Ascletis Pharma Inc.
歌禮製藥有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1672)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2020

The Board of Directors of Ascletis Pharma Inc. hereby announces the unaudited condensed consolidated interim results of the Group for the six months ended June 30, 2020, together with the comparative figures for the corresponding period in 2019 as follows.

FINANCIAL HIGHLIGHTS

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

CORPORATE PROFILE

Our Mission

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

Overview

Ascletis is focusing on developing and commercializing innovative, first/best-in-class drugs against viral heptatitis, NASH, HIV/AIDS and liver cancer. Led by a management team with deep expertise and a proven track record, Ascletis has developed a fully integrated platform covering the entire value chain from discovery and development to manufacturing and commercialization. As of date of this announcement, Ascletis has commercialized three drugs, namely (i) Ganovo® (Danoprevir), the first direct-acting anti-viral agent for Hepatitis C developed domestically for China; (ii) Pegasys® (Peginterferon alfa-2a), a well-established pegylated interferon for Hepatitis B and C partnered with Shanghai Roche Pharmaceuticals Ltd. ("**Shanghai Roche**"); and (iii) Asclevir® (Ravidasvir) in combination with Ganovo® (Danoprevir) and ribavirin, forms an all-oral and interferon-free cure for Hepatitis C (the "**RDV/DNV Regimen**"). The NDA for Ravidasvir was approved by the NMPA on July 29, 2020.

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

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

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

- completed Phase II trial of the first-in-class fatty acid synthase (FASN) inhibitor for NASH, with a 61% responder rate in the 50mg cohort;

- received IND approval on January 22, 2020 and dosed first HBV patient in Phase IIa clinical trial of ASC22, a subcutaneously administered PD-L1 antibody;

- completed bridging study of ASC18, an in-house developed one-pill, once-a-day fixed dose combination as a complete HCV oral regimen;

- received IND approval for ASC41 on May 13, 2020, an orally bioavailable, highly selective small molecule THR-β agonist, developed in-house, for the treatment of NASH;

- received IND approval for ASC09F on April 13, 2020, an in-house developed fixed dose combination for HIV;

- progressed ASC42, an in-house developed Farnesoid X Receptor (FXR) agonist with best-in-class potential, into IND ready asset; and

- completed first clinical study using HCV protease inhibitor Ganovo® (Danoprevir) to treat naïve and experienced COVID-19 patients.

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

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

HCV

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

HBV

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

HIV

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From/ In-house	Commercial Rights
Protease	Ritonavir								In-house	Global
Protease	ASC09F (ASC09/Ritonavir FDC)								In-house	Mainland China and Macau

COVID-19

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

NASH

Target	Products/Drug Candidate	Pre-IND	IND Approval	Phase I	Phase II	Phase III	NDA Filed	Marketed	Licensed From/ In-house	Commercial Rights
FASN	ASC40								SAGIMET	Greater China
THR-beta	ASC41								In-house	Global
FXR	ASC42								In-house	Global

Liver Cancer

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of 2020, the Group made remarkable progress with respect to its business.

Commercialized Products

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

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

  Pegasys® is a long-acting modified form of interferon (IFN), a naturally occurring protein produced by the body to fight viruses, approved to treat Hepatitis B and C. Shanghai Roche had sold and promoted Pegasys®, a leading pegylated interferon treatment for more than 15 years in China and is well recognized and accepted by the clinical community. We began our exclusive sales and promotion of Pegasys® in Mainland China from December 1, 2018 and recorded RMB30.8 million income from the marketing promotion of Pegasys® during the Reporting Period.

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

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

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

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

- **NDA approval for Ravidasvir**

  Ravidasvir is our next generation and pan-genotypic NS5A inhibitor with a high genetic barrier to resistance. Ravidasvir, when administered, in combination with Ganovo® (Danoprevir) and ribavirin, or the RDV/DNV Regimen, forms an all-oral and interferon-free cure for Hepatitis C. Our phase II/III clinical trial has shown that 12-week RDV/DNV Regimen demonstrated a superior cure rate of 99% (SVR12) and a good safety profile. For patients with baseline NS5A resistance mutations, our Phase II/III clinical trial showed that the RDV/DNV Regimen demonstrated a cure rate of 100% (SVR12). With the approval of our first all oral HCV regimen, the RDV/DNV Regimen, we expect our HCV franchise to be more competitive in the near future.

