January 2017, net of accumulated depreciation	7,405	598	2,331	367	39,124	49,825
Additions	217	32	800	868	29,202	31,119
Disposals	–	–	(21)	–	–	(21)
Depreciation provided during the year	(950)	(215)	(754)	(189)	–	(2,108)
Transfers	430	–	–	–	(430)	–
At 31 December 2017,net of accumulated depreciation	7,102	415	2,356	1,046	67,896	78,815
At 31 December 2017:						
Cost	8,184	1,028	3,528	1,235	67,896	81,871
Accumulated depreciation	(1,082)	(613)	(1,172)	(189)	–	(3,056)
Net carrying amount	7,102	415	2,356	1,046	67,896	78,815

Notes to Financial Statements

13. INTANGIBLE ASSETS

	Intellectual property *RMB'000*	Software *RMB'000*	Total *RMB'000*
31 December 2018			
At 1 January 2018:			
Cost	**43,010**	**511**	**43,521**
Accumulated amortisation	**(6,926)**	**(78)**	**(7,004)**
Net carrying amount	**36,084**	**433**	**36,517**
Cost at 1 January 2018, net of accumulated amortisation	**36,084**	**433**	**36,517**
Additions	**43,993**	**274**	**44,267**
Amortisation provided during the year	**(6,057)**	**(129)**	**(6,186)**
Exchange realignment	**804**	**–**	**804**
At 31 December 2018	**74,824**	**578**	**75,402**
At 31 December 2018:			
Cost	**88,154**	**785**	**88,939**
Accumulated amortisation	**(13,330)**	**(207)**	**(13,537)**
Net carrying amount	**74,824**	**578**	**75,402**
31 December 2017			
At 1 January 2017:			
Cost	24,280	–	24,280
Accumulated amortisation	(3,848)	–	(3,848)
Net carrying amount	20,432	–	20,432
Cost at 1 January 2017, net of accumulated amortisation	20,432	–	20,432
Additions	20,140	511	20,651
Amortisation provided during the year	(3,364)	(78)	(3,442)
Exchange realignment	(1,124)	–	(1,124)
At 31 December 2017	36,084	433	36,517
At 31 December 2017:			
Cost	43,010	511	43,521
Accumulated amortisation	(6,926)	(78)	(7,004)
Net carrying amount	36,084	433	36,517

Notes to Financial Statements

14. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**47,889**	62,211
Work in progress	**32,138**	–
Finished goods	**3,850**	–
	83,877	62,211

15. TRADE RECEIVABLES AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**56,123**	–
Bills receivable	**1,500**	–
	57,623	–

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the before mentioned and the fact that the Group's trade receivables relate to large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the Reporting Period, based on the invoice date, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Less than 3 months	**56,123**	–

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

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

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

Notes to Financial Statements

16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 **RMB'000**	2017 RMB'000
Value-added tax recoverable	**18,160**	24,999
Prepaid income tax	**1,363**	1,363
Prepayments	**13,721**	21,056
Interest receivable	**10,418**	4,635
Deposits and other receivables	**1,664**	4,078
Prepaid expenses	**3,261**	1,970
	48,587	58,101

Other receivables mainly represent rental and other deposits. An impairment analysis is performed at each reporting date by applying an expected credit loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions. As at 31 December 2018 and 2017, the expected credit loss rate was close to zero.

None of the above assets is either past due or impaired. The financial assets included in the above balances are non-interest-bearing, unsecured and repayable on demand and relate to receivables for which there was no recent history of default.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 **RMB'000**	2017 RMB'000
Investment in financial products, at fair value	**–**	143,831

The above investments represent investments in certain financial products issued by commercial banks in the PRC with expected interest rates ranging from 0.35% to 5% per annum with a maturity period within three months. The fair values of the investments approximate to their costs plus expected interest. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

