基石药业
CSTONE
PHARMACEUTICALS

CStone Pharmaceuticals
基石藥業

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號 : **2616**

2018
Annual Report
年度報告

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Corporate Information

BOARD OF DIRECTORS

Executive Director

Dr. Frank Ningjun Jiang
(Chairman and Chief Executive Officer)

Non-executive Directors

Dr. Wei Li
Mr. Qun Zhao
Mr. Xiaomeng Tong
Mr. Guobin Zhang
Dr. Lian Yong Chen

Independent Non-executive Directors

Dr. Paul Herbert Chew
Mr. Ting Yuk Anthony Wu
Mr. Hongbin Sun

AUDIT COMMITTEE

Mr. Hongbin Sun *(Chairman)*
Dr. Paul Herbert Chew
Mr. Ting Yuk Anthony Wu

COMPENSATION COMMITTEE

Mr. Ting Yuk Anthony Wu *(Chairman)*
Dr. Wei Li
Dr. Paul Herbert Chew

NOMINATION COMMITTEE

Dr. Frank Ningjun Jiang *(Chairman)*
Mr. Xiaomeng Tong
Dr. Paul Herbert Chew
Mr. Ting Yuk Anthony Wu
Mr. Hongbin Sun

STRATEGY COMMITTEE

Dr. Frank Ningjun Jiang *(Chairman)*
Dr. Lian Yong Chen
Dr. Paul Herbert Chew

AUTHORIZED REPRESENTATIVES

Dr. Frank Ningjun Jiang
Ms. Yeung Ching Man

COMPANY SECRETARY

Ms. Yeung Ching Man

REGISTERED OFFICE

The offices of Vistra (Cayman) Limited
P.O. Box 31119, Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

1000 Zhangheng Road
Building 25
Pudong New District
Shanghai, 201203
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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
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183 Queen's Road East
Wanchai
Hong Kong

HONG KONG LEGAL ADVISER

Davis Polk & Wardwell
18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

COMPLIANCE ADVISOR

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

PRINCIPAL BANKERS

Silicon Valley Bank
3003 Tasman Dr.
Santa Clara, CA 95054

China Construction Bank
Industrial Park of Suzhou Branch
No. 1133 Dong Huan Road
Suzhou
PRC

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway Admiralty
Hong Kong

STOCK CODE

2616

COMPANY WEBSITE

www.cstonepharma.com

KEY DATE

Annual General Meeting
June 20, 2019

Financial Highlights

	As at December 31/year ended December 31		
	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*
Cash, cash equivalents and time deposits	**1,462,552**	83,390	59,539
Total assets	**1,632,118**	564,280	826,139
Total liabilities	**1,116,787**	113,228	59,184
Total equity	**515,331**	451,052	766,955
	–	–	–
Other income	**32,102**	13,954	187
Other gains and losses	**(753,584)**	(103,665)	9,185
Research and development expenses	**(850,197)**	(213,441)	(247,121)
Administrative expenses	**(190,991)**	(39,335)	(15,050)
Finance costs	**–**	(60)	(240)
Listing expenses	**(30,459)**	–	–
Loss for the year	**(1,793,129)**	(342,547)	(253,039)
Loss per share			
– Basic and diluted	**(2.79)**	(0.67)	(0.89)

Chairman's Statement

Dear Shareholders,

On behalf of our Board, I am pleased to present the first annual report of the Group for the year ended December 31, 2018 after the successful Listing on the Main Board of the Hong Kong Stock Exchange on February 26, 2019.

2018 was a transformational year for both the biotech industry and our Company. The field of biotechnology was a particularly fast-growing sector of the pharmaceutical industry in the past years. With increasing number of breakthroughs, strong capital support and policy tailwind, biotechnology has the potential to become the core of the pharmaceutical industry and is well-positioned to offer promising prospects for investors.

For CStone, the Listing on the Hong Kong Stock Exchange marked a significant milestone in our strategic development. It was a significant recognition of the Company's solid track record. The Listing also optimized our capital structure to provide the Company with an efficient platform for capital raising. With the proceeds from the Global Offering, the Company will be able to capture greater opportunities in its future development and bring value to Shareholders.

Founded in 2015, our Company is a clinical-stage biopharmaceutical company focused on developing and commercializing innovative immuno-oncology and molecularly targeted drugs to address significant unmet medical needs in cancer treatment. Cancer treatment paradigm is poised to shift towards combo-therapies given significant potential to improve survival and response rate. We have built a rich oncology pipeline with significant mono- and combo-therapy potential and synergies to capture value in the era of combo therapy. Our dual sources of innovation, which are consisted of internal research and external partnership, will provide the Company with a sustainable pipeline in the coming years. With 14 assets, including our three immuno-oncology backbone drug candidates (PD-L1, PD-1 and CTLA-4 antibodies) at clinical stage, we believe that our pipeline has both the scale and the right mix to enable a winning combo-therapy strategy to develop one of the largest oncology combo therapy portfolios among all China-based biopharmaceutical players.

After the Listing, the Company continued to make significant progress on its clinical development strategy. We successfully enrolled and dosed the first patient in a Phase III clinical trial for our leading asset CS1001 for the treatment of gastric adenocarcinoma or gastro-esophageal junction adenocarcinoma, and delivered pre-clinical data of CS1003, another drug candidate in our pipeline that has the unique advantage of recognizing both human and murine PD-1. We have also obtained NMPA's approval for the initiation of a Phase I/II clinical trial in China evaluating Avapritinib in patients with unresectable or metastatic GIST.

Looking forward, we believe that our Company is well positioned to thrive and capitalize on the growing opportunities in the biotechnology industry. We will continue to advance our five pre-clinical assets towards the IND stage and develop new internal assets through our in-house research capability and collaboration with top academic institutions and world-leading contract research organizations. Our vision is to become a globally recognized leading Chinese biopharmaceutical company which brings innovative and differentiated oncology therapies to cancer patients worldwide.

Last but not least, on behalf of the Board, I would like to thank all of our staff and management team for their determination, diligence and dedication. I would also like to extend our heartfelt gratitude for the continued support from our Shareholders and business partners. Together, we have achieved a key milestone in the history of our Company, but the Listing is only the beginning of a greater journey. My team and I are eager to continue improving on what we do best to maintain our position of strength and look forward to sharing the prosperous future of our Company with all of you.

Dr. Frank Ningjun Jiang
Chairman and Chief Executive Officer

Shanghai, PRC, March 22, 2019

BUSINESS REVIEW

As disclosed in our Prospectus, we have made significant progress with respect to our product pipeline:

Core Product Candidate

- Our core product candidate, CS1001, is an investigational monoclonal antibody directed against programmed cell death ligand 1 (PD-L1) that is currently being investigated in pivotal clinical trials in China. As a fully-human, full-length anti-PD-L1 monoclonal antibody, CS1001 mirrors natural G-type IgG4 human antibody, which may potentially reduce the risk of immunogenicity and toxicity in patients, a potential unique advantage and differentiation factor compared to similar drugs. We have initiated a first-in-human Phase I study since October 2017 to evaluate the safety, tolerability, PK and anti-tumor activity of CS1001 in patients with advanced tumors in China. The Phase Ia (dose escalation) portion was completed in May 2018, and the Phase Ib (dose expansion) portion has also been initiated.

- Several pivotal studies are underway in parallel for CS1001, including studies on certain tumor types with high incidence and prevalence rates in China. We have consulted with the NMPA and after reviewing the relevant Phase Ia data, the NMPA confirmed no objection for the initiation of two Phase II trials of CS1001 as a monotherapy for the treatment of cHL and Natural killer/T cell lymphoma (NKTL), respectively, a Phase III clinical trial of CS1001 as a monotherapy for the treatment of Stage III NSCLC and a Phase III clinical trial of CS1001 in combination with standard-of-care therapies for the treatment of Stage IV NSCLC.

- To maximize market occupancy, we are pursuing several large indications in China and have initiated a Phase III trial of CS1001 in patients with Stage III NSCLC as a monotherapy and a Phase III trial in combination with standard-of-care therapies for the treatment of patients with Stage IV NSCLC. We have initiated Phase III trials in combination with standard-of-care therapies in China for the treatment of patients with gastric cancer in the first half of 2019 and HCC or another indication in 2019.

- To capitalize on the significant market opportunity in China, we plan to strategically develop combination therapies of CS1001 with candidates from our internal pipeline and from external partners in major indications. We plan to conduct (i) a Phase I trial of CS1001 in combination with CS3008 (FGFR4 inhibitor) for the treatment of patients with HCC in China in the second half of 2019; (ii) a Phase Ib trial of CS1001 in combination with a PARP inhibitor for the treatment of patients with solid tumors in China in the first half of 2019; (iii) a Phase I trial of CS1001 in combination with CS3002 (CDK4/6 inhibitor) for the treatment of patients with solid tumors or multiple myeloma in China and Australia in the second half of 2019; and (iv) a Phase I trial of CS1001 in combination with CS3003 (HDAC6 inhibitor) for the treatment of patients with solid tumors or multiple myeloma in China and Australia in the second half of 2019, in each case subject to IND approval from the NMPA and the TGA. We are also considering evaluating CS1001 in combination with ivosidenib (CS3010) in indication(s) such as cholangiocarcinoma, with CS3009 (RET inhibitor) in indication(s) such as NSCLC, and with avapritinib (CS3007) in indication(s) such as GIST in each case subject to IND approval from the NMPA.

The chart below shows the indications for which we are evaluating CS1001 in clinical trials as disclosed in our Prospectus:

Indication	Mono-/Combo-Therapy	Status	Location	Study sample size	Expected trial initiation date	Expected trial completion date[2]	Expected NDA submission date	Competent authority	NCT number
Solid tumors	Combo (with a PARP inhibitor) [1]	Ib	China	*	1H2019	*	*	CDE/NMPA	*
Solid tumors and lymphoma	Mono	Ib	China	300	Oct., 2017	2020	*	CDE/NMPA	NCT03312842
HCC	Combo (with CS3008)	I	China	*	2H2019	*	*	CDE/NMPA	*
Solid tumors/ multiple myeloma	Combo (with CS3003)	I	Australia and China	*	2H2019	*	*	TGA and CDE/NMPA	*
Solid tumors	Combo (with CS3002)	I	Australia and China	*	2H2019	*	*	TGA and CDE/NMPA	*
Solid tumors	Mono	I	U.S.	16	Dec., 2018	2019	*	U.S. FDA	NCT03744403
cHL	Mono	II	China	80	Jun., 2018	2019	1H2020	CDE/NMPA	NCT03505996
NKTL	Mono	II	China	80	Jun., 2018	2020	*	CDE/NMPA	NCT03595657
Gastric cancer	Combo (with standard of care)	III	China	*	1H2019	2021	*	CDE/NMPA	*
Stage III NSCLC	Mono	III	China	402	Oct., 2018	2020	*	CDE/NMPA	NCT03728556
Stage IV NSCLC	Combo (with standard-of-care)	III	China	480	Dec., 2018	2020	*	CDE/NMPA	NCT03789604

Abbreviations: cHL = Classical Hodgkin's lymphoma, NKTL = Natural Killer/T cell lymphoma, NSCLC = Non-small cell lung cancer, HCC = Hepatocellular carcinoma, PARP = Poly (ADP-ribose) polymerase.

* = Still in planning phase

Notes:

(1) PARP inhibitor is a product being developed by an independent third party partner and is currently not commercially available.

(2) Denotes the date on which the last patient is enrolled.

Cautionary Statement required by Rule 18A.08(3) of the Listing Rules: WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET CS1001 SUCCESSFULLY.

Other Clinical or IND-stage Candidates

- We obtained an exclusive license from Agios for the development and commercialization of ivosidenib in China, Hong Kong SAR, Macau SAR and Taiwan in June 2018. In collaboration with Agios, we plan to discuss with the NMPA to conduct a bridging trial for IDH1m R/R AML in China to leverage the U.S. FDA data from Agios to support NDA submission in China. Agios is currently evaluating ivosidenib for the first-line treatment of IDH1m AML: (i) a Phase III trial investigating ivosidenib in combination with azacitidine (AGILE trial); and (ii) a Phase III trial investigating ivosidenib or enasidenib in combination with 7+3 chemo regimen (HOVON trial). We expect that the China portion of AGILE trial will be initiated in 2019. The CTA application for AGILE trial was submitted to the NMPA in May 2018 by Agios's agent PPD and the approval was received in August 2018. We also plan to design a China bridging study of ivosidenib as a monotherapy in second line and third line treatment for IDH1m cholangiocarcinoma to support NDA submission. In addition, we plan to explore the combination of ivosidenib with CS1001 or CS1003 in indications such as cholangiocarcinoma.

- We obtained an exclusive license from Blueprint for the development and commercialization of avapritinib (CS3007) in China, Hong Kong SAR, Macau SAR and Taiwan in June 2018. Subject to CTA approval from the NMPA, we expect to conduct the China portions of two global Phase III trials of avapritinib (CS3007) for GIST initiated by Blueprint and such trials will serve as global pivotal trials for third-line and second-line treatment of GIST. We also plan to communicate with the NMPA on a potential trial waiver of avapritinib (CS3007) for the treatment of advanced SM using foreign data from the PATHFINDER study. Since the patient population for advanced SM is relatively small and under urgent medical need, it may increase the possibility of a trial waiver. The expected timeframe of the trial waiver, however, depends on Blueprint's trial timing and there is no guarantee that the trial waiver would be granted. Additionally, we could potentially join the global pivotal study of avapritinib (CS3007) as a monotherapy for indolent SM initiated by Blueprint.

- We obtained an exclusive license from Blueprint for the development and commercialization of CS3009 (RET inhibitor) in China, Hong Kong SAR, Macau SAR and Taiwan in June 2018. We plan to join the dose expansion portion of a global Phase I study of CS3009 (RET inhibitor) in patients with RET-fusion NSCLC, MTC to generate PK, safety and efficacy data for NDA submission in China. We have obtained the approval on our clinical trial application for RET-fusion NSCLC and MTC from the NMPA. We are considering joining two global studies of CS3009 at different line treatment settings for RET-fusion NSCLC, MTC, respectively, to generate data for NDA submission in China. We may also explore the possibility of CS3009 in combination with CS1001 (PD-L1 antibody) or CS1003 (PD-1 antibody) in indications such as NSCLC.

- We obtained an exclusive license from Blueprint for the development and commercialization of CS3008 (FGFR4 inhibitor) in China, Hong Kong SAR, Macau SAR and Taiwan in June 2018. CS3008 (FGFR4 inhibitor) is currently being evaluated by Blueprint in the dose expansion portion of a global Phase I clinical trial in patients with TKI naive HCC. We have evaluated the preliminary data of the trial and believe that CS3008 is a potentially effective drug for the treatment of certain HCC patients. We received CTA approval of CS3008 from the NMPA in January 2019 and will join the dose expansion portion of the global Phase I trial. We also consider joining a planned pivotal global trial for the same indication, if the data from this Phase I clinical trial are positive. In addition, we plan to initiate a Phase I trial of CS3008 in combination with CS1001 in patients with HCC in China in the second half of 2019. If the data from this trial are positive, we plan to conduct a Phase III clinical trial in patients with HCC in 2021.

- We have initiated the dose escalation part of a Phase I trial of CS1002 (CTLA-4 antibody) as a single agent in patients with advanced solid tumors in Australia and plan to initiate the dose escalation part of the Phase I clinical trial of CS1002 in combination with CS1003 for the treatment of patients with solid tumors in Australia in the second half of 2019 subject to IND approval from the TGA. We have received IND approval for CS1002 from the NMPA in August 2018 and plan to initiate a Phase I trial of CS1002 in China for patients with solid tumors in 2019.

- We have initiated the dose escalation part of a Phase I trial of CS1003 (PD-1 antibody) as a monotherapy in patients with advanced solid tumors in Australia and we have received IND clearance from the U.S. FDA in October 2018 to expand this trial to the United States. We have received IND approval for CS1003 from the NMPA in June 2018 and have initiated a bridging Phase I trial in patients with advanced tumors in China. We also plan to conduct (i) a Phase I trial of CS1003 in combination with CS1002 for the treatment of patients with solid tumors in Australia in the second half of 2019; and (ii) a Phase I trial of CS1003 in combination with CS3006 for the treatment of patients with solid tumors in China and Australia in the second half of 2019, in each case subject to IND approval.

- We have received IND approval for CS3006 (MEK inhibitor) from the NMPA in July 2018 and we have initiated a Phase I clinical trial of CS3006 as a single agent for advanced solid tumors in China and enrolled the first patient in October 2018. If the data from these Phase I trials are positive, we plan to conduct a Phase I trial of CS3006 in combination with CS1003 (PD-1 antibody) for the treatment of patients with solid tumors in China and Australia in the second half of 2019, in each case subject to IND approval from the NMPA and TGA.

- Subject to IND approval from the NMPA and TGA, we plan to conduct a Phase I trial of CS3003 (HDAC6 inhibitor) for the treatment of patients with solid tumors or multiple myeloma as a monotherapy and in combination with CS1001 (PD-L1 antibody) in China and Australia in the second half of 2019. We have submitted IND/CTA applications of CS3003 in China and Australia, respectively, in December 2018.

Selected Pre-clinical Candidate

- We plan to conduct a Phase I trial of CS3002 (CDK4/6 inhibitor) for the treatment of patients with solid tumors as a monotherapy in 2019 and subsequently in combination with CS1001 (PD-L1 antibody) or CS1003 (PD-1 antibody) in Australia and/or China.

RESEARCH AND DEVELOPMENT

We focus on the research and development of innovative immune-oncology and molecularly targeted drugs for the treatment of cancer. Our drug discovery and pre-clinical research team conducts drug discovery, formulation development, process development and pre-clinical research of new drug candidates. As of February 11, 2019, we have submitted twenty IND/CTA applications for nine drug candidates and obtained thirteen IND/CTA approvals for eight drug candidates, including two from the U.S. FDA for CS1001 (PD-L1 antibody) and CS1003 (PD-1 antibody) and three from TGA for CS1002 (CTLA-4 antibody), CS1003 (PD-1 antibody) and CS3006 (MEK inhibitor). Our research team will continue to advance the five pre-clinical drug candidates in our pipeline towards IND. We plan to submit one new IND for CS3002 (CDK4/6 inhibitor) in 2019.

As disclosed in our Prospectus, we had 91 clinical development staff in China as at February 11, 2019, most of whom have clinical development experience in multinational companies. Our current clinical development activities mainly relate to the clinical advancement of our nine clinical and IND stage drug candidates. During the last two years, we have initiated eleven clinical trials, including four pivotal trials for our core product candidate, CS1001 (PD-L1 antibody). By the end of 2019, we expect to have approximately 28 ongoing and/or completed trials in China and globally, including approximately 12 combination therapy trials with chemotherapies, molecularly targeted therapies and IO agents.

For the years ended December 31, 2017 and 2018, our research and development expenses were approximately RMB213.4 million and RMB850.2 million, respectively. As of February 11, 2019, we had filed two patent applications in China, and co-filed two patent applications under the Patent Cooperation Treaty, or PCT for material intellectual properties.

FINANCIAL REVIEW

Other Income

Our other income increased by RMB18.1 million from RMB14.0 million for the year ended December 31, 2017 to RMB32.1 million for the year ended December 31, 2018. This was primarily attributable to (i) increases in fair value of money market fund and interests from bank deposits due to funds raised from Series B equity financing and (ii) government grants income received in the year ended December 31, 2018.

Other Gains and Losses

Our other gains and losses increased by RMB649.9 million from losses of RMB103.7 million for the year ended December 31, 2017 to losses of RMB753.6 million for the year ended December 31, 2018. The increase in other losses was primarily attributable to a larger loss on fair value of derivative financial liabilities due to the issuance of Series B preferred shares and the increase in the Company's valuation caused by the possibility of an initial public offering, partially offset by the increase in net foreign exchange gains due to U.S. dollar appreciation and our increased U.S. dollar deposit from Series B equity financing during the year ended December 31, 2018.

	Years ended December 31	
	2018	2017
	RMB'000	*RMB'000*
Gain on fair value changes of other investments classified as financial assets measured at fair value through profit or loss	**1,145**	6,010
Gain on disposal of debt instruments at fair value through other comprehensive income	**1,298**	20
Loss on fair value changes of derivative financial liabilities	**(885,569)**	(79,933)
Loss on disposal of property, plant and equipment	**–**	(287)
Net foreign exchange gains/losses	**129,542**	(29,475)
Total	**(753,584)**	(103,665)

Research and Development Expenses

Our research and development expenses increased by RMB636.8 million from RMB213.4 million for the year ended December 31, 2017 to RMB850.2 million for the year ended December 31, 2018. This increase was primarily attributable to (i) the increase in our licensing fee from nil for the year ended December 31, 2017 to RMB348.7 million for the year ended December 31, 2018, due to our entry into new collaboration and licensing agreements with third-party partners in the year of 2018; (ii) the increase in third party contracting cost by RMB148.5 million from RMB174.6 million for the year ended December 31, 2017 to RMB323.1 million for the year ended December 31, 2018, due to increased research and development outsourcing activities as we conducted more clinical trials for our drug candidates; and (iii) the increase in our employee cost by RMB138.6 million from RMB38.8 million for the year ended December 31, 2017 to RMB177.4 million for the year ended December 31, 2018, due to increased headcount and modifications of the share option vesting schedule and an increase in the share options and restricted shares granted.