- **Capability of commercialization**

  The Group has demonstrated strong development capability and established a solid commercial presence in China in the area of hepatitis. As of June 30, 2020, the Group has built a commercialization team of approximately 135 members, covering approximately 1,000 hospitals and pharmacies strategically located in regions where Hepatitis C and B are most prevalent in China. Our commercial team has identified and educated approximately 6,000 specialists and KOLs in the hepatitis field. We have entered into 19 distribution agreements with different distributors that cover 368 direct-to-patient (DTP) pharmacies, hospital-linked pharmacies and other pharmacies through our distributors, either directly or through their sub-distributors.

Drug Candidates in The Pipeline

NASH

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

- **ASC40**

  Phase II NASH drug candidate. ASC40 is an orally bioavailable, first-in-class inhibitor of FASN. FASN is a key enzyme in the DNL pathway and catalyzes the biosynthesis of palmitate, which can then undergo further modifications into other fatty acids and complex lipids. Dysregulation of FASN activity is found in a number of different diseases, including liver diseases and cancer. Non-alcoholic fatty liver disease (NAFLD) and the more advanced disease of NASH can progress to significant liver diseases, including cirrhosis and hepatocellular carcinoma. The preliminary data shows that ASC40 significantly reduced liver fat, as the primary efficacy endpoint of this trial, with a 61% responder rate in the 50mg group. Participants also showed improvement in markers of liver function and fibrosis. A single-dose, pharmacokinetic bridging study of NASH drug candidate ASC40 on 34 subjects in China has been completed and data indicates that key pharmacokinetic parameters (C_{max}, AUC, T_{max} and $t_{1/2}$) are consistent between subjects in China and in the United States.

- **ASC41**

  ASC41 is an orally bioavailable, highly selective small molecule THR-β agonist for the treatment of NASH which is developed in-house by the Group. In mouse NASH model, ASC41 can reduce up to 45% NAS score and 25% liver fibrosis score. ASC41 is expected to be used alone or in combination with ASC40 or ASC42. IND for ASC41 was approved by NMPA on May 13, 2020 to conduct clinical trials of NASH indication.

- **ASC42**

  ASC42 is a potent FXR agonist developed in-house. We expect to file IND in the second half of 2020.

HBV

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

- **ASC22**

  Phase II PD-L1 antibody for Hepatitis B cure. ASC22 (Envafolimab), as a PD-L1 single domain antibody fragment crystallizable (Fc) fusion, has the advantages of subcutaneous injection and good stability at room temperature. ASC22 is differentiated from other PD-1 or PD-L1 antibodies since it is the only late-stage monoclonal antibody against PD-1 or PD-L1, which is subcutaneously administered and room temperature stable with clinical safety data from more than 1,000 patients of oncology indications. These characteristics would be of great value to improve patients' compliance to treatment and quality of life. ASC22 is a potential global first-in-class immunotherapy to offer clinical cure for chronic Hepatitis B infections and can serve as a cornerstone therapy in combination with other novel therapies to clinically cure HBV. The Group recently finished dosing of the first HBV patient in Phase IIa clinical trial of ASC22 (Envafolimab).

- **Candidates identified**

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

HCV

- **ASC18**

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

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

HIV/AIDS

- **ASC09F**

  ASC09F is a potential best-in-class protease inhibitor to treat HIV type-1 infections. ASC09F has an unprecedented high genetic barrier to resistance and has completed Phase I and Phase IIa clinical trials, which have shown potent anti-viral activity. Our studies have shown that ASC09F requires seven mutations before HIV develops resistance to ASC09F, indicating ASC09F to have high genetic barrier to resistance compared to other approved protease inhibitors. Lopinavir, an HIV protease inhibitor, has been approved to market in China. Lopinavir has a relatively low genetic barrier to resistance, and therefore has lower efficacy for protease-inhibitor resistant HIV patients. In addition, compared to Darunavir, a best-in-class protease inhibitor among approved protease inhibitors globally, virological studies suggest that ASC09F is a promising candidate for 72% clinical isolates resistant to Darunavir. The clinical trials have also shown that ASC09F is safe and well-tolerated. These characteristics make ASC09F a promising HIV drug therapy candidate for both treatment-naïve and treatment-experienced patients.