Notes to Financial Statements

18. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**1,301,468**	106,521
Time deposits	**1,871,781**	504,954
	3,173,249	611,475
Less: Pledged time deposits for bills payable	**–**	(4,108)
Cash and cash equivalents	**3,173,249**	607,367
Denominated in RMB	**266,058**	20,542
Denominated in United States dollars ("US$")	**1,849,651**	586,772
Denominated in Hong Kong dollars ("HK$")	**1,057,534**	47
Denominated in other currencies	**6**	6
Cash and cash equivalents	**3,173,249**	607,367

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

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

19. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**7,635**	8,859
Bills payable	**6,556**	4,108
	14,191	12,967

Notes to Financial Statements

19. TRADE AND BILLS PAYABLES (Continued)

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

	2018 *RMB'000*	2017 *RMB'000*
Within 1 month	**6,913**	8,837
1 to 3 months	**3,984**	–
3 to 6 months	**3,294**	4,130
	14,191	12,967

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

The maturity of the bills payable is within six months.

20. OTHER PAYABLES AND ACCRUALS

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Contract liabilities	(a)	**230**	40,956
Other payables	(b)	**40,071**	24,848
Accrued expenses		**17,354**	1,028
Payroll payable		**15,030**	9,428
Taxes other than income tax		**371**	1
		73,056	76,261

Notes:

(a) Details of contract liabilities are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Sales of products	**230**	–
Collaboration revenue	**–**	40,956
Total contract liabilities	**230**	40,956

Contract liabilities include short-term advances received to deliver products and considerations received while performance obligations have not yet been satisfied. The decrease in contract liabilities in 2018 was mainly due to the completion of collaboration activities.

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

Notes to Financial Statements

21. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government grants		
Current	**6,158**	10,000
Non-current	**6,786**	22,070
	12,944	32,070

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

	2018 RMB'000	2017 RMB'000
At beginning of year	**32,070**	15,824
Grants received during the year	**10,314**	24,246
Amount released	**(29,440)**	(8,000)
At end of year	**12,944**	32,070
Current	**6,158**	10,000
Non-current	**6,786**	22,070
	12,944	32,070

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

Notes to Financial Statements

22. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

	Fair value adjustments arising from financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
At 1 January 2017	–	–
Deferred tax charged to the statement of profit or loss during the year	125	125
At 31 December 2017 and 1 January 2018	125	125
Deferred tax credited to the statement of profit or loss during the year	(125)	(125)
At 31 December 2018	–	–

The Group has tax losses arising in Mainland China of RMB388,706,000 (2017: RMB238,031,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

23. SHARE CAPITAL

	2018	2017
Authorised:		
7,000,000,000 (2017: 500,000,000) ordinary shares of US$0.0001 each		
US$	**700,000**	50,000
Issued and fully paid:		
1,120,685,000 (2017: 14,750,000) ordinary shares of US$0.0001 each		
US$	**112,069**	1,475
RMB	**764,000**	9,000

Notes to Financial Statements

23. SHARE CAPITAL (Continued)

A summary of movements in the Company's issued share capital and share premium is as follows:

	Notes	Number of shares in issue	Share capital *RMB'000*	Share premium account *RMB'000*	Total *RMB'000*
At 1 January 2017, 31 December 2017, and 1 January 2018		14,750,000	9	92,234	92,243
Issue of shares on 4 April 2018	(a)	7,392,693	5	240,493	240,498
Capitalisation issue	(b)	874,405,307	597	(597)	–
Issue of shares on 1 August 2018	(c)	224,137,000	153	2,730,131	2,730,284
Share issue expenses		–	–	(102,871)	(102,871)
At 31 December 2018		1,120,685,000	764	2,959,390	2,960,154

Notes:

(a) On 4 April 2018, a total of 7,392,693 shares of US$0.0001 each were issued for a total cash consideration of US$38,219,146 (equivalent to RMB240,498,000) to new shareholders.

(b) Pursuant to an ordinary resolution passed on 11 July 2018, 874,405,307 shares of US$0.0001 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appeared on the register of members of the Company at the close of business on 11 July 2018 in proportion to their respective shareholdings. This allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (c) below.