	Years ended December 31	
	2018	2017
	RMB'000	*RMB'000*
Employee cost	**177,437**	38,843
Depreciation and amortization	**938**	–
Licensing fee[(1)]	**348,749**	–
Third party contracting cost	**323,073**	174,598
Total	**850,197**	213,441

Note:

(1) Licensing fee relates to (a) the agreement between the Company and Blueprint for the clinical development and commercialization of avapritinib (CS3007), CS3008 (FGFR4 inhibitor) and CS3009 (RET inhibitor) in China, Hong Kong SAR, Macau SAR, and Taiwan, as a monotherapy or in combination with other therapies, and (b) the agreement between the Company and Agios for the clinical development and commercialization of ivosidenib (CS3010) in China, Hong Kong SAR, Macau SAR and Taiwan, as a monotherapy or in combination with other therapies.

Administrative Expenses

Our administrative expenses increased by RMB151.7 million from RMB39.3 million for the year ended December 31, 2017 to RMB191.0 million for the year ended December 31, 2018. This was primarily attributable to (i) an increase of RMB109.9 million in employee cost from RMB22.1 million for the year ended December 31, 2017 to RMB132.0 million for the year ended December 31, 2018 due to increased headcounts, (ii) an increase of RMB18.8 million in professional fees from RMB7.1 million for the year ended December 31, 2017 to RMB25.9 million for the year ended December 31, 2018 due to consulting fees associated with business development activities and (iii) an increase of RMB3.5 million in depreciation and amortization from RMB0.8 million for the year ended December 31, 2017 to RMB4.3 million for the year ended December 31, 2018 due to increased property, plant and equipment in the laboratory in Suzhou.

	Years ended December 31	
	2018	2017
	RMB'000	*RMB'000*
Employee cost	**131,982**	22,057
Professional fees	**25,898**	7,103
Rental expenses	**3,752**	1,934
Depreciation and amortization	**4,336**	821
Others	**25,023**	7,420
Total	**190,991**	39,335

Finance Costs

The RMB0.06 million finance costs during the year ended December 31, 2017 were attributable to the interest expense paid pursuant to the financing arrangement under the relevant research and development contracts. We did not have any finance costs for the year ended December 31, 2018 as such financing arrangement has ended on March 31, 2017.

Listing Expenses

The RMB30.5 million listing expenses for the year ended December 31, 2018 were mainly attributable to legal and professional fees and travel expenses in relation to the Global Offering. We did not incur any listing expenses for the year ended December 31, 2017.

Other Comprehensive Income (Expense)

Our other comprehensive income (expense) changed from expense of RMB1.4 million for the year ended December 31, 2017 to income of RMB1.8 million for the year ended December 31, 2018. This change was primarily attributable to the gain on investments in corporate bonds and treasury bills.

EMPLOYEES AND REMUNERATION POLICIES

As disclosed in our Prospectus, the following table sets forth a breakdown of our employees as at February 11, 2019 by function:

Function	Number	% of Total
Research and Development	116	74
Sales, General and Administrative	41	26
Total	157	100

As of February 11, 2019, we had 115 employees in Shanghai, 16 employees in Suzhou and 26 employees in other regions of China and overseas. Our employees' remuneration comprises salaries, bonuses, employee provident fund and social security contributions and other welfare payments. In accordance with applicable Chinese laws, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees.

LIQUIDITY AND FINANCIAL RESOURCES

On February 26, 2019, 186,396,000 Shares of US$0.0001 each were issued at a price of HK$12.00 per Share in connection with the Company's Listing on the Stock Exchange. The proceeds of HK$146,294.76 representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$2,236,605,705.24 (before deduction of the expenses relating to the Company's IPO) were credited to the share premium account. The translation from U.S. dollar to Hong Kong dollar is made at the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve System of the United States as of February 26, 2019.

On March 21, 2019, the international underwriters of the Global Offering exercised the over-allotment option in full, pursuant to which the Company is required to allot and issue the option shares, being 27,959,000 Shares, representing approximately 15% of the maximum number of shares initially available under the Global Offering, at the offer price under the Global Offering. The net proceeds from the exercise of the over-allotment option were approximately HK$325.42 million (after deducting the commissions and other offering expenses payable by the Company in relation to the exercise of the over-allotment option). The option shares were listed on the Stock Exchange on March 26, 2019.

As of December 31, 2018, our time deposits and cash and cash equivalents were RMB1,462.6 million, as compared to RMB83.4 million as of December 31, 2017. The increase was mainly due to funds we received from our Series B equity financing. Our primary uses of cash are to fund research and development efforts, in-licensing of new drug candidates and working capital and other general corporate purposes.

Gearing Ratio

Gearing ratio is calculated using total liabilities divided by total assets and multiplied by 100%. As at December 31, 2018, our gearing ratio was 68.4% (as at December 31, 2017: 20.1%).

OTHER FINANCIAL INFORMATION

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2018, we did not hold any significant investments. For the Reporting Period, we did not have material acquisitions or disposals of subsidiaries, associates and joint ventures.

Foreign Exchange Risk

Our financial statements are expressed in RMB, but certain of our cash and cash equivalents, time deposits, other receivables, debt instruments measured at fair value through other comprehensive income, other investments classified as financial assets measured at fair value through profit or loss and trade and other payables are denominated in foreign currencies, and are exposed to foreign currency risk. We currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Bank Loans and Other Borrowings

As of December 31, 2018, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, unutilized banking facilities, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees.

Contingent Liabilities

As of December 31, 2018, we did not have any material contingent liabilities.

FUTURE AND OUTLOOK

Our business model is designed to accelerate the development of innovative drugs. We focus on clinical development, which has long been a bottleneck in the innovative drug development value chain in China, through both adaptive clinical trial design and clinical trial operational excellence.

Leveraging our strong internal research capabilities, we continue to identify and develop new drug candidates to advance to clinical stage. We will continue to advance our five pre-clinical assets towards the IND stage and develop new internal assets through our in-house research capability and collaboration with top academic institutions and world-leading CROs.

As disclosed in our Prospectus, China's oncology drug market has grown rapidly in recent years. Revenue of the oncology drugs in China grew from RMB83.4 billion in 2013 to RMB139.4 billion in 2017, representing a CAGR of 13.7%. It is expected to further grow to RMB262.1 billion in 2022 at a CAGR of 13.5% from 2017, and to RMB654.1 billion in 2030 at a CAGR of 12.1% from 2022. While the majority of the top ten oncology drugs globally in 2017 is either molecularly targeted drugs or immuno-oncology drugs, seven out of the top ten oncology drugs in China are chemotherapy drugs and only three are molecularly targeted drugs. This difference between the global market and the China market suggests significant potential for molecularly targeted drug and immuno-oncology drug market growth in China.

We plan to maximize the commercial potential of our four late-stage clinical drug candidates with worldwide or Greater China rights. We plan to add multiple pivotal clinical trials for our late-stage drug candidates by the end of 2019, to continue to advance them to commercialization in China. We have recently assembled our core commercial leadership team that consists of members with extensive experience in the pharmaceutical industry. We will continue to grow our commercial team and evaluate options for partnership to maximize market potential of our assets both in China and globally.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2018, the following significant events took place:

The Company issued and allotted an aggregate of 598,241,649 Shares credited as fully paid at par on the Listing Date to the holders of Shares and Preferred Shares on the register of members of the Company in the Cayman Islands at the close of business on the business day preceding the Listing Date, in proportion to their respective shareholdings prior to Listing.

On February 26, 2019, our Company successfully listed on the Main Board of the Stock Exchange at the offer price of HK$12 per share. The gross proceeds and the estimated net proceeds, not taking into account any possible exercise of the over-allotment option, amounted to HK$2,236.8 million and HK$2,073.89 million respectively. On March 21, 2019, the international underwriters of the Global Offering exercised the over-allotment option in full, pursuant to which the Company is required to allot and issue the option shares, being 27,959,000 Shares, representing approximately 15% of the maximum number of shares initially available under the Global Offering, at the offer price under the Global Offering. The net proceeds from the exercise of the over-allotment option were approximately HK$325.42 million (after deducting the commissions and other offering expenses payable by the Company in relation to the exercise of the over-allotment option). The option shares were listed on the Stock Exchange on March 26, 2019.

Details of the use of proceeds are set out in the section headed "Report of the Directors - Use of Proceeds from the Global Offering" in this report.

DIRECTORS

Executive Director

Dr. Frank Ningjun Jiang, M.D., Ph.D., aged 58, has been our CEO since July 2016, and was designated as the executive Director in November 2016 and appointed as the Chairman of our Board on August 14, 2018.

Dr. Jiang has over a decade of work experience in China and Asia. He first joined Sanofi (NYSE: SNY, EPA: SAN) in China in July 2006 and served as its Global VP (Clinical Operations) from July 2008 to November 2010, during which period he significantly improved clinical operations and efficiency of Sanofi. From November 2010 to June 2016, Dr. Jiang served as Global VP and Head of Asia Pacific R&D with Sanofi China and led the R&D expansion efforts in the Asia Pacific region. Dr. Jiang was responsible for developing and implementing regional R&D strategies to develop innovative healthcare solutions and bring global drugs to the Asia Pacific region faster. During his term of service with Sanofi, he oversaw 79 clinical trials and Sanofi obtained 30 new drug approvals in the Asia Pacific region. During his time in China, he established several collaborations with Chinese academic institutions specially to develop innovative medicines in China.

Before coming to China, Dr. Jiang was the global clinical research director at Sanofi US from July 2002 to June 2006, during which period he headed an approximately 21,000-patient megatrial (ExTRACT) comparing enoxaparin with unfractionated heparin for acute myocardial infarction, which resulted in the successful global registration of a blockbuster drug Lovenox. Prior to Sanofi US, Dr. Jiang was a team leader in the clinical research of cardiovascular disease at Eli Lilly and Company in the United States, where he was a key member of a Phase II trial with an anti-inflammatory agent for the treatment of patients with suspected sepsis and organ failure.

Dr. Jiang was certified as a physician in the United States by the Educational Commission for Foreign Medical Graduates in May 1995.

Dr. Jiang received his M.D. in medicine from Nanjing Medical University (南京醫科大學) (formerly known as Nanjing Medical College (南京醫學院)) in Jiangsu, China in December 1982 and a Ph.D. in immunology from the University of British Columbia in Canada in November 1992. He completed a postdoctoral fellowship in clinical chemistry in 1994, an internship in internal medicine in June 1997, and a clinical residency in internal medicine in June 1999 at Washington University School of Medicine in the United States.

Non-executive Directors

Dr. Wei Li, Ph.D., aged 47, has been a Director since December 2015. Dr. Li was re-designated as a non-executive Director on October 29, 2018.

Dr. Li has over 20 years of experience in the biotech industry. He serves as the Managing Partner of 6 Dimensions Capital, L.P. since October 2017 and is a founding partner and the managing partner at WuXi Healthcare Ventures since July 2015.

During his scientific research career, Dr. Li has first-authored numerous scientific publications in journals including Science, Proceedings of the National Academy of Sciences, and Journal of Biological Chemistry.

Dr. Li received a Ph.D. in chemistry from Harvard University in the United States in November 1998, and an MBA from the J. L. Kellogg School of Management at Northwestern University in the United States in June 2003. He graduated with a Bachelor of Science in chemical physics from the University of Science and Technology of China (中國科學技術大學) in Anhui, China in July 1993.

Mr. Qun Zhao (趙群), aged 43, has been a Director since April 2016. Mr. Zhao was re-designated as a non-executive Director on October 29, 2018.

Mr. Zhao has been a partner of Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd. (蘇州工業園區元禾原點創業投資管理有限公司), which is a limited partner of Suzhou Industrial Park Zhengze Health Venture Capital Management Centre (Limited Partnership) (蘇州工業園區正則健康創業投資管理中心(有限合夥)), the sole general partner of Zhengze Yuanshi, our Substantial Shareholder since December 2013.

Mr. Zhao has 14 years of experience in pharmaceutical enterprise management. He worked in Tasly Pharmaceutical Group Co., Ltd. (天士力醫藥集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600535), from January 1998 to October 2006 where his last position was quality assurance manager. Subsequently, he served in his last position as vice general manager at Tasly Biopharmaceuticals Co., Ltd. (天士力生物醫藥股份有限公司) (previously known as Shanghai Tasly Pharmaceutical Co., Ltd. (上海天士力藥業有限公司)) from October 2006 to February 2012.

Mr. Zhao received an MBA from Nankai University (南開大學) in Tianjin, China in June 2006 and graduated with a Bachelor's degree in pharmaceutical analysis from China Pharmaceutical University (中國藥科大學) in Nanjing, China in July 1998.

Mr. Xiaomeng Tong (童小幪), aged 45, was appointed as a Director in February 2018 and re-designated as a non-executive Director on October 29, 2018.

Mr. Tong has been a co-founder and managing partner of Boyu Capital since May 2011. From October 2008 to April 2011, he was the head of Greater China and managing director of Providence Equity Partners LLC. Prior to joining Providence Equity Partners LLC, Mr. Tong served as the head of Greater China and managing director at General Atlantic Service Company L.P. from July 2000 to September 2008. Before joining General Atlantic Service Company L.P., Mr. Tong worked in the investment banking division at Morgan Stanley & Co. in New York, the United States.

Mr. Tong has been an independent non-executive director of Alibaba Pictures Group Limited (阿里巴巴影業集團有限公司), a company listed on the Stock Exchange (stock code: 01060), since June 2014. He has been a non-executive director of WuXi AppTec Co., Ltd. (無錫藥明康德新藥開發股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603259) and the Stock Exchange (stock code: 2359), since March 2017. He has also been a director of Guangzhou Kingmed Diagnostics Group Co., Ltd. (廣州金域醫學檢驗集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603882), since June 2015.

Mr. Tong graduated magna cum laude with a Bachelor's degree in economics from Harvard University in the United States in June 1998.

Mr. Guobin Zhang (張國斌), aged 39, has been a Director since May 2018 and was re-designated as a non-executive Director on October 29, 2018.

Prior to joining our Company, Mr. Zhang worked at GIC Special Investments Pte Ltd from September 2006 to August 2009, during which period his last position was Assistant Vice President in the Strategy & Investment Group. From November 2011 to October 2015, he was rehired by GIC Special Investments Pte Ltd, first working as Vice President and then as Senior Vice President I in the Funds & Co-investments Group, Asia. Mr. Zhang was posted to GIC (Beijing) Co Ltd as Senior Vice President I in October 2015, and was relocated to Singapore as Senior Vice President II and Head of Funds & Co-Investments Group, China in October 2018.

Prior to GIC, Mr. Zhang worked at Allianz Capital Partners GmbH Singapore branch from November 2009 to October 2011, first as an associate and then as an investment manager since January 2011 in which role he acted as a fund-of-funds manager, helping to screen, diligence and invest into private equity funds in Asia as well as selected co-investments. He served as a senior officer in the Precision Engineering & Light Industries Division of the Singapore Economic Development Board from September 2003 to September 2006.

Mr. Zhang graduated from the University of Wisconsin-Madison in the United States with a Bachelor of Science degree in chemical engineering in August 2003.

Dr. Lian Yong Chen, aged 56, has been a Director since August 2018 and was designated as a non-executive Director on October 29, 2018.

Dr. Chen has over 20 years of experience in the life sciences industry. He is currently the founding managing partner and chief executive officer of 6 Dimensions Capital, L.P.. He was the founder and managing partner at Frontline BioVentures and a partner at FIL Capital Management (Hong Kong) Limited in Asia from May 2008 to March 2014.

Dr. Chen has been a director of Shanghai Hile Bio-Technology Co. Ltd. (上海海利生物技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603718) since December 2014. Dr. Chen was appointed as a non-executive director of Hua Medicine (華領醫藥), a company listed on the Stock Exchange (stock code: 2552), on January 6, 2015 and re-designated as a non-executive director on May 11, 2018. He has also been a director of Hua Medicine Technology (Hong Kong) Limited and Hua Medicine (Shanghai) Co., Ltd., subsidiaries of Hua Medicine, since January 2015 and April 2016 respectively.

Dr. Chen conducted postdoctoral research in chemistry at the Massachusetts Institute of Technology in the United States from August 1991 to December 1992 after obtaining his Ph.D. in chemistry (with top honor) from the University of Louvain, located in Louvain-la-Neuve, Belgium, in June 1991. He graduated from Peking University majoring in chemistry, in Beijing, China in July 1984.

Independent Non-executive Directors

Dr. Paul Herbert Chew, M.D., aged 67, has been an INED since February 14, 2019.

Dr. Chew was appointed as the Chief Medical Officer and a director of Phesi in April 2018. He joined Omada Health, Inc. as Chief Medical Officer in January 2017, and was appointed a member of the board of trustees of BioNJ Inc. in March 2015. Dr. Chew was a Senior Vice President, Global Chief Medical Officer and Head of Medical Affairs at Sanofi (NYSE: SNY, EPA: SAN), a global pharmaceutical company based in Paris, from 2013 to 2016. In his position as Global Chief Medical Officer, he represented Sanofi as a member company in the PhRMA Science & Regulatory Affairs Executive Committee. He served as Senior Vice President, Chief Medical Officer/Chief Scientific Officer at Sanofi from 2004 to 2012. Between 2001 and 2003, he held the position of Vice President, Vice President Global Cardiovascular – Thrombosis Development – Aventis, responsible for Lovenox, Lantus, and the therapeutic development portfolio. In several roles at Sanofi, Dr. Chew worked closely with payers, patient groups, and the full range of healthcare stakeholders.

Dr. Chew served as a member of the Institute of Medicine Value & Science-Driven Healthcare Roundtable, and is a board certified in Internal Medicine and Cardiovascular Diseases.

Dr. Chew graduated with a Doctor of Medicine and a Bachelor of Arts from the Johns Hopkins University School of Medicine in the United States in May 1977 and May 1973, respectively.

Mr. Ting Yuk Anthony Wu (胡定旭), **GBS, JP,** aged 64, has been an INED since February 14, 2019.

Mr. Wu has been an independent non-executive director and chairman of the board of directors of China Resources Medical Holdings Company Limited (華潤醫療控股有限公司), a company listed on the Stock Exchange (stock code: 1515) since August 2018. He has been an independent non-executive director of Power Assets Holdings Limited (電能實業有限公司), a company listed on the Stock Exchange (stock code: 0006) since June 2014. He has been an independent non-executive director of China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司), a company listed on the Stock Exchange (stock code: 0966) from August 2013. He has been an independent non-executive director of Guangdong Investment Ltd. (粵海投資有限公司), a company listed on the Stock Exchange (stock code: 0270) since August 2012.

Between March 2015 and August 2018, Mr. Wu was the chairman and an executive director at Sincere Watch (Hong Kong) Limited, a company listed on the Stock Exchange (stock code: 0444), where he also acted as deputy chairman from October 2016 to August 2018. Between July 2011 and September 2014, he served as a director of Fidelity Funds. He served as an independent non-executive director of Agricultural Bank of China Limited (中國農業銀行股份有限公司), a company listed on the Stock Exchange (stock code: 01288), from January 2009 to June 2015. Mr. Wu joined the Hong Kong Hospital Authority (醫院管理局) in 1999 and was formerly its chairman from 2004 to 2013. Between 2010 and 2012, he was and the chairman of the Chamber Council and is now a member of the consultation committee of the Hong Kong General Chamber of Commerce. He was a partner of Ernst & Young from July 1985 to December 2005 and served as chairman of Ernst & Young Far East and China Practice from January 2000 to December 2005.

Mr. Wu was admitted as a member of the Institute of Chartered Accountants in England and Wales in November 1979 and became a fellow in October 1990. He was also admitted as a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. Wu was appointed by the Government of Hong Kong as Justice of the Peace and awarded Gold Bauhinia Star in 2004 and 2008, respectively. Mr. Wu finished a Foundation Course in Accountancy in Teesside Polytechnic in the United Kingdom in July 1975. Mr. Wu has also served in different capacities in the following organizations:

- as the honorary chairman of The Institute of Certified Management Accountants (Australia) Hong Kong Branch from January 2016 to December 2018
- as a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development from March 2018 to June 2020
- as a member of the 12th and 13th Standing Committee of the Chinese People's Political Consultative Conference National Committee
- as an expert advisor of the 2nd Chinese Medicine Reform and Development Advisory Committee of the State Administration of Traditional Chinese Medicine (國家中醫藥管理局第二屆中醫藥改革發展專家諮詢委員會) from December 2017 to November 2020

Mr. Hongbin Sun (孫洪斌), aged 43 has been an INED since February 14, 2019.

Mr. Sun has over 20 years of finance experience. He has been an independent non-executive director of New Century Healthcare Holding Co., Limited (新世紀醫療控股有限公司), a company listed on the Stock Exchange (stock code: 1518), since December 2016. He has been the chief financial officer of MicroPort Scientific Corporation (微創醫療科學有限公司), a company listed on the Stock Exchange (stock code: 0853), since September 2010 and served as its executive director from July 2010 to September 2012. He was the deputy financial director of Otsuka (China) Investment Co., Ltd. (大塚(中國)投資有限公司) from January 2004 to December 2005 and then worked as its general manager from January 2006 to August 2010. From August 1998 to January 2004, he was an assistant manager in the Audit department of KPMG Huazhen (畢馬威華振會計師事務所) in Shanghai.

Mr. Sun has been a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since December 2009 and also a Chartered Financial Analyst in September 2009.

He received his bachelor's degree in accounting from Shanghai Jiao Tong University (上海交通大學) in China in July 1998.

SENIOR MANAGEMENT

Dr. Frank Ningjun Jiang, M.D., Ph.D., aged 58, has been the CEO of our Company since July 2016. For further details, please refer to "Directors – Executive Director" in this section.

Dr. Jianxin Yang, M.D., Ph.D., aged 55, has been our Senior Vice President and Chief Medical Officer since December 2016. In this role, he is responsible for developing and implementing the overall clinical strategy.