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

Others

- **COVID-19**

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

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

- **Pre-clinical programs**

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

The Group's Facilities

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

As of June 30, 2020, we had nine subsidiaries, all of which are wholly owned by us. Our business was mainly conducted in China through three of our five onshore operating subsidiaries, being Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司), Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司) and Gannex Pharma Co., Ltd (甘萊製藥有限公司).

Future and Outlook

In the second half of 2020 and beyond, we will be focusing on:

- Global development of our three NASH assets: NASH is a complicated metabolic disease which involves multiple targets and mechanisms. The Group's three NASH assets target three different mechanisms of NASH: FASN, THR-β and FXR. These three assets have potential to be used alone or in combination to treat NASH. Since NASH is a global disease, the Group will focus on clinical development in USA, Europe and China.

- Continuing effort to build HBV franchise leading to clinical cure: since clinical cure needs combination therapies, marketed Pegasys® and subcutaneously injected PD-L1 antibody ASC22 can be used as cornerstones. The potential combination therapies might include but not limited to: (i) in-house developed human targets; and (ii) collaboration with other industry leaders in HBV clinical cure.

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

- Sustainable HCV franchise to maximize sales: we will focus more on recently approved Ravidasvir/Danoprevir all-oral and interferon-free regimen. The Group recently completed Phase I bridging study of ASC18, a one-pill, once-a-day FDC, which will further enhance Group's competitiveness in HCV marketplace.

- Expansion of portfolio: with the IND approval of ASC09F and clinical trial ongoing, the Group will be focusing on the opportunities to expand our HIV/AIDS portfolio.

Financial Review

Revenue

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

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

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

Cost of Sales

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

The cost of sales of the Group consists of direct labor costs, cost of raw materials, overhead, the royalty fee to Roche, the cost of rendering promotion services and the impairment of inventories.

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

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

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

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

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

Gross Profit

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

Other Income and Gains

The other income and gains of the Group decreased by 1.0% from approximately RMB58.9 million for the six months ended June 30, 2019 to approximately RMB58.4 million for the six months ended June 30, 2020, primarily because (i) bank interest income was RMB28.1 million for the six months ended June 30, 2020 and RMB33.3 million for the six months ended June 30, 2019; (ii) the

Group recorded RMB24.3 million in government grants for the six months ended June 30, 2020 and RMB25.6 million for the six months ended June 30, 2019, respectively; and (iii) net foreign exchange gain was RMB5.9 million for the six months ended June 30, 2020, mainly arising from the translation of the U.S. dollar dominated-cash portion into Renminbi due to the appreciation of U.S. dollar against Renminbi.

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

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

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

Selling and Distribution Expenses

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

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

Administrative Expenses

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

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

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

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

Research and Development Expenses

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

The research and development expenses of the Group decreased by 19.4% from approximately RMB64.2 million for the six months ended June 30, 2019 to approximately RMB51.7 million for the six months ended June 30, 2020, for developing our drug candidates.

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

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

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

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

Note:

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

Finance costs

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

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

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

Other Expenses

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

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

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

Income Tax

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

The Group calculates the income tax expense by using the tax rate that would be applicable to the expected total annual earnings.

The Group did not incur any income tax expense as the Group did not generate taxable income for the six months ended June 30, 2019 and the six months ended June 30, 2020.