(c) In connection with the Company's initial public offering, 224,137,000 ordinary shares of US$0.0001 each were issued at a price of HK$14.00 per share for a total cash consideration, before expenses, of approximately HK$3,137,918,000 (equivalent to RMB2,730,284,000). Dealings in these shares on the Stock Exchange commenced on 1 August 2018.

Notes to Financial Statements

24. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity of the Group.

Statutory reserve

In accordance with the Company Law of the PRC, the subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC GAAP, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

25. SHARE AWARD

Restricted Stock Unit Scheme

On 14 July 2016, Zande Investment and Management LLP ("Zande") entered into an equity interest subscription agreement with PowerTree, pursuant to which Zande subscribed for approximately 2.44% equity interest in Ascletis BioScience for a cash consideration of US$312,220. Subsequently on 2 August 2016, Zande, Hangzhou Zanqin Investment and Management LLP ("Zanqin"), Hangzhou Zanwei Investment and Management LLP ("Zanwei") and Hangzhou Zanfang Investment and Management LLP ("Zanfang") (collectively, the "PRC Share Incentive Entities") and PowerTree entered into an equity interest subscription agreement with Ascletis BioScience, pursuant to which Zanqin, Zanwei, Zanfang, Zande and PowerTree agreed to subscribe for approximately 1.18%, 1.18%, 1.18%, 0.25% and 10.08% equity interest in Ascletis BioScience, respectively, at cash consideration of RMB2,319,581, RMB2,319,581, RMB2,319,581, RMB497,045 and US$3,133,689, respectively. The considerations were determined based on fair market value at that time. The purpose to establish the PRC Share Incentive Entities was to reserve equity interest for future employee incentive plans. Ms. Heying YANG, being a supervisor of Ascletis BioScience and the mother of a director, as the general partner, and the Group's employees, each as a limited partner, subscribed for equity interest in Zanqin and Zanwei by way of entering into partnership agreement.

On 15 March 2018, JJW11 Limited was incorporated in the BVI. The purpose for its incorporation is to set up an offshore share incentive platform to replace the PRC Share Incentive Entities and to hold incentive shares for the participants of the employee incentive plans. For any participant who had subscribed for equity interest in the PRC Share Incentive Entities, the amount of the award is determined based on his/her previous interest in such PRC Share Incentive Entities. There is no significant change to the terms of the employee incentive plans.

Notes to Financial Statements

25. SHARE AWARD (Continued)

Restricted Stock Unit Scheme (Continued)

The employees of the Group shall not have any right to receive any shares awarded to them and all other interest attributable thereto unless and until the shares have transferred the legal and beneficial ownership of such awarded shares to them and the legal and beneficial ownership of those awarded shares vested in them. When the participant ceased to be the Group's employee, the unvested shares would be retained by the partnerships.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares and is determined using an option pricing model, adjusted for the exclusion of expected dividends to be received in the vesting period.

Pursuant to share award on 9 July 2016, equity interest in Ascletis BioScience was granted to a selected employee at a consideration of RMB100,000 and the earliest vesting date is 9 July 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 21 December 2016, equity interest in Ascletis BioScience was granted to 5 selected employees at a total consideration of RMB319,000 and the earliest vesting date is 21 December 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 25 June 2017, equity interest in Ascletis BioScience was granted to 19 selected employees at a total consideration of RMB486,000 and the earliest vesting date is 25 June 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 18 December 2017, equity interest in Ascletis BioScience was granted to 67 selected employees at a total consideration of RMB2,750,000 and the earliest vesting date is 18 December 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to share award on 12 March 2018, equity interest in Ascletis BioScience was granted to a selected employee at a total consideration of RMB420,000 and the earliest vesting date is 12 March 2023. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

During the year, a share award expense of RMB3,225,000 was charged to the consolidated statement of profit or loss (2017: RMB1,163,000).