Dr. Yang has over 21 years of experience in biomedical research and clinical development of oncology drugs in the US and China. Prior to joining our Company, he served as the senior vice president and head of clinical development at BeiGene Inc. (NASDAQ: BGNE, HKSE: 6160) from July 2014 to December 2016. He led BeiGene Inc.'s clinical team in clinical development of its oncology pipeline, and developed the first anti-PD-1 mAb originated in China.

Prior to joining BeiGene Inc., Dr. Yang served as a medical director at Covance Inc. from September 2011 to July 2014. He further worked in Pfizer Inc. for global research and development, and served as a research scientist in cancer genomics division at Tularik Inc. (acquired by Amgen Inc. in 2004).

Throughout his career, Dr. Yang has made significant contributions to the successful development of several anticancer drugs. He is also the author of over 30 publications and the inventor of 9 patents. In 2015, he was enrolled as a "Distinguished Expert" in the "1000 Talents Program" run by the Organization Department of the Communist Party of China (中國共產黨中央委員會組織部) and the Ministry of Human Resources and Social Security (人力資源和社會保障部) of the PRC. In July 2015, Dr. Yang was honored as a "High-Caliber Talent from Overseas" by the Organization Department of the CPC Beijing Central Municipal Committee (中共北京市委組織部) and the Beijing Municipal Bureau of Human Resources and Social Security (北京市人力資源和社會保障局).

Dr. Yang received a bachelor's degree in medicine from Hubei Medical College (湖北醫學院) in Hubei, China in July 1985 and a master's degree in pathophysiology from Nanjing Medical College (南京醫學院), (currently known as Nanjing Medical University (南京醫科大學)) in Nanjing, China in July 1988. He then received his Ph.D. training in biochemistry and molecular biology with Nobel Laureates Drs. Michael S. Brown and Joseph L. Goldstein at the University of Texas Southwestern Medical Center at Dallas, US in June 1995. He conducted his postdoctoral training in chemical biology with Dr. Stuart L. Schreiber at Harvard University in the United States in 1997.

Mr. Richard Yeh, aged 50, has been our Chief Financial Officer since July 2018. In this role, he is responsible for developing corporate financial strategies, and oversees investor relations, financial reporting, risk management, funding and IPO.

He has over 20 years of experience working for investment banks and multinational biopharmaceutical companies. Prior to joining our Company, Mr. Yeh was the managing director and the business unit leader of Asia Pacific healthcare equity research at Goldman Sachs (Asia) L.L.C. in Hong Kong. He led the firm's research efforts on the Chinese and Asian healthcare market. Before that, Mr. Yeh served as the head of China healthcare research team at Citigroup Capital Markets Asia Limited.

Prior to focusing on the Chinese healthcare sector, Mr. Yeh worked in the US biotechnology sector. He joined Amgen Inc., a leading global biotechnology company traded on the NASDAQ stock exchange (stock code: AMGN), in the position of Research Associate II in October 1995, conducting drug discovery research.

Mr. Yeh obtained an MBA from Cornell University in the United States in May 2002 and a Master of Science in medical biophysics from the University of Toronto and Ontario Cancer Institute in Canada in November 1995. He graduated from the University of Manitoba in Canada with a bachelor's degree in medical biophysics in May 1993.

Dr. Bing Yuan, Ph.D., aged 49, is our Senior Vice President and Chief Business Officer and joined our Company in November 2016. In this role, he is responsible for commercial/business related functions, including commercial strategy and planning, business development, government affairs, public relations and supporting the CEO in strategic planning.

Dr. Yuan is a seasoned business executive with extensive experience in global business development and marketing strategy and made significant contributions to several global oncology brands. Before joining our Company, Dr. Yuan was Executive Director and Global Lead of Late Stage Oncology BD&L at Merck & Co., Inc., where he was instrumental in Keytruda clinical combination partnerships and several immuno-oncology deals.

Before Merck, he held various global oncology commercial positions with increasing responsibilities at Novartis Pharmaceuticals from January 2008 to July 2014, most recently as executive director and Head of Life Cycle Strategy. Before joining Novartis, he served as a senior manager for global marketing of oncology at Eisai Inc.

Dr. Yuan received an MBA from Cornell University in the United States in May 2002, a Master of Arts, a Master of Philosophy and a Ph.D. in cellular, molecular and biomedical studies from Columbia University in the United States in October 1995, October 1997 and May 2000 respectively, and a Bachelor of Science in biochemistry from Nanjing University (南京大學) in Nanjing, China in July 1991.

Dr. Xinzhong Wang, Ph.D., aged 55, is our Senior Vice President and Chief Scientific Officer and joined our Company in June 2017. In this role, he is responsible for the development of internal pipeline and advancement to and filing for IND. He also oversees our Company's Translational Medicine Research Center (TMRC) in Suzhou and is in charge of establishing collaboration with industrial partners and academic institutions to drive innovation in drug development.

Dr. Wang is an accomplished scientific leader with over 20 years of experience in oncology research and drug development in biopharmaceutical industry. He has extensive experience in tumor immunology, molecular and cell biology, drug target discovery, animal modeling, and protein therapeutics development. He has published more than 30 original scientific papers in prestigious journals and is the inventor or co-inventor of several international patents including four granted patents.

Before joining our Company, Dr. Wang was a director/senior principal scientist of immuno-oncology research at Merck Research Laboratories in Boston, Massachusetts of Merck and Co., Inc. (known as MSD outside of US and Canada) from January 2014 to June 2017. He led and oversaw research projects in relation to immunomodulatory receptor programs with Keytruda as backbone program. He also actively participated in evaluating business development opportunities to enrich Merck's pipeline and expand the Keytruda franchise.

Prior to joining Merck, Dr. Wang served as an associate director and a principal scientist of BioSuperiors Department at AstraZeneca/MedImmune LLC from April 2011 and January 2014. Previously, he worked at Biogen Idec. as a senior scientist at Gene Therapy group and then a principal scientist of tumor immunology from August 2002 to January 2011.

Dr. Wang graduated from Nankai University (南開大學) in Tianjin, China with a Bachelor of Science degree in biochemistry in July 1983 and received a Ph.D. in molecular and cellular biology from Ohio University, US in August 1993. He completed his postdoctoral training at the Gene Therapy Center of Massachusetts General Hospital in the United States from 1995 to 1998, and subsequently served as an instructor of medicine at Harvard Medical School in the United States from 1998 to 2001.

Dr. Ngai Chiu Archie Tse (謝 毅 釗), M.D., Ph.D., aged 52, is our Senior Vice President and Chief Translational Medicine Officer and joined our Company in December 2018. In this role, he is responsible for the development of assets at the early clinical development stage up to proof of concept. Dr. Tse also serves as the Secretariat of the Portfolio Review Board to assist Dr. Frank Ningjun Jiang, CEO and Chairman of our Board, in the development and implementation of our portfolio strategy and coordinate the Scientific Advisory Board to facilitate development and execution of our clinical strategy.

Dr. Tse is an accomplished medical and scientific leader with over 20 years of global oncology experience in the clinic and pharmaceutical institutions. Prior to joining our Company, Dr. Tse was a Distinguished Scientist (Executive Director) at Merck (known as MSD outside of US and Canada) from September 2015 to December 2018 in which role he oversaw the early clinical development of a number of novel agents in the immune-oncology pipeline, spanning various mechanisms and action and modalities. The programs he played a key role in spanned various mechanisms of action and modalities included, but not limited to, anti-CTLA4, STING agonists, bispecific Nandobodies, novel myeloid targets, oncolytic virus and personalized cancer vaccines. From January 2010 to August 2015, he served at Daiichi Sankyo Pharma Development, a Division of Daiichi-Sankyo, Inc., where his last title was Senior Director, Clinical Development. From July 2003 to December 2009, Dr. Tse served at the US Memorial Sloan Kettering Cancer Center (MSKCC) as Clinical Assistant in the Medicine/Gastrointestinal Oncology Department, and during the same period he was also a faculty member at the MSKCC affiliated Weill Cornell Medical School.

Dr. Tse obtained certification from American Board of Internal Medicine (ABMS) in medical oncology from November 2003 to December 2013 and in general internal medicine from August 2000 to December 2010.

Dr. Tse obtained his M.D. and a Ph.D. in Biochemistry & Molecular Biology from the University of Southern California in the United States in May 1997 and May 2002, respectively.

Dr. Jingrong Li, Ph.D., aged 58, is our Senior Vice President of Product Development and Manufacturing and joined our Company in December 2016. In this role, he is responsible for all CMC related affairs to ensure processes mature appropriately and meet requirements for all development stages, including bio/process development, scale-up, and analytical development.

Dr. Li worked as an executive director at Simcere Pharmaceutical (先聲藥業) from September 2011 and then as the general manager of BioSciKin Bio (百家滙生物), a subsidiary of Simcere, overseeing its operation and management from May 2016 to December 2016. He also served as a manager principal scientist at Roche Molecular Systems Inc. Between January 2000 and November 2003, Dr. Li was a full-time senior scientist at BioSpecifics Technologies Corp.

Dr. Li served as a NMPA-appointed expert for the Institute of Executive Development Training organized by the National Medical Products Administration.

Dr. Li obtained a Ph.D. in medicinal chemistry from China Pharmaceutical University (中國藥科大學) in Nanjing, China in July 1990. After that, in the Department of Pharmacology at the Mount Sinai School of Medicine in New York, US, he worked as a post-doctorate with Dr. Sherwin Wilk from 1992 to 1996 and then as an instructor from 1996 to 2000.

Report of the Directors

The Directors present their report and the audited Consolidated Financial Statements for the Reporting Period.

PRINCIPAL ACTIVITIES

During the Reporting Period, the principal activities of the Group included the developing and commercializing innovative immuno-oncology and molecularly targeted drugs to address significant unmet medical needs in cancer treatment. There was no significant change in the nature of the Group's principal activities during the Reporting Period and up to the date of this report.

Particulars of the Company' principal subsidiaries as at December 31, 2018 are set out in Note 29 to the Consolidated Financial Statements.

BUSINESS REVIEW

A fair review of the business of the Group, the outlook of future development of the business of the Group as well as a discussion and analysis of the Group's performance during the Reporting Period and the material factors underlying its financial performance and financial position as required by section 388(2) and Schedule 5 to the Companies Ordinance can be found in the section headed "Management Discussion and Analysis" of this report. The financial risk management objectives and policies of the Group are set out in Note 27 to the Consolidated Financial Statements.

RESULTS AND DIVIDENDS

Details of the consolidated loss of the Group for the Reporting Period and the Group's financial position as at December 31, 2018 are set out in the Consolidated Financial Statements.

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

The Board does not recommend payment of a dividend for the year ended December 31, 2018.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability. The Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. For instance, the in-house facilities of the Group operate in compliance with the relevant environmental rules and regulations. The Group reviews its environmental policies on a regular basis.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Listing Rules, the Company's environmental, social and governance report will be available on our website within three months from the publication of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results can be categorised into the following areas: (i) risks relating to our financial position and need for additional capital; (ii) risks relating to our business, comprising (a) risks relating to clinical development of our drug candidates, (b) risks relating to extensive government regulation, (c) risks relating to commercialization of our drugs and drug candidates, (d) risks relating to our intellectual property rights and (e) risks relating to our reliance on third parties; (iii) risks relating to our operations; (iv) risks relating to our doing business in China, as described below:

RISKS RELATING TO OUR FINANCIAL POSITION AND NEED FOR ADDITIONAL CAPITAL

- We have incurred significant net losses and net operating cash outflows since our inception, and we anticipate that we will continue to incur net losses and net operating cash outflows for the foreseeable future and may never become profitable.
- We have net operating cash outflow during the Reporting Period.
- We may need additional capital to meet our operating cash requirements, and financing may not be available on terms acceptable to us, or at all.
- We have a limited operating history, which may make it difficult to evaluate our current business and predict our future performance. The risks involved in our business may cause potential investors to lose substantially all of their investment in our business.
- We will need to obtain additional financing to fund our operations, and if we are unable to obtain such financing, we may be unable to complete the development and commercialization of our primary drug candidates.
- Raising additional capital may cause dilution to our Shareholders, restrict our operations or require us to relinquish rights to our technologies or drug candidates.

RISKS RELATING TO OUR BUSINESS

Risks Relating to Clinical Development of Our Drug Candidates

- We depend substantially on the success of our drug candidates, all of which are in pre-clinical or clinical development. If we are unable to successfully complete clinical development, obtain regulatory approval and commercialize our drug candidates, or experience significant delays in doing so, our business will be materially harmed.
- If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.
- Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.
- If clinical trials of our drug candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our drug candidates.
- Immuno-oncology therapies including PD-1/PD-L1 antibodies may cause undesirable side effects.
- We may not be successful in developing, enhancing or adapting to new technologies and methodologies.

Risks Relating to Extensive Government Regulation

- All material aspects of the research, development and commercialization of pharmaceutical products are heavily regulated. Any failure to comply with existing regulations and industry standards or any adverse actions by the drug approval authorities against us could negatively impact our reputation and our business, financial condition, results of operations and prospects.

- The regulatory approval processes of the National Medical Products Administration, U.S. FDA, European Medicines Agency and other comparable regulatory authorities are lengthy, time-consuming and inherently unpredictable. If we are ultimately unable to obtain regulatory approval for our drug candidates, our business will be substantially harmed.

- If we fail to comply with our obligations in the agreements under which we license intellectual property rights from third parties or otherwise experience disruptions to our business relationships with our licensors, we could be required to pay monetary damages or could lose license rights that are important to our business.

- Our failure to obtain or renew certain approvals, licenses, permits and certificates required for our business may materially and adversely affect our business, financial condition and results of operations.

- If we participate in compassionate use programs, current regulatory discrepancies among competent authorities of different countries may lead to increased risk of adverse drug reaction and serious adverse events being produced from the use of our products.

- Changes in government regulations or in practices relating to the pharmaceutical and biopharmaceutical industries, including healthcare reform in China, and compliance with new regulations may result in additional costs.

- Pilot Program in respect of Foreign Investment Risk Review Modernization Act of 2018 may restrict our ability to acquire technologies and assets in the United States that are material to our commercial success.

- The absence of patent linkage, patent term extension and data and market exclusivity for NMPA-approved pharmaceutical products could increase the risk of early generic competition with our products in China.

- Any of our future approved drug candidates will be subject to ongoing or additional regulatory obligations and continued regulatory review, which may result in significant additional expense and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our drug candidates.

- If safety, efficacy, or other issues arise with any medical product used in combination with or to facilitate the use of our drug candidates, we may be unable to market such drug candidate or may experience significant regulatory delays.

- Even if we are able to commercialize any approved drug candidates, the drugs may become subject to national or other third-party reimbursement practices or unfavorable pricing regulations, which could harm our business.

- Adverse drug reactions and negative results from off-label use of our products could materially harm our business reputation, product brand name, financial condition and expose us to liability.

- The illegal and/or parallel imports and counterfeit pharmaceutical products may reduce demand for our future approved drug candidates and could have a negative impact on our reputation and business.

Risks Relating to Commercialization of Our Drugs and Drug Candidates

- If we are not able to obtain, or experience delays in obtaining, required regulatory approvals, we will not be able to commercialize our drug candidates, and our ability to generate revenue will be materially impaired.

- Our future approved drug candidates may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success.

- We have no experience in launching and marketing drug candidates. If we are unable to develop marketing and sales capabilities or enter into agreements with third parties to market and sell our drug candidates, we may not be able to generate product sales revenue.

- We face substantial competition, which may result in others discovering, developing or commercializing competing drugs before or more successfully than we do.

- The market opportunities for our drugs and drug candidates may be limited to those patients who are ineligible for or have failed prior treatments and may be small.

- We may be subject, directly or indirectly, to applicable anti-kickback, false claims laws, physician payment transparency laws, fraud and abuse laws or similar healthcare and security laws and regulations in the United States and other jurisdictions, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Risks Relating to Our Intellectual Property Rights

- If we are unable to obtain and maintain patent protection for our drug candidates through intellectual property rights, or if the scope of such intellectual property rights obtained is not sufficiently broad, third parties could develop and commercialize products and technologies similar or identical to ours and compete directly against us, and our ability to successfully commercialize any product or technology may be adversely affected.

- Our rights to develop and commercialize our drug candidates are subject, in part, to the terms and conditions of licenses granted to us by others.

- Our in-licensed patents and other intellectual property may be subject to further priority disputes or to inventorship disputes and similar proceedings. If we or our licensors are unsuccessful in any of these proceedings, we may be required to obtain licenses from third parties, which may not be available on commercially reasonable terms or at all, or to cease the development, manufacture, and commercialization of one or more of the drug candidates we may develop, which could have a material adverse impact on our business.

- We may not be able to protect our intellectual property rights throughout the world or prevent unfair competition by third parties.

- If we are sued for infringing, misappropriating, or otherwise violating intellectual property rights of third parties or engaging in unfair competition, such litigation could be costly and time-consuming and could prevent or delay us from developing or commercializing our drug candidates.

- Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

- Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our drug candidates.

- If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed. We may be subject to claims that our employees, consultants, or advisors have wrongfully used or disclosed alleged trade secrets of their former employers or claims asserting ownership of what we regard as our own intellectual property.

- We may not be successful in obtaining or maintaining necessary rights for our development pipeline through acquisitions and in-licenses.

- Intellectual property rights do not necessarily address all potential threats.

Risks Relating to Our Reliance on Third Parties

- We rely on third parties to conduct our pre-clinical studies and clinical trials and we must work effectively with collaborators to develop our drug candidates. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our drug candidates and our business could be substantially harmed.

- We engage the WuXi Entities to provide CRO services relating to some of our drug candidates, any material breach or unilateral termination of which may have a material adverse effect on our financial condition and business.

- We may rely on third parties to manufacture or import our clinical and commercial drug supplies. Our business could be harmed if those third parties fail to provide us with sufficient quantities of product or fail to do so at acceptable quality levels or prices.

- We have entered into collaborations and may form or seek collaborations or strategic alliances or enter into additional licensing arrangements in the future, and we may not realize the benefits of such alliances or licensing arrangements.

- We may be restricted from transferring our scientific data abroad.

RISKS RELATING TO OUR OPERATIONS

- Our future success depends on our ability to retain key executives and to attract, train, retain and motivate qualified and highly skilled personnel.
- Our reputation is key to our business success. Negative publicity may adversely affect our reputation, business and growth prospect.
- We have significantly increased the size and capabilities of our organization, and we may experience difficulties in managing our growth.
- If we engage in acquisitions or strategic partnerships, this may increase our capital requirements, dilute our Shareholders, cause us to incur debt or assume contingent liabilities, and subject us to other risks.
- If we fail to comply with applicable anti-bribery laws, our reputation may be harmed and we could be subject to penalties and significant expenses that have a material adverse effect on our business, financial condition and results of operations.
- If we fail to effectively manage our anticipated growth or execute on our growth strategies, our business, financial condition, results of operations and prospects could suffer.
- If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.
- Our facilities may be vulnerable to natural disasters or other unforeseen catastrophic events.
- Our internal computer systems, or those used by our CROs or partners or other contractors or consultants, may fail or suffer security breaches.
- In conducting drug discovery and development, we face potential liabilities, in particular, product liability claims or lawsuits could cause us to incur substantial liabilities.
- In addition to the risks of doing business globally, we may explore the licensing of commercialization rights or other forms of collaboration worldwide, which will expose us to additional risks of conducting business in additional international markets.
- We may undertake acquisitions or joint ventures that may have a material adverse effect on our ability to manage our business and may not be successful.
- Increased labor costs could slow our growth and affect our profitability.
- Any future litigation, legal disputes, claims or administrative proceedings against us could be costly and time-consuming to defend.
- A significant portion of our assets is denominated in foreign currencies.
- Our other gains and losses include fair value changes for derivative financial liabilities, which are subject to uncertainties in accounting estimation.

RISKS RELATING TO OUR DOING BUSINESS IN CHINA

- The pharmaceutical industry in China is highly regulated and such regulations are subject to change which may affect approval and commercialization of our drug candidates.
- Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.
- There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.
- We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.
- Our dividend income from our PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate.
- Restrictions on currency exchange may limit our ability to utilize our revenue effectively.
- Our business benefits from certain discretionary financial incentives granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations.
- We are subject to PRC tax laws and regulations.
- It may be difficult to effect service of process upon us or our management that reside in China or to enforce against them or us in China any judgments obtained from foreign courts.
- Any failure by the Shareholders or beneficial owners of our Shares who are PRC residents to comply with certain PRC foreign exchange regulations relating to offshore investment activities by such PRC residents could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.
- We face uncertainty relating to PRC laws and regulations relating to transfers by a nonresident enterprise of assets of a PRC resident enterprise.
- Under China's Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. This classification could result in unfavorable tax consequences to us and our non-PRC Shareholders.
- Government control of currency conversion of and regulations on loans to, and direct investment in, PRC entities by offshore holding companies may delay or prevent us from making loans or additional contributions to our PRC subsidiaries, which could restrict our ability to utilize the proceeds from the Global Offering effectively and affect our ability to fund and expand our business.
- The political relationships between China and other countries may affect our business operations.