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

Inventories

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

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

Trade Receivables

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

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

The Group's trading terms with its customers are mainly on credit. The credit period is generally from 30 days to 360 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. In view of the before mentioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

Prepayments, Other Receivables and Other Assets

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

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

Our value-added tax recoverable represented value-added taxes paid with respect to our procurement that can be credited against future value-added tax payables. Our value-added tax recoverable increased from approximately RMB13.2 million as of December 31, 2019 to approximately RMB14.0 million as of June 30, 2020, which was in line with our increased purchases of service and raw materials.

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

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

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

Fair Value and Fair Value Hierarchy of Financial Instruments

We did not have financial instruments other than those with carrying amounts that reasonably approximate to fair value, as at the end of June 30, 2020 and December 31, 2019.

Cash and Cash Equivalents

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

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

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

Trade and Other Payables

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

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

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

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

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

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

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

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

The accrued expenses as at June 30, 2020 mainly represented the R&D expenses actually incurred but not yet invoiced, which are non-interest-bearing and due within one year.

Deferred Income

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

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

Other Intangible Assets

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

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

The useful economic lives of these intangible assets are 10 to 17 years, which we consider to be reasonable considering that the duration of the patent right is shorter than the anticipated duration of sales of product. The amortization of intangible assets begins on the transfer date of patent because it is the date from which the intangible assets are available for use by us.

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

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

Liquidity and Capital Resources

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

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

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

As at June 30, 2020, cash and cash equivalents were mainly denominated in Renminbi, United States dollars and Hong Kong dollars.

Operating Activities

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

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

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

Investing Activities

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

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

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

Financing Activities

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

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

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

Capital Expenditures

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

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

Significant Investments, Material Acquisitions and Disposals

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

Indebtedness

Borrowings

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

As at June 30, 2020, the Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

Contingent Liabilities, Charges of Assets and Guarantees

As at June 30, 2020, the Group were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, and did not have any contingent liabilities, that, we expected would materially adversely affect our business, financial position or results of operations.

Contractual Commitments

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

The Group had nil operating lease commitments as at June 30, 2020 and December 31, 2019, respectively.

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

Gearing Ratio

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

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

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

Notes:

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

Our current ratio increased from 36.4 as of December 31, 2019 to 46.3 as of June 30, 2020, and our quick ratio increased from 35.4 as of December 31, 2019 to 45.1 as of June 30, 2020, primarily due to a decrease in current liabilities.

Foreign Exchange

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

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. The Group seek to limit our exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. During the Reporting Period, the Group did not enter into any currency hedging transactions. The revenue denominated in USD represented 0.0% of the total revenue of the Company for both the six months ended June 30, 2019 and the Reporting Period.

Employees and Remuneration Policies

As at June 30, 2020, the Group had a total of 285 employees, 283 of which were located in the PRC and 2 consultants were located abroad, and over 62.0% of our employees obtained a bachelor's degree or higher. The table below sets forth the Group's employees by function as disclosed:

	Numbers of employees	**% of total**
Management	**5**	2
Research and development	**54**	19
Commercialization	**135**	47
Manufacturing	**47**	17
Operations	**44**	15
Total	**285**	100

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

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

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	30 June 2020 (Unaudited) *RMB'000*	30 June 2019 (Unaudited) *RMB'000*
LOSS FOR THE PERIOD	**(51,465)**	(47,232)
OTHER COMPREHENSIVE LOSS		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**3,381**	1,438
Other comprehensive income that will not to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into presentation currency	**28,225**	2,258
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**31,606**	3,696
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(19,859)**	(43,536)
Attributable to:		
Owners of the parent	**(19,859)**	(43,536)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

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

	30 June 2020 (Unaudited) *RMB'000*	31 December 2019 (Audited) *RMB'000*
NON-CURRENT LIABILITIES		
Lease liabilities	**1,022**	1,587
Deferred income	**12,069**	12,931
Total non-current liabilities	**13,091**	14,518
Net assets	**3,306,862**	3,324,217
EQUITY		
Equity attributable to owners of the parent		
Share capital	**754**	754
Reserves	**3,306,108**	3,323,463
Total equity	**3,306,862**	3,324,217