Notes to Financial Statements

25. SHARE AWARD (Continued)

Restricted Stock Unit Option Incentive Scheme

The shareholder of the Company, JJW11 Limited, adopted a Restricted Stock Unit Option Incentive Scheme on 8 August 2018 (the "Scheme"). The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include senior management members who serve as directors, supervisors, presidents, vice presidents, financial managers and board secretaries at the Group as well as other core technical personnel, key personnel or other natural persons or entities that were or will be important to the development of the Group.

Subject to any early termination as may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of twelve years commencing on the 8 August 2018 (the "Adoption Date").

The director of JJW11 Limited (or its authorised person) (the "Option Manager") shall have the full and absolute management right over the operation of the Scheme, including but not limited to the absolute discretion in matters such as the grant, vesting, exercise, cancellation and validity period of options.

The grantees shall only be entitled to the property rights expressly specified in the Scheme in relation to the restricted stock units acquired from the exercise of their options, and shall not be entitled to any voting rights or any other shareholders' rights of JJW11 Limited and the Company. The Option Manager shall have the absolute right to exercise the voting rights attached to the Company's shares held by JJW11 Limited and any other shareholders' rights on behalf of JJW11 Limited.

Options granted to the grantees shall not be exercised within 3 years from the date of signing the option incentive agreement under the Scheme. 60% of the options granted shall become exercisable by the grantees between 3 years (inclusive of the 3rd anniversary) and 4 years (exclusive of the 4th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units; 80% of the options granted shall become exercisable by the grantees between 4 years (inclusive of the 4th anniversary) and 5 years (exclusive of the 5th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units; 100% of the options granted shall become exercisable by the grantees after 5 years (inclusive of the 5th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units.

Notes to Financial Statements

25. SHARE AWARD (Continued)

Restricted Stock Unit Option Incentive Scheme (Continued)

The option exercise price shall be agreed in writing at the time the grantees sign the option incentive agreement with JJW11 Limited, and the grantees may choose (a) to deliver the option exercise price to the Option Manager at the point when the options are exercised, and request the Option Manager to continue to manage the underlying restricted stock units associated with the exercised Options, or (b) to deduct the option exercise price from the proceeds from the transfer of the underlying the Company's shares immediately following the exercise of the options.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January 2018	–	–
Granted during the year	**3.2807**	**1,357**
At 31 December 2018	**3.2807**	**1,357**

The exercise prices and exercise periods of the share options outstanding as at the end of the Reporting Period are as follows:

2018

Number of options *'000*	Exercise price *HK$*	Exercise period
200	3.2807	2021/10/15-2030/10/14
60	3.2807	2021/10/22-2030/10/21
1,097	3.2807	2021/11/12-2030/11/11
1,357		

The fair value of the options granted during the year was HK$29,123,000 (HK$21.46 each) (2017: Nil), of which the Group recognised a share option expense of RMB1,041,000 (2017: Nil) during the year ended 31 December 2018.

Notes to Financial Statements

25. SHARE AWARD (Continued)

Restricted Stock Unit Option Incentive Scheme (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2018
Dividend yield (%)	**0.00**
Expected volatility (%)	**83.18**
Risk-free interest rate (%)	**2.47**
Expected life of options (year)	**2.80**
Weighted average share price (HK$ per share)	**7.64**
Forfeiture rate (%)	**0.00**

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

26. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
Ascletis BioScience	–	33.39%

	2018 *RMB'000*	2017 *RMB'000*
Loss for the year allocated to non-controlling interests:		
Ascletis BioScience	**(12,487)**	(32,996)
Accumulated balances of non-controlling interests at the reporting date:		
Ascletis BioScience	–	272,870

Notes to Financial Statements

26. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2018 *RMB'000*	2017 *RMB'000*
Revenue	**8,256**	33,032
Total expenses	**(51,422)**	(131,970)
Loss for the year	**(43,166)**	(98,938)
Total comprehensive loss for the year	**(43,166)**	(98,938)
Current assets	**–**	816,024
Non-current assets	**–**	98,253
Current liabilities	**–**	(74,861)
Non-current liabilities	**–**	(22,195)
Net cash flows from operating activities	**–**	292,003
Net cash flows used in investing activities	**–**	(644,542)
Net cash flows from financing activities	**–**	481,795
Net increase in cash and cash equivalents	**–**	129,256

During the year, the Group acquired 33.39% interests in Ascletis BioScience from non-controlling shareholders.

27. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest payable *RMB'000*
At 1 January 2017	317
Changes from financing cash flows	(317)
At 31 December 2017, 1 January 2018 and 31 December 2018	–

Notes to Financial Statements

28. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to four years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Within one year	**2,979**	1,961
In the second to third years, inclusive	**4,111**	2,843
After three years	**–**	1,050
	7,090	5,854

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28, the Group had the following capital commitments at the end of the Reporting Period:

	2018 ***RMB'000***	2017 *RMB'000*
Contracted, but not provided for:		
Plant and machinery	**11,517**	1,769

Notes to Financial Statements

30. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the year:

	Note	**2018** *RMB'000*	2017 *RMB'000*
Receipt of repayment of loans to a supervisor:			
Heying YANG	(i)	**–**	4,340
Interest income from a supervisor:			
Heying YANG	(i)	**–**	69

Note:

(i) The loans to a supervisor were unsecured, bore interest at 4.35% per annum and repayable on demand.

(b) Compensation of key management personnel of the Group:

	2018 *RMB'000*	2017 *RMB'000*
Short term employee benefits	**31,288**	5,376
Pension scheme contributions	**268**	213
Equity-settled share award and option expense	**1,760**	364
Total compensation paid to key management personnel	**33,316**	5,953

Further details of directors' and chief executive's remuneration are included in note 7 to the financial statements.

Notes to Financial Statements

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Reporting Period are as follows:

2018

Financial assets

	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills receivables	57,623	57,623
Financial assets included in prepayments, other receivables and other assets	12,082	12,082
Cash and cash equivalents	3,173,249	3,173,249
	3,242,954	3,242,954

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills payables	14,191	14,191
Financial liabilities included in other payables and accruals	57,425	57,425
	71,616	71,616

Notes to Financial Statements

31. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the Reporting Period are as follows: (continued)

2017

Financial assets

	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
Financial assets included in prepayments, other receivables and other assets	8,713	–	8,713
Financial assets at fair value through profit or loss	–	143,831	143,831
Pledged time deposits	4,108	–	4,108
Cash and cash equivalents	607,367	–	607,367
	620,188	143,831	764,019

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills payables	12,967	12,967
Financial liabilities included in other payables and accruals	25,876	25,876
	38,843	38,843

Notes to Financial Statements

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair values

All the carrying amounts of the Group's financial instruments approximate to their fair values. Management has assessed that the fair values of cash and cash equivalents, pledged time deposits, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the finance director. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance director. The valuation process and results are discussed with the directors once a year for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the financial assets at fair value through profit or loss have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Notes to Financial Statements

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Financial assets at fair value through profit or loss:				
Investments in financial products	–	143,831	–	143,831
	–	143,831	–	143,831

The Group did not have any financial assets measured at fair value as at 31 December 2018.

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 (2017: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Notes to Financial Statements

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2018			
If RMB weakens against US$	5	92,483	92,483
If RMB strengthens against US$	(5)	(92,483)	(92,483)
If RMB weakens against HK$	5	52,877	52,877
If RMB strengthens against HK$	(5)	(52,877)	(52,877)
2017			
If RMB weakens against US$	5	29,339	29,339
If RMB strengthens against US$	(5)	(29,339)	(29,339)

Credit risk

The Group trades only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 15 and 16 to the financial statements.