DIRECTORS

The Directors during the Reporting Period and up to the date of this report are:

Executive Director

Dr. Frank Ningjun Jiang *(Chairman and Chief Executive Officer)*

Non-Executive Directors

Dr. Wei Li (Re-designated from a Director to a non-executive Director with effect from October 29, 2018)
Mr. Qun Zhao (Re-designated from a Director to a non-executive Director with effect from October 29, 2018)
Mr. Xiaomeng Tong (Appointed on February 28, 2018 and re-designated from a Director to a non-executive Director with effect from October 29, 2018)
Mr. Guobin Zhang (Appointed on May 8, 2018 and re-designated from a Director to a non-executive Director with effect from October 29, 2018)
Dr. Lian Yong Chen (Appointed on August 14, 2018 and re-designated from a Director to a non-executive Director with effect from October 29, 2018)
Mr. Ji Zha (Resignation effective from February 28, 2018)
Mr. Zhongyuan Zhu (Resignation effective from August 14, 2018)

Independent Non-Executive Directors

Dr. Paul Herbert Chew (Appointed on February 14, 2019)
Mr. Ting Yuk Anthony Wu (Appointed on February 14, 2019)
Mr. Hongbin Sun (Appointed on February 14, 2019)

In accordance with article 16.19 of the Articles of Association, the executive Director, Dr. Frank Ningjun Jiang and the non-executive Directors, namely Dr. Wei Li and Mr. Qun Zhao, will retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

In accordance with the requirements of Rule 13.51(2) of the Listing Rules, each of Mr. Ji Zha and Mr. Zhongyuan Zhu confirmed that they have no disagreement with the Board and there is no other matter relating to their resignation that needs to be brought to the attention of the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this report.

CHANGES IN INFORMATION OF DIRECTORS

So far as the Directors are aware and save as disclosed in this report, there has been no other change of information of Directors during the Reporting Period.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the INEDs an annual confirmation in writing of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, as at the date of this report, all of the INEDs are independent.

DIRECTORS' SERVICE CONTRACTS

The Company entered into a service contract with Dr. Frank Ningjun Jiang on February 19, 2019 and does not have service contracts with any of its other Directors. During the Reporting Period, no remunerations were paid to Directors in the capacity of them as Directors in the Company.

Each of the INEDs has entered into an appointment letter with the Company. The initial term of their appointment shall be between two to three years from February 14, 2019 or until the third AGM of the Company after the Listing Date or, whichever is earlier, (subject to retirement as and when required under the Articles of Association) or until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other with not less than one month's prior notice in writing.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' fees and other emoluments are supervised by the Compensation Committee and determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in Note 9 to the Consolidated Financial Statements.

Details of the remuneration by band of senior management of the Company, whose biographies are set out in the section headed "Directors and Senior Management – Senior Management" of this report, for the years ended December 31, 2018 and 2017 are set out below:

RMB	2018 (members of senior management)	2017 (members of senior management)
2,000,000 – 3,000,000	1	1
3,000,000 – 4,000,000	1	–
5,000,000 – 6,000,000	–	1
6,000,000 – 7,000,000	–	1
7,000,000 – 8,000,000	–	1
15,000,000 – 16,000,000	2	1
17,000,000 – 18,000,000	1	–
23,000,000 – 24,000,000	1	–
141,000,000 – 142,000,000	1	–
	7	5

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Articles of Association provide that the Directors or other officers of the Company are entitled to be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the Relevant Period.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor an entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

MANAGEMENT CONTRACTS

No contract of significance concerning the management and administration of the whole or any substantial part of business of the Company or any of its subsidiaries was entered into or subsisted during the Reporting Period.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the Reporting Period was the Company or any of its subsidiaries, a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS OF SUBSIDIARIES

Other than the Directors named in the section headed "Directors and Senior Management" of this report, the persons who had served on the boards of the subsidiaries of the Company during the Reporting Period and up to the date of this report include each of Dr. Wei Li, Mr. Qun Zhao and Mr. Xiaomeng Tong, who also serves as a director of CStone Suzhou.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Reporting Period and up to the date of this report, none of the Directors is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

DEED OF NON-COMPETITION

There is no non-competition undertakings during the Reporting Period between the Company and the largest shareholders of the Company, namely, WuXi Healthcare Ventures II, L.P. and WuXi Healthcare Management, LLC.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Interests and short positions of our Directors in the share capital of the Company

As the Company was not yet listed on the Stock Exchange as of December 31, 2018, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors or chief executive officer of the Company during the Reporting Period.

As at the date of this report, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

LONG POSITION IN THE SHARES OF THE COMPANY

Name of director or chief executive	Nature of interest	Number and class of securities	Approximate percentage of interest in our Company[1]
Dr. Frank Ningjun Jiang, CEO and Chairman of our Board	Beneficial Owner	34,923,824 Shares[2]	3.55%
	Trustor of a trust	6,760,000 Shares[3]	0.69%
Mr. Xiaomeng Tong, non-executive Director	Interest in controlled corporations	13,078,000 Shares	1.29%

Notes:

(1) The calculation is based on the total number of 984,051,532 Shares in issue as at the date of this report.

(2) Includes (1) 9,326,664 Shares beneficially held by Dr. Frank Ningjun Jiang, (2) Dr. Frank Ningjun Jiang's entitlement to receive up to 8,633,336 Shares pursuant to the exercise of options granted to him, subject to the conditions (including vesting conditions) of those options, and (3) Dr. Frank Ningjun Jiang's entitlement to restricted share units equivalent to 16,963,824 Shares, subject to vesting conditions.

(3) These Shares are held by JIANG IRREVOCABLE GIFTING TRUST FBO: YANNI XIAO, Dated November 21, 2018, of which Dr. Frank Ningjun Jiang is the trustor. Under the SFO, Dr. Frank Ningjun Jiang is deemed to be interested in these Shares.

Save as disclosed above and to the best knowledge of the Directors, none of the Directors or the chief executive of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations as at the date of this report.

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

Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

As the Company was not yet listed on the Stock Exchange as of December 31, 2018, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company during the Reporting Period.

As at the date of this report, the persons, other than the Directors or the chief executive of the Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO are as follows:

LONG POSITION IN THE SHARES OF THE COMPANY

Substantial Shareholder	Capacity/Nature of Interest	Total number of Shares/ underlying shares	Approximately percentage of interest in our Company as of the date of this report[1]
WuXi Healthcare Ventures[2]	Beneficial interest	292,881,444	29.76%
WuXi Healthcare Management, LLC[2]	Interest in controlled corporation	292,881,444	29.76%
Graceful Beauty Limited[3]	Beneficial interest	146,950,948	14.93%
Boyu Capital Fund II, L.P.[3]	Interest in controlled corporation	146,950,948	14.93%
Boyu Capital General Partner II L.P.[3]	Interest in controlled corporation	146,950,948	14.93%
Boyu Capital General Partner II Ltd.[3]	Interest in controlled corporation	146,950,948	14.93%
Boyu Capital Holdings Limited[3]	Interest in controlled corporation	146,950,948	14.93%
Zhengze Yuanshi[4]	Beneficial interest	98,216,972	9.98%
Suzhou Industrial Park Zhengze Health Venture Capital Management Centre (Limited Partnership) (蘇州工業園區正則健康創業投資管理中心（有限合夥))[4]	Interest in controlled corporation	98,216,972	9.98%
Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd. (蘇州工業園區元禾原點創業投資管理有限公司)[4]	Interest in controlled corporation	98,216,972	9.98%
Suzhou Oriza Holdings Co., Ltd. (蘇州元禾控股股份有限公司)[4]	Interest in controlled corporation	98,216,972	9.98%
Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd. (蘇州工業園區正則既明股權投資管理有限公司)[4]	Interest in controlled corporation	98,216,972	9.98%
Suzhou Industrial Park Economic Development Co., Ltd. (蘇州工業園區經濟發展有限公司)[4]	Interest in controlled corporation	98,216,972	9.98%
Suzhou Industrial Park Administrative Committee (蘇州工業園區管委會)[4]	Interest in controlled corporation	98,216,972	9.98%
Fay Jianjiang (費建江)[4]	Interest in controlled corporation	98,216,972	9.98%

Notes:

(1) The calculation is based on the total number of 984,051,532 Shares in issue as at the date of this report.

(2) As of the date of this report, WuXi Healthcare Ventures directly held 292,881,444 Shares. To the best knowledge of our Company, WuXi Healthcare Ventures is a limited partnership established under the laws of Cayman Islands managed by its sole general partner, WuXi Healthcare Management, LLC, a Cayman Islands exempted company in which each of its five members holds an equal share of equity interest. For the purpose of the SFO, WuXi Healthcare Management, LLC is deemed to have an interest in the Shares held by WuXi Healthcare Ventures.

(3) As of the date of this report, Graceful Beauty Limited, an exempted company with limited liability incorporated under the laws of Cayman Islands, directly held 146,950,948 Shares. For the purpose of the SFO, each of Boyu Capital Fund II, L.P. (as the sole shareholder of Graceful Beauty Limited), Boyu Capital General Partner II L.P. (as the general partner of Boyu Capital Fund II, L.P.), Boyu Capital General Partner II Ltd. (as the general partner of Boyu Capital General Partner II L.P.), and Boyu Capital Holdings Ltd. (as the sole shareholder of Boyu Capital General Partner II Ltd.) is deemed to have an interest in the Shares held by Graceful Beauty Limited.

(4) As of the date of this report, Zhengze Yuanshi directly held 98,216,972 Shares. Zhengze Yuanshi is managed by its sole general partner, Suzhou Industrial Park Zhengze Health Venture Capital Management Centre (Limited Partnership) (蘇州工業園區正則健康創業投資管理中心（有限合夥)), a limited partnership established in China, in which Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd. (蘇州工業園區元禾原點創業投資管理有限公司) has 45% equity interest. Suzhou Oriza Holdings Co., Ltd. (蘇州元禾控股股份有限公司) and Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd. (蘇州工業園區正則既明股權投資管理有限公司) hold 49% and 51% of the issued share capital of Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd., respectively. Suzhou Oriza Holdings Co., Ltd. is held 70% by Suzhou Industrial Park Economic Development Co., Ltd. (蘇州工業園區經濟發展有限公司), a state-owned enterprise directly under the Suzhou Industrial Park Administrative Committee (蘇州工業園區管委會), a PRC government related institution primarily responsible for implementing government investment functions. Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd. is 45.18% owned by Fay Jianjiang (費建江). For the purpose of the SFO, each of Suzhou Industrial Park Zhengze Health Venture Capital Management Centre (Limited Partnership), Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd., Suzhou Oriza Holdings Co., Ltd., Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd., Suzhou Industrial Park Economic Development Co., Ltd., the Suzhou Industrial Park Administrative Committee and Fay Jianjiang is deemed to have an interest in the Shares held by Zhengze Yuanshi.

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

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

At no time during the Reporting Period had the Company or any of its subsidiaries, and any of the controlling shareholders (as defined in the Listing Rules) of the Company or any of their subsidiaries (as the case may be) entered into any contract of significance or any contract of significance for the provision of services by any such controlling shareholders or their subsidiaries (as the case may be) to the Company or any of its subsidiaries.

SHARE INCENTIVIZATION SCHEMES

The Company has adopted three share incentivization schemes, collectively referred to as Share Incentivization Schemes.

Pre-IPO Incentivization Plan

The Company has adopted the Pre-IPO Incentivization Plan by the resolutions in writing by the Board passed on July 7, 2017 and as amended and restated on August 14, 2018 and as further amended and restated on January 26, 2019. No further options will be granted under the Pre-IPO Incentivization Plan.

As at December 31, 2018, pursuant to the Pre-IPO Incentivization Plan, the Company had granted to directors, executives and employees of the Group outstanding options to subscribe for 10,687,781 Shares, representing 5.69% of the total issued share capital of the Company as at December 31, 2018.

Movement of the options, which were granted under the Pre-IPO Incentivization Plan, during the Reporting Period is as follows:

		Number of options[1], [4] and [5]						
			During the Reporting Period					
Category	Grant date, Vesting commencement date[2], [3]	Outstanding as at 01/01/2018	Granted	Exercised	Canceled	Lapsed	Outstanding as at 31/12/2018	Exercise price US$
1. Director								
Frank Ningjun Jiang (also CEO and Chairman of our Board)	July 1, 2016	5,180,000	–	3,021,666	–	–	2,158,334	0.1 – 0.2
2. Continuous Contract Employees	July 11, 2016 to December 24, 2018	5,862,000	3,736,380	248,933	–	820,000	8,529,447	0.1 – 2.37
Total:		11,042,000	3,736,380	3,270,599	–	820,000	10,687,781	

Notes:

(1) 25% of the Shares vest on the first anniversary of the vesting commencement date, and the remaining shall vest monthly in equal installments over the following 36 months.

(2) The relevant offer letter sets out the option exercise period of 10 years for each corresponding grantee.

(3) The average closing price of the Shares immediately before the dates on which the options were exercised was not applicable as the Company was not yet listed during the Reporting Period.

(4) During the Reporting Period, no option was granted for adjustment under the Pre-IPO Incentivization Plan.

(5) There are no participants with options granted in excess of the individual limit and no grants to suppliers of goods and services.

Post-IPO ESOP

The Company has adopted the Post-IPO ESOP by resolutions passed by the Company on January 30, 2019, with effect upon completion of the Listing. As the Post-IPO ESOP was effective from February 26, 2019, the Listing Date, there was no outstanding options and no movement of options which were granted under the Post-IPO ESOP during the Reporting Period.

Post-IPO RSU Scheme

Subsequent to the Reporting Period, the Company has adopted the Post-IPO RSU Scheme by resolutions passed by the Company on March 22, 2019.

For further details of the Share Incentivization Schemes, please refer to note 22 to the Consolidated Financial Statements.

SUMMARY OF THE SHARE OPTION SCHEMES

The major terms and details of the Share Incentivization Schemes are set out below:

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
1. Purpose	To attract, motivate and/or to reward eligible employees, officers, directors, contractor, advisors and consultants of our Group	To attract and retain employees, to reward eligible employees for their past contribution to the Company, to provide incentives to the employees to further contribute to the Group and to align their interests with the best interests of the Company and the Shareholders as a whole	To: • recognise the contributions by certain selected participants with an opportunity to acquire a proprietary interest in the Company; • encourage and retain such individuals for the continual operation and development of the Group; • provide additional incentives for them to achieve performance goals; • attract suitable personnel for further development of the Group; and • motivate the selected participants to maximize the value of the Company for the benefits of both the selected participants and the Company, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the selected participants directly to the Shareholders of the Company through ownership of Shares

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
2. Participants	Eligible employees include any employee, officer, director, contractor, advisor or consultant of the Group who is notified by the Board that he or she is eligible by reason of their contribution to the Group	Eligible employees include any employee, officer, director, contractor, advisor or consultant of the Group who is notified by the Board that he or she is an employee eligible by reason of his or her contribution to the Group, to the extent that an offer of an award to or a receipt of such award by him or her is permitted under the applicable laws, rules and regulations or accounting or tax rules and regulations	Eligible persons include any employee of any member of the Group and any consultant, adviser or agent of any member of the Group, who have contributed or will contribute to the growth and development of the Group
3. Maximum number of shares that can be awarded	The maximum number of Shares in respect of which awards may be granted under the plan shall not, subject to any reorganisation of capital structure and other corporate events, exceed 130,831,252 Shares in the aggregate (taken into account of the capitalization issue on the Listing Date)	The maximum number of Shares in respect of which awards may be granted or delivered in satisfaction of awards under the plan shall not, subject to any reorganisation of capital structure and other corporate events, exceed 98,405,153 (taken into account of the capitalization issue on the Listing Date), being 10% of the Shares in issue as at the adoption date. The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the plan and any other schemes must not exceed 30% of the relevant class of Shares in issue from time to time	The Board may not make any further award which will result in the aggregate number of the Shares awarded by the Board under the scheme exceeding, initially, 7,650,000 Shares (taken into account of the capitalization issue on the Listing Date), being approximately 0.78% of the issued share capital of the Company as at the adoption date

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
4. Maximum entitlement of each participant	No employee shall be granted an award which, if exercised or settled in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the awards previously granted to him which have been exercised, and, issuable or settled under all the awards previously granted to him which for the time being subsisting and unexercised, would exceed 10% of the aggregate number of Shares for the time being issued and issuable under the plan	Except with the approval of the Shareholders in general meeting, no option may be granted to any one person which, if exercised or settled in full, such that the total number of Shares issued and to be issued upon exercise of options and any other option over the Shares (including exercised, cancelled and outstanding options) granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the Shares in issue from time to time	The maximum number of Shares which may be awarded to any one selected participant under the scheme may not exceed 9,840,515 Shares (taken into account of the capitalization issue on the Listing Date), being 1% of the issued share capital of the Company as at the adoption date
5. Option period	The period during which the option can be exercised as set forth in the relevant offer letters in accordance with the plan	The period during which the option can be exercised as set forth in the relevant offer letters in accordance with the plan, which, in any event, must end on or before the 10th anniversary of the date of the grant of such option There is no minimum period for which an option must be held before it can be exercised	The vesting of the awarded Shares is subject to the selected participant remaining at all times after the grant date and on the date of vesting, an eligible person, subject to the rules of the scheme Subject to the satisfaction of all vesting conditions as prescribed in scheme, the selected participants will be entitled to receive the awarded Shares
6. Acceptance of offer	Awards granted must be accepted within the period as stated in the offer of the grant, upon payment of exercise price as set out in the relevant offer letter per grant, if any		

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
7. Exercise price	The subscription price shall be approved by the Board and shall be set out in the offer letter The exercise prices of the options granted between the adoption date and December 31, 2018 include US$0.1, US$0.2, US$0.57 and US$2.37	The subscription price shall be approved by the Board and shall be set out in the offer letter. The subscription price per Share of each award requiring exercise must be no less than 100% of the Fair Market Value of the Shares subject to the award, determined as of the date of grant, or such higher amount as the Board may determine in connection with the grant in accordance with the applicable laws, stock market or exchange rules (including the Listing Rules) and regulations and the terms of the plan. "Fair Market Value" means the higher of (a) the closing price of a Share on the date of grant, which must be a business day, on the principal stock market or exchange on which the Shares are quoted or traded, and (b) the average closing price of a Share for the five trading days immediately preceding the date of grant, on the principal stock market or exchange on which the Shares are quoted or traded	–

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
8. Remaining life of the scheme	The plan shall be valid and effective for the period of ten years commencing on the adoption date until July 7, 2027 after which period no further awards will be granted, but the provisions of the plan shall in all other respects remain in full force and effect and the grantees may exercise the options in accordance with the terms upon which the options are granted	The plan shall be valid and effective for the period of ten years commencing on the adoption date until 26 February 26, 2029 after which period no further awards will be granted, but the provisions of the plan shall in all other respects remain in full force and effect and the grantees may exercise the options in accordance with the terms upon which the options are granted	The scheme remains valid and effective from the adoption date until March 22, 2029, being the tenth anniversary of the adoption date, after which period no further awards will be granted, but the provisions of the scheme will in all other respects remain in full force and effect and awards that are granted from the adoption date until the tenth anniversary of the adoption date may continue to be exercisable in accordance with their terms of issue

CONTINUING CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

None of the related parties transactions as disclosed in Note 25 to the Consolidated Financial Statements constitute connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules. During the Reporting Period, there were no connected transactions of the Company.

CONTRACTS WITH WUXI ENTITIES

As the Company was only listed on February 26, 2019 and that the INEDs were appointed on February 14, 2019, a committee consisting of a majority of INEDs will review new contracts or amendments of existing contracts with WuXi Entities for the financial year ending December 31, 2019 going forward and will disclose its findings in the next annual report of the Company.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by geographical areas of the operations for the Reporting Period is set out in Note 5 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 3 to the Consolidated Financial Statements.

SHARES ISSUED IN THE REPORTING PERIOD

Details of the Shares issued by the Company during the Reporting Period are set out in Note 20 and 21 to the Consolidated Financial Statements and the section headed "History, Development and Corporate Structure" in the Prospectus.

DISTRIBUTABLE RESERVES

As of December 31, 2018, the Company did not have any distributable reserves.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the IPO and the exercise of over-allotment option of approximately HK$2,394.28 million.

During the Relevant Period, the net proceeds were unutilised. The Company intends to use the net proceeds in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed public float under the Listing Rules during the Relevant Period.

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

As the Company was not yet listed on the Stock Exchange as of December 31, 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period. During the Relevant Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

PROFESSIONAL TAX ADVICE RECOMMENDED

If any of the Shareholders is unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, he or she is advised to consult an expert.

BANK BORROWINGS

As of December 31, 2018, the Company did not have any bank borrowings.

KEY PERFORMANCE INDICATORS

Other income increased by RMB18.1 million from RMB14.0 million for the year ended December 31, 2017 to RMB32.1 million for the year ended December 31, 2018.

Other gains and losses increased by RMB649.9 million from losses of RMB103.7 million for the year ended December 31, 2017 to losses of RMB753.6 million for the year ended December 31, 2018.

Research and development expenses increased by RMB636.8 million from RMB213.4 million for the year ended December 31, 2017 to RMB850.2 million for the year ended December 31, 2018.

Administrative expenses increased by RMB151.7 million from RMB39.3 million for the year ended December 31, 2017 to RMB191.0 million for the year ended December 31, 2018. As a result of the above factors, the loss for the year increased by RMB1,450.6 million from RMB342.5 million for the year ended December 31, 2017 to RMB1,793.1 million for the year ended December 31, 2018.

CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group did not make charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

As we have no internally-developed products approved for commercial sale and have not generated any revenue from internally-developed product sales, we did not generate any revenue for the Reporting Period.

Purchases attributable to the Group's five largest suppliers and the largest supplier accounted for 80.9% and 38.5%, respectively, of the Group's total purchases for the Reporting Period.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (whom, to the best knowledge and belief of the Directors, own more than 5% of the Company's total issued share capital) had a material interest in the Group's five largest suppliers during the Reporting Period.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have a significant impact on it. The Group would seek professional legal advice from its legal advisers to ensure that transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the Reporting Period, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

RELATIONSHIPS WITH THE GROUP'S EMPLOYEES

The Group believes that employees are important and valuable assets. The Group will provide trainings for employees to enhance their knowledge in corporate values and culture and to implement them thoroughly. Meanwhile, the Group encourages staff on continued studies by giving subsidy to recognized development courses. The Group also aims to provide competitive and attractive remuneration packages to retain its employees. Management reviews annually the remuneration package offered to the employees of the Group. Meanwhile, for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group's operations, the Company has adopted the Pre-IPO Incentivization Plan, the Post-IPO ESOP and the Post-IPO RSU Scheme. Details of such schemes are set out in the sub-sections headed "Share Incentivization Schemes" in this report.