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

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

	30 June 2020 (Unaudited) *RMB'000*	30 June 2019 (Unaudited) *RMB'000*
Net cash flows used in operating activities	**(17,936)**	(64,434)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant equipment and construction in progress	**(3,488)**	(11,169)
Purchase of intangible assets	**–**	(959)
Proceeds from disposal of items of property, plant and equipment	**6**	–
Investment in an associate	**–**	(54,336)
Increase in time deposits with original maturity of over three months	**(359,129)**	(549,625)
Net cash flows used in investing activities	**(362,611)**	(616,089)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal portion of lease payments	**(933)**	(812)
Interest paid for lease liabilities	**(80)**	–
Net cash flows used in financing activities	**(1,013)**	(812)

	30 June 2020 (Unaudited) *RMB'000*	30 June 2019 (Unaudited) *RMB'000*
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(381,560)**	(681,335)
Cash and cash equivalents at 1 January	**2,295,044**	1,781,892
Effect of foreign exchange rate changes, net	**30,178**	2,399
CASH AND CASH EQUIVALENTS AT 30 JUNE	**1,943,662**	1,102,956
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	**2,996,911**	3,043,938
Non-pledged time deposits with original maturity of over three months when acquired	**(1,053,249)**	(1,940,982)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	**1,943,662**	1,102,956

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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

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

The shares of the Company were listed on the Main Board of The Stock Exchange on 1 August 2018.

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

2.1 Basis of preparation

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

2.2 Changes in accounting policies and disclosures

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

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

(b) Non-current assets

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

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

4. REVENUE

An analysis of revenue is as follows:

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

Disaggregated revenue information for revenue from contracts with customers

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

5. LOSS BEFORE TAX

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

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

6. INCOME TAX

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

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

7. DIVIDENDS

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

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

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

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

The calculation of basic loss per share is based on:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to ordinary equity holders of the parent	**(51,465)**	(47,232)

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of shares in issue during the period	**1,041,390,980**	1,055,739,982

9. PROPERTY, PLANT AND EQUIPMENT

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

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

11. TRADE AND BILLS PAYABLES

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the Reporting Period and to the date of this announcement. 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.

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

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

REVIEW OF INTERIM RESULTS

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

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Jiong GU, Dr. Yizhen WEI, and Ms. Lin HUA. The chairman of the Audit Committee is Mr. Jiong GU. The Audit Committee has jointly reviewed with the management the accounting principles and policies adopted by the Company and financial reporting matters (including the review of the unaudited interim results for the six months ended June 30, 2020) of the Group. The Audit Committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

INTERIM DIVIDEND

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

PUBLICATION OF THE 2020 CONDENSED CONSOLIDATED INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.ascletis.com). The interim report for the six months ended June 30, 2020 containing all the information in accordance with the requirements under the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

DEFINITIONS

"Ascletis", "Company", "the Company" or "We"	Ascletis Pharma Inc. (歌禮製藥有限公司) (an exempted company incorporated in the Cayman Islands with limited liability on February 25, 2014
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of directors of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board

"China", "Mainland China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan
"COVID-19"	an infectious disease caused by the most recently discovered coronavirus (severe acute respiratory syndrome coronavirus 2), first reported in December 2019
"Director(s)"	the director(s) of the Company
"Group" or "the Group"	the Company and its subsidiaries
"Greater China"	Mainland China, Hong Kong, Macau and Taiwan
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IND"	investigational new drug, an experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved
"KOL(s)"	Key opinion leader(s)
"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
"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
"NDA"	new drug application, an application through which the drug sponsor formally proposes that the relevant regulatory authority approve a new drug for sales and marketing
"NMPA"	National Medical Products Administration
"NRDL"	the National Reimbursement Drug List
"R&D"	research and development
"Reporting Period"	the six-month period from January 1, 2020 to June 30, 2020
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China

"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 announcement, 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.

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,
August 28, 2020

As at the date of this announcement, the Board of Directors of the Company comprises Dr. Jinzi Jason WU and Mrs. Judy Hejingdao WU, as executive Directors; and Dr. Yizhen WEI, Mr. Jiong GU and Ms. Lin HUA, as independent non-executive Directors.