To manage this risk arising from cash and cash equivalents, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

Notes to Financial Statements

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the year, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2018				
	On demand	**Less than 1 month**	**1 to less than 12 months**	**1 to 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Trade and bills payables	**723**	**–**	**13,468**	**–**	**14,191**
Financial liabilities included in other payables and accruals	**48,816**	**–**	**8,609**	**–**	**57,425**
	49,539	**–**	**22,077**	**–**	**71,616**

	As at 31 December 2017				
	On demand	Less than 1 month	1 to less than 12 months	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	4,130	8,837	–	–	12,967
Financial liabilities included in other payables and accruals	25,876	–	–	–	25,876
	30,006	8,837	–	–	38,843

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

Notes to Financial Statements

34. EVENTS AFTER THE REPORTING PERIOD

(a) On 12 January 2019, a wholly-owned subsidiary of the Company, Ascletis BioScience, and Suzhou Alphamab Co., Ltd. ("Alphamab") entered into a strategic partnership agreement pursuant to which, Alphamab had licensed Ascletis BioScience and its affiliates the exclusive rights in Greater China to develop and commercialise ASC22 (KN035), an investigational programmed cell death ligand-1 (PD-L1) antibody, for the treatment of Hepatitis B and other viral diseases (the "Collaboration"). Under the agreement, Ascletis BioScience will pay Alphamab an upfront payment and Alphamab will be eligible to receive potential milestone payments in relation to the Collaboration. In addition, Alphamab will also be eligible to receive tiered royalties from the mid-teens to around twenty percent on future sales of ASC22 resulting from the Collaboration. Alphamab will manufacture ASC22 for clinical trials and commercialisation of viral indications in Greater China for Ascletis BioScience. For ASC22 in viral indications worldwide outside Greater China, Ascletis BioScience will be eligible to share certain economic interests such as upfront, milestone payments and royalties, depending on the development and regulatory status of ASC22 inside Greater China.

(b) On 12 February 2019, Ascletis BioScience and 3-V Biosciences Inc. ("3-V Biosciences"), a clinical-stage pharmaceutical company developing novel therapeutics in metabolic diseases, focusing on non-alcoholic steatohepatitis (NASH) and oncology, entered into an exclusive licensing agreement (the "Licensing Agreement"), pursuant to which, 3-V Biosciences granted Ascletis BioScience and its affiliates exclusive rights in Greater China to develop, manufacture and commercialise 3-V Biosciences' fatty acid synthase (FASN) inhibitor ASC40 (TVB-2640), a first-in-class, Phase 2-ready drug candidate for NASH. Under the Licensing Agreement, 3-V Biosciences will be entitled to receive development and commercial milestone payments as well as tiered royalties on future net sales of ASC40 (TVB-2640). In addition, in conjunction with the Licensing Agreement, 3-V Biosciences raised US$18 million in a series E financing (the "Financing"), through a financing agreement (the "Financing Agreement") entered into with the investors, which was closed on 12 February 2019. The Financing was led by a new investor AP11 Limited ("AP11"), a wholly-owned subsidiary of the Company, and joined by 3-V Biosciences' existing investors including New Enterprise Associates, Inc. and Kleiner Perkins. Qianhai Ark (Cayman) Investment Co. Limited also joined AP11 as a new investor in the Financing. All the investors to the Financing have committed to fund an additional US$7 million in aggregate in a subsequent financing. Under the Financing Agreement, AP11 acquired a minority stake in 3-V Biosciences through an investment in an amount up to US$10 million (the "Investment"). The Investment will be used by 3-V Biosciences to support the continued development of TVB-2640, including Phase 2 trials for NASH in the United States and Mainland China. For details, please refer to "Voluntary Announcement - NASH Strategic Licensing and Series E Financing Agreements with 3-V Biosciences" of the Company's announcement dated February 13, 2019.