RELATIONSHIPS WITH THE GROUP'S SUPPLIERS

The Group values long standing relationships with its suppliers. The Group aims at delivering high quality products to its potential customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers to maintain sustainable growth.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Particulars of the Company's significant events affecting the Company or any of its subsidiaries after the year ended December 31, 2018 are set out in the section headed "Management Discussion and Analysis – Events after the Reporting Period" of this report.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this report.

EQUITY-LINK AGREEMENT

For the Reporting Period, the Company has not entered into any equity-link agreement, save for options that can be granted under the Pre-IPO Incentivization Plan. Details of the Pre-IPO Incentivization Plan are set out in the sub-section headed "Share Incentivization Schemes" in this report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises three INEDs, namely, Mr. Hongbin Sun, Dr. Paul Herbert Chew and Mr. Ting Yuk Anthony Wu. The Audit Committee has reviewed with the management of the Company the audited Consolidated Financial Statements for the Reporting Period.

INDEPENDENT AUDITOR

The Consolidated Financial Statements for the Reporting Period have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of Deloitte Touche Tohmatsu as the Independent Auditor for the ensuing year will be put to the forthcoming AGM for Shareholder's approval.

On Behalf of the Board

Dr. Frank Ningjun Jiang
Chairman and Chief Executive Officer

Shanghai, PRC, March 22, 2019

Corporate Governance Report

The Board hereby presents to the Shareholders the corporate governance report of the Group for the year ended December 31, 2018 (the "Corporate Governance Report").

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted and applied the principles as set out in the CG Code. The Board is of the view that during the Relevant Period, the Company has complied with all the applicable code provisions as set out in the CG Code, except for code provision A.2.1 described in the paragraph headed "Board of Directors – Chairman and Chief Executive Officer" in this Corporate Governance Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

We have also adopted our own code of conduct regarding securities transactions, namely the Policy on Management of Securities Transactions by Directors (the "Securities Transactions Code"), which applies to all Directors of the Company on terms not less exacting than the required standard indicated by the Model Code.

Specific enquiries have been made of all the Directors and they have confirmed that they have complied with the relevant Securities Transactions Code throughout the Relevant Period.

The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are subject to the Model Code. No incident of non-compliance of the Model Code by the employees was noted by the Company as at the date of this report.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Compensation Committee, the Nomination Committee and the Strategy Committee (collectively the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Continuous Professional Development of Directors

The Company believes education and training are important for maintaining an effective Board. Every Director has received formal and comprehensive trainings 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.

The Company arranges continuous professional development trainings to Directors such as updates by its compliance counsel to ensure Directors keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant. Directors also regularly meet with the senior management team to understand the Group's businesses, governance policies and regulatory environment. All Directors are also encouraged to attend relevant training courses.

The Directors pursued continuous professional development and relevant details are summarised as follows:

Name of Director	Participated in continuous professional development[1]
Executive Director	
Frank Ningjun Jiang	√
Non-executive Directors	
Wei Li	√
Qun Zhao	√
Xiaomeng Tong[2]	√
Guobin Zhang	√
Lian Yong Chen	√
Independent Non-executive Directors	
Paul Herbert Chew	√
Ting Yuk Anthony Wu	√
Hongbin Sun	√

(1) Attended training/seminar/conference arranged by the Company or other external parties or read relevant materials.

(2) As the Company was listed on February 26, 2019, Mr. Xiaomeng Tong attended the continuous professional development by his proxy, Mr. Yanling Cao due to his other work commitments.

Chairman and Chief Executive Officer

We do not have a separate chairman and chief executive officer and Dr. Frank Ningjun Jiang currently performs these two roles. While this will constitute a deviation from Code Provision A.2.1 of the CG Code, our Board believes that this structure will not impair the balance of power and authority between our Board and the management of our 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 three INEDs out of nine Directors, and we believe there is sufficient check and balance in our Board; (ii) Dr. Frank Ningjun Jiang and other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they act 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 our Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of our Company.

Moreover, the overall strategic and other key business, financial and operational policies of our Group are made collectively after thorough discussion at both our Board and senior management levels. Finally, our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for and communication within our Group. Our 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 and chief executive officer is necessary.

During the Relevant Period, the Company held board meetings that included the participation of the executive Director, yet the non-executive Directors could freely provide their independent opinion to the Board. The Company will also arrange for the Chairman (who is the sole executive Director) to have meetings with the non-executive Directors (including the INEDs) so as to comply with the requirement of the Code provision A.2.7 after Listing.

Composition

As at the date of this report, the Board is comprised of nine Directors, with one executive Director, five non-executive Directors and three INEDs. During the Relevant Period, there is no change to the composition of the Board. A list of Directors and their respective biographies are set out on pages 15 to 23 of this report. As at the date of this report, none of our Directors is related to other Directors of the Company.

The Board's composition is in compliance with the requirement under Rule 3.10A of the Listing Rules that the number of INEDs must represent at least one-third of the Board. The Board believes that the balance between the executive Director and the non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the Shareholders and the Group.

The Board values the importance of professional judgment and advice provided by non-executive Directors to safeguard the interests of the Shareholders. The non-executive Directors contribute diversified qualifications and experience to the Group by expressing their views in professional, constructive and informed manner, and actively participate in Board and committee meetings and to bring professional judgment and advice on issues relating to the Group's strategies, policies, performance, accountability, resources, key appointments, standards of conduct, conflicts of interests and management process, with the Shareholders' interests being the utmost important factor. The non-executive Directors also exercise their professional judgment and utilise their expertise to scrutinise the Company's performance in achieving agreed corporate goals, and monitor performance reporting.

Further, in compliance with Rule 3.10 of the Listing Rules, two of the Company's INEDs (namely Mr. Ting Yuk Anthony Wu and Mr. Hongbin Sun) have the appropriate professional qualifications of accounting or related financial management expertise, and provide valuable advice from time to time to the Board. The Company has also received from each INED an annual confirmation of his independence and the Nomination Committee has conducted an annual review and considers that all INEDs are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each INED.

As part of the Company's corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, the INEDs are clearly identified in all corporate communications containing the names of the Directors. In addition, an up-to-date list of Directors identifying the INEDs and the roles and functions of the Directors is maintained on the Company's website and the Stock Exchange's website.

Appointments and Re-election of Directors

The Company entered into a service contract with Dr. Frank Ningjun Jiang on February 19, 2019 and does not have service contracts with any of its other Directors and during the Reporting Period, no remunerations have been paid to Directors in the capacity of them as Directors in the Company.

Each of the INEDs has entered into an appointment letter with the Company. The initial term of their appointment shall be between two to three years from February 14, 2019 or until the third AGM of the Company after the Listing Date or, whichever is earlier, (subject to retirement as and when required under the Articles of Association) or until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other with not less than one month's prior notice in writing.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the Shareholders at the first AGM of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by the Shareholders at the next following AGM of the Company after appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Board Meetings

As the Shares of the Company have only been listed since February 26, 2019, the Board held two meetings during the Relevant Period. The attendance of each Director at Board and committee meetings of the Company, whether in person or by means of electronic communication, is detailed in the table below:

	Attendance/No. of Meetings held during the Relevant Period				
Name of Directors	**Board**	**Audit Committee[1]**	**Compensation Committee[2]**	**Nomination Committee[3]**	**Strategy Committee[4]**
Executive Director					
Frank Ningjun Jiang	2/2	N/A	N/A	1/1	N/A
Non-executive Directors					
Wei Li	2/2	N/A	1/1	N/A	N/A
Qun Zhao	2/2	N/A	N/A	N/A	N/A
Xiaomeng Tong[5]	0/2	N/A	N/A	0/1	N/A
Guobin Zhang	2/2	N/A	N/A	N/A	N/A
Lian Yong Chen	2/2	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Paul Herbert Chew	2/2	1/1	1/1	1/1	N/A
Ting Yuk Anthony Wu	2/2	1/1	1/1	1/1	N/A
Hongbin Sun	2/2	1/1	N/A	1/1	N/A

Notes:

(1) The Audit Committee held a meeting on March 22, 2019 and all members of the Audit Committee attended the meeting.

(2) The Compensation Committee held a meeting on March 22, 2019 and all members of the Compensation Committee attended the meeting.

(3) The Nomination Committee held a meeting on March 22, 2019. Dr. Frank Ningjun Jiang, Dr. Paul Herbert Chew, Mr. Ting Yuk Anthony Wu and Mr. Hongbin Sun attended the meeting.

(4) No meeting of the Strategy Committee was held during the Relevant Period.

(5) As the Company was listed on February 26, 2019, Mr. Xiaomeng Tong was absent from the Board meetings and Nomination Committee meeting during the Relevant Period due to his other work commitments.

At the two Board meetings held during the Relevant Period, the Board discussed a wide range of matters, including, among other things, the operation and business development updates, the proposed corporate goals for the year ending 2019, the financial statements and annual results for the Reporting Period, risk management and internal control systems and the Post-IPO RSU Scheme adopted by the Company on March 22, 2019.

During the Relevant Period, apart from the two Board meetings held, the Chairman, who is also the sole executive Director, did not hold any other meeting with the non-executive Directors (including INEDs) in the absence of the senior management of the Company.

No AGM was held during the Relevant Period.

BOARD COMMITTEES

The Company has established the following committees in Board of Directors: Audit Committee, Compensation Committee, Nomination Committee and Strategy Committee. The committees operate in accordance with terms of reference established by our Board of Directors.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three INEDs, namely, Dr. Paul Herbert Chew, Mr. Hongbin Sun, and Mr. Ting Yuk Anthony Wu. Mr. Hongbin Sun, being the chairman of the Audit Committee, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to assist our Board of Directors by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board of Directors.

During the Relevant Period, the Audit Committee scheduled one meeting and all the members of the Audit Committee attended the meeting.

Compensation Committee

The Company has established the Compensation Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Compensation Committee consists of one non-executive Director, namely Dr. Wei Li, and two INEDs, namely, Dr. Paul Herbert Chew and Mr. Ting Yuk Anthony Wu. Mr. Ting Yuk Anthony Wu is the chairman of the Compensation Committee. The primary duties of the Compensation Committee include, but are not limited to, the following: (i) making recommendations to the Board of Directors on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board of Directors from time to time.

During the Relevant Period, the Compensation Committee scheduled one meeting and all the members of the Compensation Committee attended the meeting.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of one executive Director, namely, Dr. Frank Ningjun Jiang, our CEO and Chairman of our Board, one non-executive Director, namely, Mr. Xiaomeng Tong, and three INEDs, namely, Dr. Paul Herbert Chew, Mr. Hongbin Sun and Mr. Ting Yuk Anthony Wu. Dr. Frank Ningjun Jiang, our CEO and Chairman of our Board, is the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size, composition and diversity of the Board of Directors, assessing the independence of INEDs and making recommendations to the Board of Directors on matters relating to the appointment of Directors.

We are committed to promote diversity in the Company to the extent practicable by taking into consideration a number of factors in respect of our corporate governance structure.

We have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, biotech, clinical research, life science, finance, investment, auditing and accounting. They obtained degrees in various areas including medicine, immunology, chemistry, chemical physics, chemical engineering, pharmaceutical analysis, economics and accounting. Furthermore, our Directors range from 39 years old to 67 years old.

We are also committed to adopting a similar approach to promote diversity of the management (including but not limited to the senior management) of the Company to enhance the effectiveness of corporate governance of the Company as a whole.

Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. Our Nomination Committee will continue to review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose about the implementation of the board diversity policy in the next annual report of the Company.

During the Relevant Period, the Nomination Committee scheduled one meeting and all the members of the Nomination Committee attended the meeting.

Strategy Committee

The Company has established the Strategy Committee which consists of one executive Director, namely, Dr. Frank Ningjun Jiang, one non-executive Director, namely, Dr. Lian Yong Chen and one INED, namely, Dr. Paul Herbert Chew, with Dr. Frank Ningjun Jiang, our CEO and Chairman of our Board, as the chairman of the Strategy Committee. The primary functions of the Strategy Committee is to review and advise on our mid to long term strategic positioning and development plans and to monitor the implementations of our development plans.

During the Relevant Period, no Strategy Committee meeting took place.

Corporate Governance Function

As no corporate governance committee has been established, the Board is responsible for, among other things, formulating and reviewing the policies and practices on corporate governance of the Group and make recommendations, monitoring the compliance of legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the corporate governance compliance with the CG Code and the disclosures in the annual report.

The Corporate Governance Report has been reviewed by the Board in the discharge of its corporate governance function.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

We recognize that risk management is critical to the success of our business operation. Key operational risks faced by us include changes in the general market conditions and the regulatory environment of the Chinese and global pharmaceutical markets, our ability to develop, manufacture and commercialize our drug candidates, and our ability to compete with other pharmaceutical companies. We also face various market risks. In particular, we are exposed to credit, liquidity, interest rate and currency risks that arise in the normal course of our business.

We have adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an ongoing basis. Our Audit Committee, and ultimately our Directors, supervise the implementation of our risk management policies. Risks identified by management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by our Group and reported to our Directors.

The following key principles outline our Group's approach to risk management and internal control:

Our Audit Committee will oversee and manage the overall risks associated with our business operations, including (i) reviewing and approving our risk management policy to ensure that it is consistent with our corporate objectives; (ii) reviewing and approving our corporate risk tolerance; (iii) monitoring the most significant risks associated with our business operations and our management's handling of such risks; (iv) reviewing our corporate risk in the light of our corporate risk tolerance; and (v) monitoring and ensuring the appropriate application of our risk management framework across our Group.

Our Chief Financial Officer, Mr. Richard Yeh, will be responsible for (i) formulating and updating our risk management policy and target; (ii) reviewing and approving major risk management issues of our Company; (iii) promulgating risk management measures; (iv) providing guidance on our risk management approach to the relevant departments in our Company; (v) reviewing the relevant departments' reporting on key risks and providing feedback; (vi) supervising the implementation of our risk management measures by the relevant departments; (vii) ensuring that the appropriate structure, processes and competences are in place across our Group; and (viii) reporting to our Audit Committee on our material risks.

The relevant departments in our Company, including the finance department, the legal department and the human resources department, are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) prepare a risk management report annually for our CEO's review; (iv) continuously monitor the key risks relating to their operation or function; (v) implement appropriate risk responses where necessary; and (vi) develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

We believe that our Directors and members of our senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

Internal Control

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. We have engaged an internal control consultant (the "Internal Control Consultant") to perform certain agreed-upon procedures (the "Internal Control Review") in connection with the internal control during the period from August 2017 to July 2018 of our Company and our major operating subsidiaries and to report factual findings on our Group's entity-level controls and internal controls of various processes, including financial reporting and disclosure controls, procurement, accounts payable and payment, fixed assets, human resources and payroll management, cash and treasury management, general controls of IT system, insurance management, contract management, outsourcing management, IP management, research and development and intangible assets. The Internal Control Consultant performed the Internal Control Review in September 2018 and a follow-up review in October 2018. As of the date of this report, there were no material internal control findings.

During the Relevant Period, we regularly reviewed and enhanced our internal control system designed to manage the risks and uncertainties that may cause the Group's financial conditions or business performance materially different from the expected or historical results. Below is a summary of the internal control policies, measures and procedures we have implemented or plan to implement:

- We have adopted various measures and procedures regarding each aspect of our business operation, such as protection of intellectual property, environmental protection and occupational health and safety. We provide periodic training about these measures and procedures to our employees as part of our employee training program. We also constantly monitor the implementation of those measures and procedures.

- Our Directors (who are responsible for monitoring the corporate governance of our Group) with help from our legal advisors, will also periodically review our compliance status with all relevant laws and regulations after the Listing.

- Our Audit Committee will (i) make recommendations to our Directors on the appointment and removal of external auditors; and (ii) review the financial statements and render advice in respect of financial reporting as well as oversee internal control procedures of our Group.

- We plan to engage a PRC law firm to advise us on and keep us abreast with PRC laws and regulations on a regular basis. We will continue to arrange various trainings to be provided by external legal advisors from time to time when necessary and/or any appropriate accredited institution to update our Directors, senior management, and relevant employees on the latest PRC laws and regulations.

We intend to maintain strict anti-corruption policies among our sales personnel and distributors in our sales and marketing activities after we obtain marketing approvals for our drug candidates. We will also ensure that our sales and marketing personnel comply with applicable promotion and advertising requirements, which include restrictions on promoting drugs for unapproved uses or patient populations, and limitations on industry-sponsored scientific and educational activities.

Investment Risk Management

We engage in short-term investments with surplus cash on hand. Our primary objective for short-term investments is to preserve principal through the minimization of both default and market risk. Our finance department, under the supervision of our Chief Financial Officer, is responsible for managing our short-term investment activities. Before making a proposal to invest in wealth management products, our financial department must assess our cash flow and operational needs and capital expenditures.

We operate under a Board approved investment policy which governs the investment of our funds, which is reviewed from time to time by our Board. We will only make short-term investments in U.S. government securities, U.S. corporate securities which are publicly traded, U.S. municipal securities, U.S. money bank obligations and money market funds. To ensure a diversified portfolio holding, no purchase of any single issuer can represent more than five percent of the total portfolio market value at the time of purchase, with the exception of the U.S. government, its agencies, or municipals defeased with U.S. government securities for which no limit is imposed.

Our investment strategy strives to minimize risk by reasonably and conservatively matching the maturities of the portfolio securities to anticipated operating cash requirements. Our investment decisions are made on a case-by-case basis that considers multiple factors, such as general market conditions and the anticipated benefit and potential loss of the investment.

Our portfolio to date have been required to hold only instruments with an effective final maturity of 24 months or less, with effective final maturity being defined either as the obligation of the issuer to repay principal and interest or the discretionary ability to put the security back to the issuer. The initial target range for the average maturity of our portfolio is 12 months. Our investments to date have been required to be denominated and held in U.S. dollars with readily ascertainable market value. Our investments do not participate in any derivative securities or bank loans. There have been no cases of deviation from our investment policy to date.

We believe that our internal investment policies and the related risk management mechanism are adequate. We may make investments that meet the above criteria after consultation and approval by our Board where we believe it is prudent to do so.

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems. The review process comprises, among other things, meetings with management of business groups, internal audit team, legal personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. During the Relevant Period and for the year ending 2019, among other things, the Board has reviewed and will continue to review the Group's financial operation and compliance controls, the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, audit and financial reporting functions. The Company does not have internal audit department and the Board and the senior management of the Company are responsible to perform the internal audit function during the Relevant Period. The Company would review the arrangement of the internal audit function from time to time. The Audit Committee will review the Company's internal audit function and the internal control systems for the year ending 2019.

In addition, the Board believes that the Company's accounting and financial reporting functions have been performed by staff of the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. The Board is of the opinion that the Group's risk management and internal control systems were adequate and effective throughout the Reporting Period.

Policy on the Disclosure of Inside Information

The Company has put in place an internal policy for the handling and disclosure of inside information in compliance with the SFO. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees a general guide in monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

SHAREHOLDERS

The Company strives to provide ready, equal, regular and timely disclosure of information that is material to the investor community. Therefore, the Company works to maintain effective and on-going communication with Shareholders so that they, along with prospective investors, can exercise their rights in an informed manner based on a good understanding of the Group's operations, businesses and financial information. The Company also encourages Shareholders' active participation in annual general meetings and other general meetings or other proper means. To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

The Company has developed and maintains the Shareholders communication policy, which is available on the Company's website.

A summary of the disclosure of interests of the substantial shareholders of the Company is set out on pages 35 to 36 of this report.

Convening of Extraordinary General Meeting and Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as of date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition. A written requisition shall be deposited at the principal office of the Company in Hong Kong. If within 21 days of such deposit the Board fails to proceed to convene such meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, namely, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders who wish to put enquiries to the Board can send their enquiries to the head office of the Company at 1000 Zhangheng Road Building, 25, Pudong New District, Shanghai, PRC or send email to richard.yeh@cstonepharma.com to the Chief Financial Officer of the Company, Mr. Richard Yeh, who will ensure these enquiries to be properly directed to the Board. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

Dividend Policy

Subject to the Articles of Association and other applicable laws and regulations, the Company targets to formalize its dividend policy once the Group commences to have products approved for commercial sale and to generate any revenue from product sales. Any proposed distribution of dividends will be subject to the discretion of the Board and the approval of the Shareholders. Recommendations for distribution of dividends will be made after taking into account the results of operations, financial condition, operating requirements, capital requirements, Shareholders' interests and any other conditions that the Board may deem relevant.

COMPANY SECRETARY

The Vice President of SWCS Corporate Services Group (Hong Kong) Limited, Ms. Yeung Ching Man, has been appointed as the Company Secretary on October 29, 2018 and has taken no less than 15 hours of relevant professional training during the Reporting Period and has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements. Mr. Richard Yeh, our Chief Financial Officer, is the primary contact person whom Ms. Yeung contacts.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2018, and 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 Auditor about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report"

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditors to the Group during the year ended December 31, 2018 was approximately as follows:

Type of Services	Fee paid and payable *(RMB'000)*	Total fees paid and payable *(RMB'000)*
Audit and audit related services (including IPO audit service)		3,447
Non-audit services		546
– Internal control review for the listing	438	
– Compliance advisory services	108	
Total		3,993

Note: The Company appointed Deloitte Touche Tohmatsu, Certified Public Accountants ("Deloitte") as the external auditor for the year ended December 31, 2018. A statement by Deloitte about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 62 to 64 of this report.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company's constitutional documents consist of its Memorandum and the Articles of Association. The Memorandum and Articles of Association have been adopted on January 30, 2019 with effect from the Listing Date.