Notes to Financial Statements

35. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the Reporting Period is as follows:

	2018 *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS		
Intangible assets	**16,301**	17,382
Investment in a subsidiary	**456,529**	104,100
Total non-current assets	**472,830**	121,482
CURRENT ASSETS		
Prepayments, other receivables and other assets	**9,600**	—
Cash and cash equivalents	**2,626,753**	382
Total current assets	**2,636,353**	382
CURRENT LIABILITIES		
Other payables and accruals	**35,662**	24,446
Total current liabilities	**35,662**	24,446
NET CURRENT ASSETS/ (LIABILITIES)	**2,600,691**	(24,064)
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,073,521**	97,418
Net assets	**3,073,521**	97,418
EQUITY		
Share capital	**764**	9
Reserves (note)	**3,072,757**	97,409
Total equity	**3,073,521**	97,418

Notes to Financial Statements

35. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	92,234	–	27,170	(32,664)	86,740
Profit for the year	–	–	–	18,234	18,234
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	(7,565)	–	(7,565)
Total comprehensive income for the year	–	–	(7,565)	18,234	10,669
At 31 December 2017	92,234	–	19,605	(14,430)	97,409
At 31 December 2017 and 1 January 2018	92,234	–	19,605	(14,430)	97,409
Profit for the year	–	–	–	120,743	120,743
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	–	–	39,834	–	39,834
Total comprehensive income for the year	–	–	39,834	120,743	160,577
Issue of shares	2,970,624	–	–	–	2,970,624
Capitalisation issue	(597)	–	–	–	(597)
Share issue expenses	(102,871)	–	–	–	(102,871)
Equity-settled share award and option arrangements	–	5,430	–	–	5,430
Dividend declared and paid	–	–	–	(57,815)	(57,815)
At 31 December 2018	2,959,390	5,430	59,439	48,498	3,072,757

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 23 March 2019.

Definitions

"AGM"	annual general meeting of the Company
"Ascletis" or "Company"	Ascletis Pharma Inc., a company incorporated in the Cayman Islands with limited liability on February 25, 2014
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of directors of the Company
"CAGR"	compound annual growth rate
"CFDA"	China Food and Drug Administration (國家食品藥品監督管理總局), predecessor of CDA
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"China", "Mainland China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this annual report, Hong Kong, Macau Special Administrative Region and Taiwan
"Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Dr. Wu, Mrs. Wu, Lakemont Holding LLC and the Lakemont 2018 GRAT, as a group, or any member of them
"Core Product(s)"	has the meaning ascribed to it in Chapter 18A of the Listing Rules; for purposes of this annual report, our Core Products include Ganovo® (Danoprevir), Ravidasvir, ASC09 and ASC06
"Director(s)"	the director(s) of the Company
"Dr. Wu"	Dr. Jinzi Jason WU (吳勁梓), our Founder and the spouse of Mrs. Wu, chairman of the Board, chief executive officer, an executive Director of the Company, one of our Controlling Shareholders
"Founder"	the founder of our Group, being Dr. Wu
"Group" or "the Group"	the Company and its subsidiaries
"Greater China"	Mainland China, Hong Kong, Macau and Taiwan
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IND"	investigational new drug, an experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved
"KOL(s)"	Key opinion leader(s)

Definitions

"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange on August 1, 2018
"Listing Date"	August 1, 2018, being the date on which the Shares were listed on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"MAH"	Pilot Plan for the Drug Marketing Authorization Holder Mechanism (《藥品上市許可持有人制度試點方案》) issued by State Counsel on May 26, 2016
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Mrs. Wu"	Mrs. Judy Hejingdao WU, an executive Director, one of our Controlling Shareholders and the spouse of Dr. Wu
"Prospectus"	the prospectus issued by the Company dated July 20, 2018
"R&D"	Research and developement
"Reporting Period"	the one-year period from January 1, 2018 to December 31, 2018
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China
"Roche"	F. Hoffmann-La Roche AG, a Swiss multi-national healthcare company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	ordinary shares in the share capital of our Company of US$0.0001 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S. dollar(s)", "USD" or "US$"	United States dollars, the lawful currency of the United States of America
"Written Guidelines"	the Guidelines for Securities Transactions by Directors adopted by the Company

In this annual report, the terms "associate", "connected person", "controlling shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.