Deloitte. 德勤

TO THE SHAREHOLDERS OF CSTONE PHARMACEUTICALS
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CStone Pharmaceuticals (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 65 to 134, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Cut-off of research and development expenses	
The Group incurred significant research and development ("R&D") expenses of RMB850 million as disclosed in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2018. In addition, R&D expenses of RMB43 million were accrued as at December 31, 2018 as set out in note 18 to the consolidated financial statements. A large portion of these R&D expenses were service fees paid to outsourced service providers including contract research organisations and clinical trial centres (collectively referred to as the "Outsourced Service Providers"). We identified the cut-off of R&D expenses as a key audit matter due to its significant amount and risk of not accruing R&D costs incurred for services provided by the Outsourced Service Providers in the appropriate reporting period.	Our procedures in relation to the cutoff of the R&D expenses included: • Obtaining an understanding of key controls of the management's basis and assessment in relation to the accrual process of the R&D expense, including service fees paid to the Outsourced Service Providers; • For the service fees paid to contract research organisations, reading the key terms set out in research agreements and evaluating the completion status with reference to the progress reported by the representatives of the relevant contract research organisations, on a sample basis, to determine whether the service fees were recorded based on the respective contract sums, progress and/or milestones achieved; • For the service fees paid to clinical trial centres, testing the accrual of the clinical trial related costs, on a sample basis, with reference to the clinical trial data and terms of services; and • Confirming, on a sample basis, with the Outsourced Service Providers in respect of the R&D transaction amounts for the year ended December 31, 2018 and balances as of December 31, 2018 by audit confirmations.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter

Valuation of the conversion feature of the preferred shares classified as financial liabilities at fair value through profit or loss ("FVTPL")

The Company has issued preferred shares with conversion features to investors as set out in note 20 to the consolidated financial statements. The Company bifurcated the conversion feature from preferred shares and classified it as financial liabilities at FVTPL in which no quoted price in an active market exist.

The accounting policy related to the conversion feature which is classified as financial liabilities at FVTPL has been disclosed in note 3 to the consolidated financial statements for the year ended December 31, 2018.

The fair value of the conversion feature of the preferred shares is established by using valuation techniques which include back-solve method and application of option pricing model. Valuation techniques are certified by independent valuer. Some inputs to the valuation model require significant management estimates, assumptions and complex calculation. If there is any change in the management estimate and assumptions of the inputs to the valuation model, it might lead to a change in the fair value to be recognised in profit or loss.

Therefore, we identified the valuation assertion of the conversion feature of the preferred shares classified as financial liabilities at FVTPL as a key audit matter due to the determination of fair value involving significant degree of complexity and management judgement.

Our procedures in relation to the valuation assertion of the conversion feature of preferred shares classified as financial liabilities at FVTPL included:

- Understanding of the Company's key controls over the valuation process in respect of the fair value of the conversion feature;
- Understanding and evaluating the valuation model and methodology adopted by management for determining the fair value of the conversion feature, and challenging the key inputs and assumptions adopted by management for the appropriateness of the fair value;
- Involving internal valuation specialist to review and assess the appropriateness of the valuation techniques, estimates and key assumptions adopted in the valuation model; and
- Evaluating the disclosures regarding the valuation of the conversion feature of the preferred shares in note 20 to the consolidated financial statements.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

The engagement partner on the audit resulting in the Independent Auditor's report is Au Chun Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 22, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Other income	6	**32,102**	13,954
Other gains and losses	6	**(753,584)**	(103,665)
Research and development expenses		**(850,197)**	(213,441)
Administrative expenses		**(190,991)**	(39,335)
Finance costs	7	**–**	(60)
Listing expenses		**(30,459)**	–
Loss for the year	8	**(1,793,129)**	(342,547)
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on investments in debt instruments measured at fair value through other comprehensive income ("FVTOCI")		**3,125**	(1,424)
Reclassified to profit or loss upon disposal of debt instruments at FVTOCI		**(1,298)**	(20)
Other comprehensive income (expense) for the year		**1,827**	(1,444)
Total comprehensive expense for the year		**(1,791,302)**	(343,991)
Loss for the year attributable to:			
Owners of the Company			
– ordinary shareholders		**(469,830)**	(107,445)
– preferred shareholders		**(1,275,447)**	(201,459)
		(1,745,277)	(308,904)
Non-controlling interests		**(47,852)**	(33,643)
		(1,793,129)	(342,547)
Total comprehensive expense for the year attributable to:			
Owners of the Company			
– ordinary shareholders		**(469,338)**	(107,947)
– preferred shareholders		**(1,274,112)**	(202,401)
		(1,743,450)	(310,348)
Non-controlling interests		**(47,852)**	(33,643)
		(1,791,302)	(343,991)
Loss per share			
Basic and diluted (RMB Yuan)	12	**(2.79)**	(0.67)

Consolidated Statement of Financial Position

At December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	13	**14,473**	15,457
Deposits for acquisition of property, plant and equipment		**58**	160
Other intangible assets	14	**897**	222
Other receivables	15	**11,742**	3,181
		27,170	19,020
Current assets			
Deposits, prepayments and other receivables	15	**46,984**	7,567
Other investments classified as financial assets measured at fair value through profit or loss ("FVTPL")	16	**16,792**	56,593
Debt instruments at FVTOCI	16	**78,620**	397,710
Time deposits	17	**761,216**	–
Cash and cash equivalents	17	**701,336**	83,390
		1,604,948	545,260
Current liabilities			
Trade and other payables and accrued expenses	18	**93,574**	24,733
Deferred income	19	**–**	2,000
Derivative financial liabilities	20	**1,015,648**	86,495
		1,109,222	113,228
Net current assets		**495,726**	432,032
Total assets less current liabilities		**522,896**	451,052

Consolidated Statement of Financial Position

At December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liability			
Deferred income	*19*	**7,565**	–
Net assets		**515,331**	451,052
Capital and reserves			
Ordinary share capital	*21*	**29**	26
Preferred share capital	*20*	**94**	49
Reserves		**515,208**	426,263
Equity attributable to owners of the Company		**515,331**	426,338
Non-controlling interests		**–**	24,714
Total equity		**515,331**	451,052

The consolidated financial statements on pages 65 to 134 were approved and authorised for issue by the board of directors on March 22, 2019 and are signed on its behalf by:

Dr. Frank Ningjun Jiang
DIRECTOR

Dr. Wei Li
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2018

	Attributable to owners of the Company									
	Ordinary share capital *RMB'000*	Preferred share capital *RMB'000 (note 20)*	Share premium *RMB'000*	Investments revaluation reserve *RMB'000*	Other reserve *RMB'000 (note a)*	Share-based payment reserve *RMB'000*	Accumulated losses *RMB'000*	Subtotal *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At January 1, 2017	26	49	706,710	(33)	242,659	9,368	(246,091)	712,688	54,267	766,955
Loss for the year	–	–	–	–	–	–	(308,904)	(308,904)	(33,643)	(342,547)
Other comprehensive expense for the year	–	–	–	(1,444)	–	–	–	(1,444)	–	(1,444)
Total comprehensive expense for the year	–	–	–	(1,444)	–	–	(308,904)	(310,348)	(33,643)	(343,991)
Recognition of equity-settled share-based payment	–	–	–	–	(4,090)	28,088	–	23,998	4,090	28,088
At December 31, 2017	26	49	706,710	(1,477)	238,569	37,456	(554,995)	426,338	24,714	451,052
Loss for the year	–	–	–	–	–	–	(1,745,277)	(1,745,277)	(47,852)	(1,793,129)
Other comprehensive income for the year	–	–	–	1,827	–	–	–	1,827	–	1,827
Total comprehensive income (expense) for the year	–	–	–	1,827	–	–	(1,745,277)	(1,743,450)	(47,852)	(1,791,302)
Issuance of convertible preferred shares ("Preferred Shares") *(note 20)*	–	40	1,617,178	–	–	–	–	1,617,218	–	1,617,218
Cancellation of Preferred Shares	–	–	(225)	–	–	–	–	(225)	–	(225)
Recognition of equity-settled share-based payment	–	–	29,159	–	(18,745)	205,803	–	216,217	18,745	234,962
Effect of put option granted to a non-controlling shareholder to convert the equity interests in a subsidiary to the Company's Preferred Shares	–	5	308,107	–	(266,181)	–	–	41,931	(41,931)	–
Exercise of share options *(note 21)*	3	–	24,942	–	–	(21,319)	–	3,626	–	3,626
Deemed acquisition of additional equity interest in a subsidiary	–	–	–	–	(46,324)	–	–	(46,324)	46,324	–
At December 31, 2018	**29**	**94**	**2,685,871**	**350**	**(92,681)**	**221,940**	**(2,300,272)**	**515,331**	**–**	**515,331**

Note:

(a) Other reserve included (1) share-based payment recognised as deemed losses to non-controlling interests; (2) differences between the carrying amounts of net assets attributable to the non-controlling interests at date of subscription of capital to a subsidiary, fair value of the respective conversion features of Preferred Shares at date of injection and the relevant proceeds received; (3) adjustment to non-controlling interests in 基石藥業(蘇州)有限公司 ("CStone Suzhou") as a result of additional capital injection by the Group; and (4) effect of exercise of put option by a non-controlling shareholder to convert the equity interests in a subsidiary to the Company's Preferred Shares.

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Loss for the year	**(1,793,129)**	(342,547)
Adjustments for:		
Depreciation of property, plant and equipment	**5,105**	811
Amortisation of other intangible assets	**161**	10
Net foreign exchange (gains) losses	**(129,542)**	29,475
Gain on fair value changes of other investments classified as financial assets measured at FVTPL	**(1,145)**	(6,010)
Gain on disposal of debt instruments at FVTOCI	**(1,298)**	(20)
Loss on fair value changes of derivative financial liabilities	**885,569**	79,933
Share-based payment expense	**234,962**	28,088
Loss on disposal of property, plant and equipment	**–**	287
Interest income	**(7,947)**	(3,508)
Changes in fair value of money market fund	**(11,605)**	(146)
Finance costs	**–**	60
Government grants income related to property, plant and equipment	**(115)**	–
Operating cash flows before movements in working capital	**(818,984)**	(213,567)
(Increase) decrease in deposits, prepayments and other receivables	**(40,183)**	2,421
Increase (decrease) in trade and other payables and accrued expenses	**65,880**	(29,040)
Increase in deferred income	**2,180**	–
NET CASH USED IN OPERATING ACTIVITIES	**(791,107)**	(240,186)
INVESTING ACTIVITIES		
Placement of time deposits with maturity dates over three months	**(756,712)**	–
Interest received	**5,111**	6,054
Receipt of return from money market fund	**11,605**	146
Deposit paid for property, plant and equipment	**(58)**	(160)
Purchase of property, plant and equipment	**(7,012)**	(12,130)
Purchase of other intangible assets	**(836)**	(223)
Purchase of other investments classified as financial assets measured at FVTPL	**–**	(1,012,000)
Purchase of debt instruments at FVTOCI	**(286,360)**	(2,731,048)
Proceeds on disposal of other investments classified as financial assets measured at FVTPL	**40,001**	1,256,112
Proceeds on disposal of debt instruments at FVTOCI	**613,060**	2,761,549
Receipt of government grants related to property, plant and equipment	**3,500**	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(377,701)**	268,300

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2018

	2018 *RMB'000*	2017 *RMB'000*
FINANCING ACTIVITIES		
Interest paid	**–**	(300)
Proceeds on issue of Preferred Shares to new investors	**1,661,094**	–
Proceeds on issue of Preferred Shares to non-controlling interests	**307,219**	–
Acquisition of non-controlling interests	**(307,219)**	–
Issue costs paid	**(2,300)**	–
Exercise of share options *(note 21(c))*	**3,626**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**1,662,420**	(300)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**493,612**	27,814
Effects of foreign exchange rate changes	**124,334**	(3,963)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**83,390**	59,539
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**701,336**	83,390

1. GENERAL

CStone Pharmaceuticals (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on December 2, 2015 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from February 26, 2019. Its registered office is located at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands and its principal place of business 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 research and development of highly complex biopharmaceutical products.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Company and its subsidiaries (collectively referred to as the "Group") have consistently applied all the new and revised IFRSs, International Accounting Standards ("IASs"), amendments and interpretations issued by the International Accounting Standards Board ("IASB") which are effective for the accounting periods beginning on January 1, 2018.

The Group has also elected to early apply Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. January 1, 2019.

New and amendments IFRSs in issue but not yet effective

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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

[1] Effective for annual periods beginning on or after January 1, 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after January 1, 2021
[4] Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020
[5] Effective for annual periods beginning on or after January 1, 2020

Except as described below, the directors of the Company anticipate that the application of all the other new and amendments to IFRSs and the interpretation will have no material impact on the Group's financial performance and positions and/or on the disclosures to the Group's consolidated financial statements.

IFRS 16 *Leases*

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

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

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

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of approximately RMB9,048,000 as disclosed in note 23. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 16 *Leases* (continued)

In addition, the Group currently considers refundable rental deposits paid of approximately RMB1,798,000 as at December 31, 2018 as disclosed in note 15 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets; accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17. Therefore, the Group reassesses whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospectively approach for the application of IFRS 16 as lessee and recognises the cumulative effect of initial application to opening accumulated losses without restating comparative information.

The management of the Group expected that, such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not result in significant impacts to the consolidated financial performance of the Group's future financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

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

Changes in the Group's interests in existing subsidiaries

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

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

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Investments in subsidiaries

Investments in subsidiaries are included in the statement of financial position at cost less any identified impairment losses.

Leasing

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefits costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options and restricted share units granted to employees

Equity-settled share-based payment to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payment determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. For share options and restricted shares units that vest immediately at the date of grant, the fair value of the share options and restricted shares units granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses.

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Property, plant and equipment

Property, plant and equipment including buildings held for use or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Intangible assets

Intangible assets acquired separately

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible and intangible assets (continued)

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include cash at banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and within three months of maturity from the date of acquisition.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

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

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investments revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Financial assets at FVTPL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under IFRS 9 (including other receivables, bank balances and time deposits). The amount of ECL is updated at each reporting dates to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the other debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

(i) Significant increase in credit risk

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

(ii) Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

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

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

- Nature of financial instruments (i.e. the Group's other receivables and subscription receivable from a preferred shareholder are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in investments revaluation reserve without reducing the carrying amount of these debt instruments.

Derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Derecognition of financial assets (continued)

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity *(continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Preferred Shares

The component parts of compound instruments (Preferred Shares) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Preferred Shares issued by the Company are classified as equity as the instrument does not include contractual obligation to deliver cash or other financial assets to holders and it is a non-derivative instrument that does not include contractual obligation for the issuer to deliver a variable number of its own equity instruments. Transaction costs relating to the equity component are recognised directly in equity.

Conversion feature of compound instrument (Preferred Shares) is classified separately as derivative financial liabilities as the option will be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Option granted to a non-controlling shareholder to acquire the Company's Preferred Shares ("Share Purchase Option") as set out in note 20 is accounted for as derivatives and is recognised at fair value upon initial recognition. Any changes of its fair values in subsequent reporting dates is recognised in the profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Research and development expenses

Development costs incurred on the Group's drug product pipelines are 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, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are expensed when incurred. Management will assess the progress of each of the research and development projects and determine the criteria are met for capitalisation. During the years ended December 31, 2018 and 2017, all development costs are expensed when incurred.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may 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 property, plant and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is referenced to useful lives of property, plant and equipment of similar nature and functions in the industry. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete assets that have been abandoned or sold. As at December 31, 2018, the carrying amount of property, plant and equipment is approximately RMB14,473,000 (2017: RMB15,457,000) as disclosed in note 13.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Fair value of derivative financial liabilities

The Company has issued Preferred Shares with conversion features and share purchase option to investors as set out in note 20. The Group bifurcated the conversion feature from Preferred Shares and classified it as financial liabilities at FVTPL in which no quoted prices in an active market exist. The fair value is established by using valuation techniques which include back-solve method and application of option pricing model. Valuation techniques are certified by an independent and recognised international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as fair value of the ordinary shares of the Company, possibilities under different scenarios such as initial public offering ("IPO") and liquidation, time to liquidation and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value to be recognised in profit or loss. The fair value of the conversion feature and Share Purchase Option are set out in note 20.

5. SEGMENT INFORMATION

The Group has been operating in one reportable segment, being the research and development of highly complex biopharmaceutical products. The Group's chief operating decision maker ("CODM") has been identified as the chief executive of the Group.

For the purpose of resource allocation and performance assessment, the CODM reviews the overall results and financial position of the Group prepared based on the same accounting policies as set out in note 3 as a whole.

Geographical information

All of the Group's non-current assets and capital expenditure are located or utilised in the People's Republic of China (the "PRC").

6. OTHER INCOME AND OTHER GAINS AND LOSSES

Other income

	2018 RMB'000	2017 RMB'000
Bank and other interest income	**7,947**	3,508
Changes in fair value of money market fund	**11,605**	146
Government grants income *(note)*	**12,550**	10,300
	32,102	13,954

Note: Government grants include subsidies from the PRC government which are specifically for (i) the capital expenditure incurred for plant and machinery and is recognised over the useful life of the related assets; and (ii) the incentive and other subsidies for research and development activities which are recognised upon compliance with the attached conditions.

Other gains and losses

	2018 RMB'000	2017 RMB'000
Gain on fair value changes of other investments classified as financial assets measured at FVTPL *(note 16)*	**1,145**	6,010
Gain on disposal of debt instruments at FVTOCI	**1,298**	20
Loss on fair value changes of derivative financial liabilities *(note 20)*	**(885,569)**	(79,933)
Loss on disposal of property, plant and equipment	**–**	(287)
Net foreign exchange gains (losses)	**129,542**	(29,475)
	(753,584)	(103,665)

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interests arising from deferred payment option under research and development contracts *(note)*	**–**	(60)

Note: In January 2016, the Group entered into three research and development outsourcing contracts with a then related party, WuXi AppTec (Hong Kong) Limited, for the development of three highly complex biopharmaceutical products. The related research and development expenses were payable on quarterly basis with instalments from January 1, 2016 through March 31, 2017. The contract also allowed the Group to defer the whole payment to March 31, 2017 for an interest of 5% per annum which the Group had elected such deferred payment arrangement. WuXi AppTec (Hong Kong) Limited ceased to be a related party of the Group since April 1, 2016.

8. LOSS FOR THE YEAR

	2018 *RMB'000*	2017 *RMB'000*
Loss for the year has been arrived at after charging:		
Directors' emoluments *(note 9)*	**141,294**	15,401
Other staff costs:		
Salaries and other allowances	**52,576**	21,054
Performance-related bonus	**7,158**	4,708
Retirement benefit scheme contributions	**7,667**	2,380
Share-based payment expense	**100,577**	16,694
Total staff costs	**309,272**	60,237
Amortisation of other intangible assets	**161**	10
Auditors' remuneration	**563**	262
Depreciation of property, plant and equipment	**5,105**	811
Minimum lease payments under operating leases in respect of office premises	**3,752**	1,934

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors and chief executive

Details of the emoluments paid or payable to the directors of the Company and the chief executive of the Company by the group entities during the reporting period are as follows:

Year ended December 31, 2018

	Fee *RMB'000*	Salaries and other allowances *RMB'000*	Performance-related bonus *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Share-based payment expense *RMB'000*	Total *RMB'000*
Executive director:						
Jiang Frank Ningjun ("Dr. Jiang")	–	**3,147**	**3,717**	**45**	**134,385**	**141,294**
Non-executive directors:						
Zhao Qun	–	–	–	–	–	–
Zhu Zhongyuan *(note a)*	–	–	–	–	–	–
Li Wei	–	–	–	–	–	–
Zha Ji *(note b)*	–	–	–	–	–	–
Tong Xiaomeng *(note c)*	–	–	–	–	–	–
Zhang Guobin *(note d)*	–	–	–	–	–	–
Chen Lian Yong *(note e)*	–	–	–	–	–	–
	–	**3,147**	**3,717**	**45**	**134,385**	**141,294**

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Directors and chief executive (continued)

Year ended December 31, 2017

	Fee *RMB'000*	Salaries and other allowances *RMB'000*	Performance-related bonus *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Share-based payment expense *RMB'000*	Total *RMB'000*
Executive director:						
Dr. Jiang	–	2,701	1,263	43	11,394	15,401
Non-executive directors:						
Cao Yanling *(note f)*	–	–	–	–	–	–
Zhao Qun	–	–	–	–	–	–
Zhu Zhongyuan *(note a)*	–	–	–	–	–	–
Li Wei	–	–	–	–	–	–
Zha Ji *(note b)*	–	–	–	–	–	–
	–	2,701	1,263	43	11,394	15,401

Notes:

a. Zhu Zhongyuan resigned as a non-executive director of the Company on August 14, 2018.

b. Zha Ji was appointed as a non-executive director of the Company on March 27, 2017 and resigned on February 28, 2018.

c. Tong Xiaomeng was appointed as a non-executive director of the Company on February 28, 2018.

d. Zhang Guobin was appointed as a non-executive director of the Company on May 8, 2018.

e. Chen Lian Yong was appointed as a non-executive director of the Company on August 14, 2018.

f. Cao Yanling resigned as a non-executive director of the Company on March 27, 2017.

The executive director's emoluments shown above were for his services as a director of the Company and the chief executive in connection with the management of the affairs of the Company and the Group as he is also the chief executive of the Company.

Performance-related bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

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

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Directors and chief executive (continued)

During the year ended December 31, 2018, a director of the Company was granted share options, restricted shares award and restricted shares units, in respect of his services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 22.

During the years ended 31 December 2018 and 2017, there are no loans, quasi-loans or other dealings in favour of the directors of the Company, their controlled bodies corporate and connected entities.

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2018 and 2017.

During the years ended 31 December 2018 and 2017, no consideration was provided to or receivable by third parties for making available service of the directors of the Company.

Employees

The five highest paid individuals of the Group included one director of the Company for the year ended December 31, 2018 (2017: one director) with details of his emoluments set out above. The emoluments of the remaining four individuals are as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Salaries and other allowances	**7,042**	5,382
Performance-related bonus	**2,349**	2,323
Share-based payment expense	**62,601**	12,930
Retirement benefit scheme contributions	**147**	83
	72,139	20,718

9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Directors and chief executive (continued)

Employees (Continued)

The emoluments of these employees (including one director of the Company) were fell within the following bands:

	Number of individuals	
	2018	2017
HK$2,500,001 to HK$3,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**–**	1
HK$8,000,001 to HK$8,500,000	**–**	2
HK$17,000,001 to HK$17,500,000	**1**	–
HK$17,500,001 to HK$18,000,000	**1**	–
HK$18,000,001 to HK$18,500,000	**–**	1
HK$20,000,001 to HK$20,500,000	**1**	–
HK$27,000,001 to HK$27,500,000	**1**	–
HK$161,000,001 to HK$161,500,000	**1**	–
	5	5

During the year, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including one director of the Company and four employees) for the year ended December 31, 2018 (2017: Nil) as an inducement to join or upon joining the Group or as compensation for loss of office. No director of the Company has waived or agreed to waive any emoluments during the year (2017: Nil).

10. DIVIDENDS

No dividend was paid nor declared by the Company during the years ended December 31, 2018 and 2017.

11. INCOME TAX EXPENSE

The Company is tax exempt under the laws of the Cayman Islands.

Under the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance") of Hong Kong, CStone Pharmaceuticals Limited ("CStone HK") is subject to two-tiered tax rate for period beginning from January 1, 2018 on assessable profits earned in Hong Kong, where the profits tax rate for the first HK$2,000,000 of assessable profits is subject to profits tax rate of 8.25% and the assessable profits above HK$2,000,000 is subject to profits tax rate of 16.5% (2017: profits tax rate of 16.5%).

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law, the tax rate of the Company's PRC subsidiaries is 25%.

Under the Treasury Law Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2017 of Australia, corporate entities who qualify a small business entity are eligible for the lower corporate tax rate at 27.5%. CStone Pharmaceuticals Australia Pty, Ltd. ("CStone Australia") is qualified as small business entity and is subject to a corporate tax rate of 27.5%.

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

	2018	2017
	RMB'000	*RMB'000*
Loss before tax	**(1,793,129)**	(342,547)
Tax charge at the PRC EIT rate of 25%	**(448,282)**	(85,637)
Tax effect of expenses not deductible for tax purpose	**357,237**	33,701
Effect of research and development expenses that are additionally deducted *(note)*	**(63,673)**	(21,901)
Tax effect of tax losses not recognised	**151,655**	82,276
Tax effect of deductible temporary differences not recognised	**6,657**	3,594
Utilisation of deductible temporary differences previously not recognised	**(3,594)**	(12,033)
Tax charge for the year	**–**	–

Note: Pursuant to Caishui [2015] circular No. 119 and Caishui [2018] circular No.99, CStone Suzhou enjoyed super deduction of 175% and 150% on qualifying research and development expenditures for the years ended December 31, 2018 and 2017, respectively.

As at December 31, 2018, the Group has unused tax losses of approximately RMB958.5 million (2017: RMB351.9 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

11. INCOME TAX EXPENSE (Continued)

The unused tax losses will be expired as follows:

	2018 RMB'000	2017 RMB'000
2021	**22,801**	22,801
2022	**329,104**	329,104
2023	**587,619**	–
Indefinite *(note)*	**19,002**	–
	958,526	351,905

Note: Subject to confirmation by the Australian Taxation Office, this tax losses can be carried forward indefinitely.

At December 31, 2018, the Group has deductible temporary differences related to government grants income and accrued expenses of RMB26.6 million (2017: RMB14.4 million). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

12. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year is as follows:

	2018 RMB'000	2017 RMB'000
Loss		
Loss for the year attributable to owners of the Company	**(1,745,277)**	(308,904)
Add: Loss attributable to preferred shareholders	**1,275,447**	201,459
Loss for the purpose of basic and diluted loss per share	**(469,830)**	(107,445)

	2018	2017
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share calculation	**168,583,668**	160,000,000

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year has been determined on the assumption that the capitalisation issue as set out in note 31 (a) had been effective since January 1, 2017.

During the year ended December 31, 2018, the calculation of basic and diluted loss per share has considered the restricted share units that have been vested but not yet registered (note 22(c)).

The calculation of diluted loss per share has not considered share options awarded under the share incentive plan (note 22), the unvested restricted share units and the conversion of Preferred Shares as their inclusion would be anti-dilutive.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Total *RMB'000*
COST				
At January 1, 2017	465	–	636	1,101
Additions	9,152	4,570	1,799	15,521
Disposals	(465)	–	–	(465)
At December 31, 2017	9,152	4,570	2,435	16,157
Additions	786	1,908	1,427	4,121
At December 31, 2018	9,938	6,478	3,862	20,278
DEPRECIATION				
At January 1, 2017	23	–	44	67
Provided for the year	490	–	321	811
Eliminated on disposals	(178)	–	–	(178)
At December 31, 2017	335	–	365	700
Provided for the year	3,291	938	876	5,105
At December 31, 2018	3,626	938	1,241	5,805
CARRYING VALUES				
At December 31, 2018	6,312	5,540	2,621	14,473
At December 31, 2017	8,817	4,570	2,070	15,457

The above items of property, plant and equipment are depreciated on a straight-line basis after taking into account of the residual value at the rate per annum as follows:

Leasehold improvements	Over the shorter of the term of the lease, or 33.3%
Plant and machinery	18%
Furniture, fixtures and equipment	30%

14. OTHER INTANGIBLE ASSETS

	Software *RMB'000*
At January 1, 2017	11
Additions	223
At December 31, 2017	234
Additions	836
At December 31, 2018	1,070
AMORTISATION	
At January 1, 2017	2
Provided for the year	10
At December 31, 2017	12
Provided for the year	161
At December 31, 2018	173
CARRYING VALUES	
At December 31, 2018	897
At December 31, 2017	222

Other intangible assets represent computer software acquired from third parties.

The above intangible assets have finite useful lives and are amortised on a straight-line basis as follows:

Computer software	20% – 33% per annum

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 *RMB'000*	2017 *RMB'000*
Rental deposits	**1,798**	1,169
Prepayments	**34,091**	6,747
Other receivables	**1,284**	330
Receivables from a director of the Company *(note a)*	**1,391**	–
Subscription receivable from a preferred shareholder *(note b)*	**–**	490
Value-added tax recoverable	**11,850**	2,012
Deferred issue costs	**8,312**	–
	58,726	10,748
Analysed as:		
Non-current	**11,742**	3,181
Current	**46,984**	7,567
	58,726	10,748

Notes:

(a) The balance represents receivables from Dr. Jiang and the maximum outstanding balance during the year ended December 31, 2018 is RMB1,391,000. The balance is unsecured, interest-free and repayable on demand.

(b) The balance represents subscription receivables due from a preferred shareholder of the Series A Preferred Shares which was settled in October 2018.

16. OTHER INVESTMENTS CLASSIFIED AS FINANCIAL ASSETS AT FVTPL/DEBT INSTRUMENTS AT FVTOCI

	2018 RMB'000	2017 RMB'000
Other investments classified as financial assets measured at FVTPL		
– Wealth management plans *(note a)*	**16,792**	56,593
Debt instruments at FVTOCI		
– Corporate bonds *(note b)*	**37,325**	164,262
– Treasury bills *(note c)*	**41,295**	233,448
	78,620	397,710

Notes:

(a) The Group entered into contracts in respect of wealth management plans managed by financial institutions. The principal is unguaranteed by the relevant financial institutions with expected return rates as stated in the contracts at 3.6% per annum as at December 31, 2018 (2017: ranging from 1.73% to 4.54% per annum). All investments have maturity dates within one year and are classified as other investments classified as financial assets mandatorily measured at FVTPL.

(b) The Company invested in listed corporate bonds which are traded publicly in the United States with effective interest rates ranging from 1.7% to 2.25% per annum as at December 31, 2018 (2017: 1.30% to 6.00% per annum). The investment is classified as debt instruments at FVTOCI.

(c) The Company also held United States treasury bills with effective interest rates ranging from 0.75% to 1.25% per annum as at December 31, 2018 (2017: 0% to 1% per annum). The investment is classified as debt instruments at FVTOCI.

17. TIME DEPOSITS AND CASH AND CASH EQUIVALENTS

Time deposits

	2018 RMB'000	2017 RMB'000
Time deposits	**761,216**	–

The time deposits are placed with a bank in the PRC with a term of 1 year upon placement. Since the time deposits will be matured within 1 year from December 31, 2018, the time deposits are classified as current assets.

17. TIME DEPOSITS AND CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents

	2018 RMB'000	2017 RMB'000
Cash at banks	**66,023**	75,175
Cash equivalents *(note)*	**635,313**	8,215
	701,336	83,390

Note: Cash equivalents represent investment in a public debt constant net asset value money market fund.

Time deposits and cash at banks carry interests at market rates per annum ranging as follows:

	2018	2017
Time deposits	**3.32%**	N/A
Cash at banks	**0.00%-0.3%**	0.00%-0.3%

The carrying amounts of the Group's time deposits and cash and cash equivalents denominated in currencies other than functional currencies of the relevant group entities at the end of the reporting period are as follows:

	2018 RMB'000	2017 RMB'000
United States Dollar ("USD")	**1,433,370**	71,172

18. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2018 RMB'000	2017 RMB'000
Trade payables	**4,559**	302
Accrued expenses		
– Research and development *(Note)*	**43,012**	12,162
– Legal and professional fees	**1,742**	1,119
– Issue costs and listing expenses	**27,270**	–
– Others	**2,131**	20
	74,155	13,301
Other payables	**1,801**	358
Other tax payable	**1,570**	104
Payables in respect of acquisition of property, plant and equipment	**340**	3,391
Staff payroll payable	**11,149**	7,277
	93,574	24,733

The credit period on trade purchase is 0 to 90 days. Ageing analysis of the Group's trade payables based on the invoice dates at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
Less than 30 days	**4,331**	–
31 – 60 days	**–**	302
61 – 90 days	**84**	–
Over 90 days	**144**	–
	4,559	302

Note: Amounts included service fees paid to outsourced service providers including contract research organisations and clinical trial sites.

19. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Subsidies related to property, plant and equipment *(note a)*	**3,385**	–
Other subsidies *(note b)*	**4,180**	2,000
	7,565	2,000
Analysed as:		
Non-current	**7,565**	–
Current	**–**	2,000

Notes:

(a) The Group received government subsidies for capital expenditure incurred for the plant, machineries and spare parts. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

(b) In 2018, the Group received certain government subsidies of approximately RMB4.2 million (2017: RMB2 million) towards research and development projects. Certain conditions have to be fulfilled until these subsidies can be regarded as fully granted. As at December 31, 2018, the relevant conditions have not been fully fulfilled and therefore, the government subsidies were deferred. The deferred income held by the Group as of December 31, 2017 amounted to RMB2 million has satisfied all conditions of the grant during the year ended December 31, 2018, and has been recognised by the Group as government grant income in 2018.

20. PREFERRED SHARES

During the year ended December 31, 2016, the Company entered into share purchase agreements with several independent investors and issued two tranches of Preferred Shares. Furthermore, the Company, together with CStone Suzhou, entered into an investment agreement and option agreement with Suzhou Industrial Park Zhengze Yuanshi Venture Capital L.P. ("Yuanshi"), an onshore investor that chosen to pay directly into equity of CStone Suzhou.

On April 28, 2018, the Company entered into Series B share purchase agreement (the "Series B Share Purchase Agreement") in which it covered arrangement on restructuring equity interest of Yuanshi in the Group, as follows:

(i) the Company will cancel the reservation of 22,500,000 Series A-2 Preferred Shares for issuance to Yuanshi;

(ii) the Company will issue, and Yuanshi or its affiliate will subscribe for, 7,945,757 Series A-3 Preferred Shares of the Company at a price of US$5.6634 per share (the "Series A-3 Preferred Shares") for an aggregate purchase price of US$45 million (equivalent to approximately RMB307 million) (the "Series A-3 Consideration");

20. PREFERRED SHARES (continued)

(iii) the Series A-3 Consideration will be applied by CStone HK to acquire the equity interests in CStone Suzhou held by Yuanshi which will result in CStone Suzhou becoming a wholly-owned subsidiary of the Company; and

(iv) the Company will repurchase and cancel 10,000,000 Series A-1 Preferred Shares held by Yuanshi in exchange for the issue of 24,554,243 Series A-4 Preferred Shares (the "Series A-4 Preferred Shares") to Yuanshi, which Series A-4 Preferred Shares shall have a purchase price of US$0.40726158 per share (i.e., the aggregate purchase price for the 24,554,243 Series A-4 Preferred Shares to be subscribed by Yuanshi as described in this paragraph (iv) shall be US$10 million).

Further on April 28, 2018, the directors of the Company resolved that the Company to issue 45,908,818 Series B-1 Preferred Shares at the purchase price of USD5.6634 per share.

On August 3, 2018, the directors of the Company resolved that the Company will issue up to an additional 353,144 Series B-2 Preferred Shares at the purchase price of USD5.6634 per share to a limited partnership approved by the Company which is owned by the employees of the Group and 332,165 Series B-2 Preferred Shares were issued by the Company on September 25, 2018.

Further on August 3, 2018, the Company and Yuanshi further entered into the Series A Preferred Shares Agreement (the "Shares Transfer Agreement") to execute the arrangement on restructuring equity interest of Yuanshi in the Group pursuant to the Series B Share Purchase Agreement.

On August 22, 2018, the shares transfer has been completed and an aggregate of 7,945,757 Series A-3 Preferred Shares were issued to the affiliates of Yuanshi, namely Oriza Seed Fund L.P. ("Oriza Seed") and Hikeo Biotech L.P. ("Hikeo") at the price of US$5.6634 per share and at an aggregate consideration of US$45,000,000.

On the same date, Yuanshi transferred 10,000,000 Series A-1 Preferred Shares to the Company free from encumbrance in exchange for an aggregate of 24,554,243 Series A-4 Preferred Shares of the Company. The Series A-4 Preferred Shares issued in exchange for the Series A-1 Preferred Shares have a deemed value of US$0.40726158 per Series A-4 Preferred Share.

On November 8, 2018, the directors of the Company resolved the Company to repurchase 37,500 Series A-2 preferred shares from a preferred shareholder at a purchase price of US$75,000 (equivalent to approximately RMB517,000) which was offset with the subscription receivable due from the preferred shareholder.

Accordingly, the 10,000,000 Series A-1 Preferred Shares and 22,500,000 Series A-2 Preferred Shares held by Yuanshi were replaced by 24,554,243 Series A-4 Preferred Shares and 7,945,757 Series A-3 Preferred Shares on August 22, 2018.

The par value per preferred share is US$0.0001 and the difference between the par value and the subscription price is accounted for under the share premium.

20. PREFERRED SHARES (continued)

The two series of Preferred Shares were issued as follows:

	Date	Number of investors	Total number of share subscribed (cancelled)	Subscription price per share	Total consideration *USD'000*	Equivalent to RMB *RMB'000*	Fair value conversion features at date of issuance (cancellation) *RMB'000*	Equity component at date of issuance (cancellation) *RMB'000*
Offshore subscription								
Series A								
– Tranche 1	April 1, 2016	4	45,000,000	USD1	45,000	290,632	–	290,632
– Tranche 1	August 22, 2018	(1)	(10,000,000)	USD1	(10,000)	(68,271)	–	(68,271)
		3	35,000,000		35,000	222,361	–	222,361
– Tranche 2	December 1, 2016	3	30,000,000	USD2	60,000	413,748	(206)	413,542
– Tranche 2	November 8, 2018	(1)	(37,500)	USD2	(75)	(517)	–	(517)
		2	29,962,500		59,925	413,231	(206)	413,025
– Tranche 3	August 22, 2018	1	7,945,757	USD5.66	45,000	307,219	893	308,112
– Tranche 4	August 22, 2018	1	24,554,243	USD0.41	10,000	68,271	–	68,271
			97,462,500		149,925	1,011,082	687	1,011,769
Series B								
– Tranche 1 ("Series B-1")	April 28, 2018	19	45,908,806	USD5.66	260,000	1,648,218	(43,445)	1,604,773
– Tranche 2 *(note 22)* ("Series B-2")	September 25, 2018	1	332,165	USD5.66	1,881	12,876	(431)	12,445
			46,240,971		261,881	1,661,094	(43,876)	1,617,218
Onshore subscription								
Series A*								
– Tranche 2	December 1, 2016	1	22,500,000	USD2	45,000	304,029	(155)	303,874
	August 22, 2018	1	(22,500,000)	USD2	(45,000)	(304,029)	155	(303,874)
			–		–	–	–	–

* Represented the subscription of Preferred Shares by Yuanshi who settled directly as capital contribution into CStone Suzhou of approximately RMB304,029,000 with a Share Purchase Option before the equity interests of CStone Suzhou held by Yuanshi were restructured to CStone HK pursuant to the Shares Transfer Agreement.

20. PREFERRED SHARES (continued)

The key terms of Preferred Shares are summarised as follows:

(a) Dividends rights

The directors of the Company may from time to time by unanimous resolution declare dividends (including interim dividends) and distributions on shares of the Company outstanding and authorise payment of the same out of the funds of the Company lawfully available therefore and provided that such dividends and distributions shall only be declared and paid on a pro rata basis, based on the number of shares then held by each member on an as-converted basis.

No dividend, whether in cash, in property or in shares of the capital of the Company, shall be paid on or declared and set aside for any ordinary shares or any other class or series of shares of the Company unless and until (1) all declared but unpaid dividends on the Preferred Shares have been paid in full (calculated on as-converted basis), and (2) a distribution is likewise declared, paid, set aside or made, respectively, at the same time with respect to each outstanding Preferred Shares such that the distribution declared, paid, set aside or made to the holder thereof shall be equal to the distribution that such holder would have received if such Preferred Shares had been converted into ordinary shares immediately prior to the record date for such distribution, or if no such record date is established, the date such distribution is made.

(b) Conversion feature

Each Preferred Share shall be convertible, at the option of the holder thereof, at any time after the respective original issue date into such number of fully paid and non-assessable ordinary shares as determined by dividing the respective issue price by the respective Conversion Price (as defined below), determined as hereinafter provided, in effect at the time of the conversion. The price at which ordinary shares shall be issuable upon conversion of the Preferred Shares (the "Conversion Price") shall initially be the respective issue price per Preferred Share. Such initial Conversion Price shall be subject to adjustment (including but not limited to dividends, share splits and combinations, capital reorganisation or reclassification, and adjustment upon issuance of new securities for consideration per shares less than Conversion Price) and the initial conversion ratio for Preferred Shares to ordinary shares is 1:1.

Each Preferred Share shall automatically be converted into ordinary shares at the then respective effective Conversion Price upon (i) the closing of a Qualified Public Offering (as defined below), or (ii) for each class or series of Preferred Shares, the written consent of the holders of a majority of such class or series of Preferred Shares. In the event of the automatic conversion of any class or series of Preferred Shares upon a Qualified Public Offering, the person(s) entitled to receive the ordinary shares issuable upon such conversion of Preferred Shares shall not be deemed to have converted such Preferred Shares until immediately prior to the closing of such sale of securities.

20. PREFERRED SHARES (continued)

(b) Conversion feature (continued)

Qualified Public Offering means a firm underwritten public offering of the ordinary shares of the Company on Hong Kong Stock Exchange, Nasdaq Stock Market, New York Stock Exchange, London Stock Exchange or recognised regional or national securities exchange approved by the holders of a majority of the outstanding Preferred Shares.

(c) Liquidation preferences

In the event of any liquidation of the Company, the preferred shareholders shall be entitled to receive, prior and in preference to any distribution of any of the funds and assets of the Company to the holders of ordinary shares or any other class or series of shares by reasons of their ownership of such share, the liquidation preference amount per share is the higher of (i) 100% of the original issues price, plus all declared but unpaid dividends ("Preferred Share Preference Amount") or (ii) if for each and every Preferred Share, the amount to which its holder would be entitled to receive in a liquidation event with respect to such Preferred Share if converted to ordinary shares immediately prior to such liquidation event (the "Preferred Share Pro Rata Amount").

If upon the occurrence of a liquidation event of the Company, the assets and funds thus distributed among the holders of Preferred Shares shall be insufficient to permit the payment to such holders of the full Preferred Share Preference Amount (if greater than the Preferred Share Pro Rata Amount), then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of Preferred Shares in proportion to the Preferred Share Preference Amount each such holder is otherwise entitled to receive.

(d) Voting rights

The holder of any ordinary share issued and outstanding shall have one vote for each ordinary share held by such holder, and the holder of any Preferred Shares shall be entitled to the number of votes equal to the number of ordinary shares into which such Preferred Shares could be converted at the record date for determination of the members entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of members is solicited, such votes to be counted together with all other shares of the Company having general voting power and not counted separately as a class except as otherwise provided herein. Holders of ordinary shares and Preferred Shares shall be entitled to notice of any members' meeting. Ordinary shares and Preferred Shares shall vote together as a single class and calculated on an as converted basis on matters to be voted by the holders of ordinary shares and Preferred Shares.

20. PREFERRED SHARES (continued)

(d) Voting rights (continued)

Investment Arrangement – Onshore PRC Investor

Yuanshi entered into Series A Preferred Shares agreement that the relevant investments were contributed as capital of CStone Suzhou. The Company has entered into an additional option agreement with Yuanshi, in which the investor is entitled to an option for subscribing the same number of the same series Preferred Shares issued by the Company ("Share Purchase Option"). The number of the Preferred Shares issuable pursuant to the exercise of the Share Purchase Option shall be subject to (a) any appropriate adjustments for any subsequent share splits, share subdivisions, consolidation or combinations of shares, dividends or distributions of shares or other securities, reclassification, capital reorganisation or similar arrangement, as well as merger, consolidation or redemption in accordance with the then applicable Amended and Restated Memorandum and Articles of Association of the Company and (b) any change or adjustment of the equity interest held by such investor pursuant to the investment agreement. The Share Purchase Option can be exercised at any time at the investor's own discretion, provided that the restructuring process for the investor's exercise of such Share Purchase Option complies with all applicable laws. The investor shall exercise its Share Purchase Option upon the request of the Company if the shareholders of the Company approve an IPO on a public stock exchange of any jurisdiction other than the PRC. CStone HK shall purchase from Yuanshi and Yuanshi shall sell to CStone HK, all of its equity interest in CStone Suzhou at the price determined by Yuanshi and the Company in good faith based on book value of the Company according to the latest audited financial statements of the Company, taking into accounting the Company's goodwill, ownership of valuable contractual obligations, cooperation and supply chain, so long as the preferred shares purchase price is in compliance with the applicable tax regulations (the "Equity Transfer"). The Equity Transfer shall be completed by the parties within one year after the date of the Share Purchase Option notice. No Share Purchase Option has been exercised during the year ended December 31, 2017.

On August 3, 2018, Yuanshi entered into a Shares Transfer Agreement with, among others, CStone HK, pursuant to which Yuanshi agreed to transfer CStone HK all of its equity interests in CStone Suzhou. CStone HK agreed to pay Yuanshi the consideration of the transfer of equity interests in Cstone Suzhou using the total consideration of US$45 million as determined based on the terms of share purchase option agreement and Yuanshi agreed to pay the same consideration for the subscription of Series A-3 Preferred Shares by Oriza Seed and Hikeo, the affiliates of Yuanshi. On August 22, 2018, the Group has completed the Equity Transfer and CStone Suzhou has become an indirect wholly-owned subsidiary of the Company since then.

On August 22, 2018, the Company also repurchased 10,000,000 Series A-1 Preferred Shares from Yuanshi by issuing 24,554,243 Series A-4 Preferred Shares to Oriza Seed and Hikeo at a total consideration of US$10 million. As a result, Oriza Seed and Hikeo have replaced Yuanshi as the preferred shareholders of the Company.

20. PREFERRED SHARES (continued)

(d) Voting rights (continued)

Presentation and Classification

The Preferred Shares are considered as equity instruments and are determined by deducting the fair value of the conversion features from the gross proceeds.

The Group has recognised the conversion features attached to the Preferred Shares as financial liabilities measured at FVTPL.

The change in fair value of the conversion features attached to the Preferred Shares and Share Purchase Option is charged to profit or loss and is included in the loss on fair value changes of derivative financial liabilities under the "other gains and losses" line item. Management considered that there is no credit risk of the financial liability that drives the change of the fair value of the financial liability.

The conversion features and Share Purchase Option were valued by the directors of the Company with reference to valuation reports carried out by an independent qualified professional valuer, ValueLink Management Consultants Limited, which has appropriate qualifications and experiences in valuation of similar instruments. The address of ValueLink Management Consultants Limited is Room 1201, Jing Guang Centre Business Building, 1 Chaoyangmen Outer Street, Chaoyang District, Beijing.

The Company used the back-solve method to determine the underlying share value of the Company and performed an equity allocation based on a Binomial Option Pricing model ("OPM model") to arrive at the fair value of the conversion features as of the dates of issuance and at the end of the reporting period.

In addition to the underlying share value of the Company determined by back-solve method, other key valuation assumptions used in OPM model to determine the fair value are as follows:

	At December 31, 2018	At September 25, 2018	At August 22, 2018	At April 28, 2018	At December 31, 2017
Time to IPO	**0.13 year**	0.5 year	0.6 year	1 year	3.25 years
Time to liquidation	**6 years**	6 years	6 years	6 years	6 years
Risk-free interest rate	**2.55%**	2.97%	2.73%	2.86%	2.26%
Volatility	**57.89%**	56.92%	56.45%	58.53%	58.88%
Dividend yield	**0%**	0%	0%	0%	0%
Possibilities under liquidation scenario	**50%**	60%	60%	70%	80%
Possibilities under IPO scenario	**50%**	40%	40%	30%	20%

20. PREFERRED SHARES (continued)

(d) Voting rights (continued)

Presentation and Classification *(continued)*

The directors of the Company estimated the risk-free interest rate based on the yield of the United States Treasury Bonds with a maturity life close to the period from the respective valuation dates to the expected liquidation dates. Volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the respective valuation dates to expected liquidation dates.

Conversion features

	At January 1, 2017 *RMB'000*	Issuance *RMB'000*	Fair value changes *RMB'000*	At December 31, 2017 *RMB'000*
Series A				
– Tranche 1	5,665	–	42,866	48,531
– Tranche 2	897	–	37,067	37,964
	6,562	–	79,933	86,495

	At January 1, 2018 *RMB'000*	**(Cancellation)/ Issuance *RMB'000***	**Fair value changes *RMB'000***	**At December 31, 2018 *RMB'000***
Series A				
– Tranche 1	**48,531**	**(55,724)**	**328,407**	**321,214**
– Tranche 2	**37,964**	**(100,087)**	**311,551**	**249,428**
– Tranche 3	**–**	**10,269**	**20,425**	**30,694**
– Tranche 4	**–**	**145,250**	**90,434**	**235,684**
Series B	**–**	**43,876**	**134,752**	**178,628**
	86,495	**43,584**	**885,569**	**1,015,648**

21. ORDINARY SHARE CAPITAL

	Number of shares	Share capital *USD'000*
Ordinary shares		
Ordinary shares of USD0.0001 each		
Authorised		
At January 1, 2017 and December 31, 2017	402,500,000	40
Reclassification and re-designation on issuance of Series B Preferred Shares *(note a)*	(46,261,962)	(5)
At December 31, 2018	356,238,038	35

	Number of shares	Amount *USD'000*	Equivalent amount of ordinary shares *RMB'000*
Issued and fully paid			
At January 1, 2017 and December 31, 2017	40,000,000	4	26
Issuance of restricted shares *(note b)*	1,000,000	–	1
Exercise of share options *(note c)*	3,270,599	–	2
At December 31, 2018	44,270,599	4	29

Notes:

(a) On April 28, 2018, the Company redesignated and reclassified 46,261,962 shares in its authorised capital into Series B Preferred Shares with details set out in note 20.

(b) On April 1, 2018, 1,000,000 restricted shares with subscription price of USD0.0001 per share were issued to Dr. Jiang with details set out in note 22.

(c) During the year ended December 31, 2018, share option holders exercised their rights to subscribe for 3,021,666 and 248,933 ordinary shares in the Company at US$0.17 and US$0.10 per share, respectively.

22. SHARE-BASED PAYMENT TRANSACTIONS

(a) Restricted share award

On April 1, 2018, the Company issued an aggregate of 1,000,000 restricted shares to Dr. Jiang at a subscription price of USD0.0001 per share.

Dr. Jiang shall not sell, assign, transfer, pledge, hypothecate or otherwise dispose of any unvested shares and Dr, Jiang shall not transfer any vested shares, or any interest therein until Dr. Jiang has offered the Company the right to purchase the vested shares at the same price and on the same terms and conditions as those offered to any prospective transferee. The aforesaid arrangement has been accounted for as share-based payment transactions. Accordingly, the Group measured the fair value of the unvested restricted shares as of the grant date and is recognising the amount as compensation expense over the vesting period for each separately vesting portion of the unvested restricted shares.

437,500 restricted shares shall vest immediately on the grant date, and the remaining 562,500 shares shall be subject to repurchase at the option of the Company at the subscription price paid by Dr. Jiang upon voluntary or involuntary termination of his employment with the Company (the "Repurchase Option"), arising which 20,833 of the unvested shares shall be vested and be released from the Repurchase Option on a monthly basis from May 1, 2018 until July 1, 2020.

On November 25, 2018, the directors of the Company resolved the Company to accelerate the vesting of all the remaining restricted shares of Dr. Jiang. All the remaining unvested restricted shares has become vested and recognised as share-based payment expenses on the same day.

The total expenses recognised in the consolidated statements of profit or loss and other comprehensive income for the restricted shares granted are approximately RMB28,130,000 for the year ended December 31, 2018 (2017: Nil).

The restricted shares were valued by the directors of the Company with reference to the valuation carried out by Valuelink Management Consultants Limited, on the grant date of the restricted shares. The fair value of the restricted shares was determined to be RMB28.13 per share as of April 1, 2018.

Dr. Jiang

The following table summarised the Group's unvested restricted shares movement during the year ended December 31, 2018:

	Number of unvested restricted shares	Weighted average granted date fair value *RMB*
Unvested as at January 1, 2018	–	–
Granted	1,000,000	28.13
Vested	(1,000,000)	28.13
Unvested as at December 31, 2018	–	–

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Restricted share award (continued)

Fair value of restricted shares granted

Back-solve method was used to determine the underlying equity fair value of the Company and OPM model to determine the fair value of the restricted shares granted. The key inputs into the model other than the underlying equity fair value of the Company at the date of grant were as follows:

	At April 1, 2018
Time to IPO	**1 year**
Time to liquidation	**6 years**
Risk-free interest rate	**2.86%**
Volatility	**58.53%**
Dividend yield	**0%**
Possibilities under liquidation scenario	**70%**
Possibilities under IPO scenario	**30%**

The directors of the Company estimated the risk-free interest rate based on the yield of the United States Treasury Bonds with a maturity life close to the period from the valuation date to the expected liquidation date. Volatility was estimated on the valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the valuation date to expected liquidation date.

(b) Employee stock option plan

During the year ended December 31, 2016, the Group granted share options under its employee stock option plan (the "Plan") for the purpose of incentivising, retaining and rewarding certain employees and board members of the Company or its subsidiaries ("Eligible Persons") for their contributions to the Group's business, and to align their interests with those of the Group.

The directors of the Company adopted and approved such Plan on July 7, 2017, with the intent at that time that the directors of the Company delegated full authority to Dr. Jiang, the executive director of the Company, to grant option awards in accordance with the Plan before such Plan was approved and adopted by the directors of the Company. The overall limit on the number of underlying shares which may be delivered under the Plan was 24,010,293 shares of the Company, subject to any adjustments for other dilutive issuances.

Except as provided otherwise in the grant letter or offer in any other form by the directors of the Company, the vesting schedule of the share options shall be a sixty months vesting schedule consisting of a cliff vesting of twenty percent after twelve months from the vesting commencement date and, thereafter, monthly vesting of equal instalments over the remaining forty-eight month.

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Employee stock option plan (continued)

On August 3, 2018, the directors of the Company resolved to adopt and approved the amended and restated employee equity plan (the "Amended Plan") for the purpose of granting restricted share units (as disclosed in note 22(c)) and other equity incentive permitted by the Amended Plan to the employees, directors of the Company, consultants and advisors of the Company. Further on August 14, 2018, the board of directors of the Company resolved the change of vesting schedule and updated the outstanding options and restricted shares units (as described in note 22(c)) with the new vesting schedule under the Amended Plan, whereas 25% of the shares will be vested on the first anniversary of the original vesting commencement date, and the remaining shares will be vested with equal monthly instalments over the following thirty-six month.

The share options and the restricted share units as set out in note 22(c) shall be restricted to the eligible employees and shall not be assignable to other person. No eligible employee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any share option and restricted share units or attempt to do so.

The overall limit on the number of underlying shares which may be delivered under the Amended Plan for both employees stock option plan and the restricted shares units as set out in note 22(c) is 32,707,813 shares of the Company. The incremental fair value at the modification date is assessed to be insignificant as there is no change in exercise price nor exercisable period.

The following table discloses movements of the Company's share options held by grantees during the year:

	Number of share options			
	Dr. Jiang		Employees	
	2018	2017	**2018**	2017
Outstanding at the beginning of the year	**5,180,000**	5,180,000	**5,862,000**	4,508,000
Granted	**–**	–	**3,736,380**	2,424,000
Forfeited	**–**	–	**(820,000)**	(1,070,000)
Exercised	**(3,021,666)**	–	**(248,933)**	–
Outstanding at the end of the year	**2,158,334**	5,180,000	**8,529,447**	5,862,000

At December 31, 2018, 3,144,141 outstanding options (2017: 821,097) were exercisable.

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Employee stock option plan (continued)

The following table discloses the weighted average exercise price of the Company's share options held by grantees during the year:

	Weighted average exercise price			
	Dr. Jiang		Employees	
	2018 USD	2017 USD	**2018 USD**	2017 USD
Granted during the year	**–**	–	**0.61**	0.16
Forfeited during the year	**–**	–	**0.18**	0.17
Exercised during the year	**0.17**	–	**0.10**	–

Fair value of share options granted

Back-solve method was used to determine the underlying equity fair value of the Company and OPM model to determine the fair value of the option granted. Key assumptions, such as risk-free interest rate and volatility, are required to be determined by the directors of the Company with best estimate.

The key inputs into the model were as follows:

	2018	2017
Grant date option fair value per share	**USD2.73 – USD5.39**	USD2.02 – USD3.90
Weighted average share price	**USD4.47 – USD5.92**	USD2.21 – USD3.97
Exercise price	**USD0.10 – USD2.37**	USD0.10 – USD0.20
Expected volatility	**55.82% – 58.89%**	57.35% – 59.90%
Expected life	**4 years**	5 years
Risk-free rate	**2.48% – 2.91%**	1.85% – 2.27%
Expected dividend yield	**0%**	0%

The weighted average fair value of granted options was USD4.34 and USD2.37 per share, for the years ended December 31, 2018 and 2017, respectively.

The directors of the Company estimated the risk-free interest rate based on the yield of the United States Treasury Bonds with a maturity life close to the option life of the share option. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date. The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income for share options granted to a director of the Company and employees are approximately RMB57,819,000 for the year ended December 31, 2018 (2017: RMB28,088,000).

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Restricted share units ("RSU")

On August 3, 2018 and December 6, 2018, 8,467,541 and 1,500,000 RSUs of the Company were granted at nil consideration to the grantees by the directors of the Company in accordance with the Amended Plan respectively.

On August 14, 2018, the directors of the Company resolved and approved the vesting schedule of the RSU with 25% of the shares to be vested on the first anniversary of the vesting commencement date, and the remaining shares to be vested with equal monthly instalments over the following thirty-six month.

The aforesaid arrangement has been accounted for as share-based payment transactions. Accordingly, the Group measured the fair value of the restricted shares as of the grant date and recognised the amount as compensation expense over the vesting period for each separate vesting portion of the RSUs. The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income for RSUs granted to a director of the Company and employees are approximately RMB147,984,000 for the year ended December 31, 2018 (2017: Nil).

The RSUs were valued by the directors of the Company with reference to the valuation carried out by Valuelink Management Consultants Limited, on the grant dates of the RSUs. The fair values of the RSUs were determined to be USD4.47 and USD5.91 per share at August 3, 2018 and December 6, 2018, respectively.

The following table summarised the Group's RSUs movement during the year:

	Number of RSUs			
	Dr. Jiang		Employees	
	2018	2017	**2018**	2017
Outstanding at the beginning of the year	**–**	–	**–**	–
Granted	**4,240,956**	–	**5,726,585**	–
Outstanding at the end of the year	**4,240,956**	–	**5,726,585**	–

As at December 31, 2018, 3,182,067 RSUs have been vested but not yet registered and 6,785,474 RSUs remained unvested.

Fair value of RSUs granted

Back-solve method was used to determine the underlying equity fair values of the Company and OPM model to determine the fair value of the RSUs granted. Key assumptions, such as years to liquidity event, risk-free interest rate and volatility, are required to be determined by the directors of the Company with best estimate.

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Restricted share units ("RSU") (continued)

Fair value of RSUs granted *(continued)*

The key inputs into the model other than the underlying equity fair value of the Company at grant date were as follows:

	At August 3, 2018	At December 6, 2018
Time to IPO	0.75 year	0.25 year
Time to liquidation	6 years	6 years
Risk-free interest rate	2.77%	2.88%
Volatility	57.97%	57.48%
Dividend yield	0%	0%
Possibilities under liquidation scenario	70%	50%
Possibilities under IPO scenario	30%	50%

The directors of the Company estimated the risk-free interest rate based on the yield of the United States Treasury Bonds with a maturity life close to the period from the valuation date to the expected liquidation date. Volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the valuation date to expected liquidation date.

(d) B-2 Preferred Shares

On August 3, 2018, the directors of the Company resolved that the Company will issue up to an additional 353,144 Series B-2 Preferred Shares at the purchase price of USD5.6634 per share to a limited partnership approved by the Company which is owned by the employees of the Group. On August 22, 2018, the directors of the Company further approved and announced the granting of the Series B-2 Preferred Shares to respective employees, and these 332,165 Series B-2 Preferred Shares were issued by the Company on September 25, 2018.

The B-2 Preferred Shares were valued by the directors of the Company with reference to valuation reports carried out by an independent qualified professional valuer, ValueLink Management Consultants Limited, which has appropriate qualifications and experiences in valuation of similar instruments. The fair value was determined to be USD5.87 per share as of August 22, 2018.

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income for B-2 Preferred Shares subscribed by the employees are approximately RMB1,029,000 for the year ended December 31, 2018 (2017: Nil).

22. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) B-2 Preferred shares (continued)

Fair value of B-2 Preferred Shares granted

Back-solve method was used to determine the underlying equity fair value of the Company and OPM model to determine the fair value of the B-2 Preferred Shares granted. Key assumptions, such as years to liquidity event, risk-free interest rate and volatility, are required to be determined by the directors of the Company with best estimate.

The key inputs into the model other than the underlying fair value of the Company at grant date were as follows:

	At August 22, 2018
Time to IPO	**0.6 year**
Time to liquidation	**6 years**
Risk-free interest rate	**2.73%**
Volatility	**56.45%**
Dividend yield	**0%**
Possibilities under liquidation scenario	**60%**
Possibilities under IPO scenario	**40%**

The directors of the Company estimated the risk-free interest rate based on the yield of the United States Treasury Bonds with a maturity life close to the period from the valuation date to the expected liquidation date. Volatility was estimated on the valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the valuation date to expected liquidation date.

23. OPERATING LEASES COMMITMENTS

The Group as lessee

At the end of each reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and laboratory premises which fall due as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within one year	**5,798**	2,370
In the second to fifth year inclusive	**3,250**	4,140
	9,048	6,510

24. RETIREMENT BENEFIT PLANS

The PRC

The employees of the Company's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are approximately RMB7,712,000 for the year ended December 31, 2018 (2017: RMB2,423,000).

25. RELATED PARTY DISCLOSURES

Except as disclosed elsewhere in the consolidated financial statements, the Group also entered into the following transactions during the year with certain related parties.

Compensation of Key Management Personnel

The remuneration of directors of the Company and other members of key management were as follows:

	2018	2017
	RMB'000	*RMB'000*
Short term benefits	**18,243**	11,669
Retirement benefit scheme contributions	**241**	126
Share-based payment	**200,822**	24,324
	219,306	36,119

The remuneration of key management personnel is determined by the directors of the Company having regard to the performance of individuals and market trends.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its stakeholders and maintaining an adequate capital structure. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of cash and cash equivalents, time deposits and equity attributable to owners of the Company, comprising issued ordinary share capital, preferred share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of the capital. The Group will balance its overall capital structure through the new shares issues as well as the issue of new debt.

27. FINANCIAL INSTRUMENTS

27a Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Amortised cost (including cash at banks and time deposits)	**829,914**	75,995
Cash equivalents at FVTPL	**635,313**	8,215
Other investments classified as financial assets measured at FVTPL	**16,792**	56,593
Debt instruments at FVTOCI	**78,620**	397,710
Financial liabilities		
Amortised cost	**6,700**	4,051
Derivative financial liabilities	**1,015,648**	86,495

27b Financial risk management objectives and policies

The Group's financial instruments include deposits and other receivables, debt instruments at FVTOCI, other investments classified as financial assets measured at FVTPL, time deposits, cash and cash equivalents, derivative financial liabilities and trade and other payables. Details of these financial instruments are disclosed in the respective notes.

The risks associated with the Group's financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

27. FINANCIAL INSTRUMENTS (continued)

27b Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

Certain cash and cash equivalents, time deposits, other receivables, debt instruments measured at FVTOCI, other investments classified as financial assets at FVTPL and trade and other payables are denominated in foreign currencies of the respective group entities which are exposed to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

The carrying amounts of monetary assets and liabilities denominated in USD at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**1,545,572**	469,372	**436**	–

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in RMB against USD. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates increase in post-tax loss where RMB strengthens 5% against USD. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss.

	2018	2017
	RMB'000	*RMB'000*
Impact of USD on loss for the year	**77,257**	23,469

The directors of the Company considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

27. FINANCIAL INSTRUMENTS (continued)

27b Financial risk management objectives and policies (continued)

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate debt instruments at FVTOCI and time deposits. The Group is also exposed to cash flow interest rate risk in relation to cash at banks (note 17). The Group currently does not enter into any hedging instrument for fair value or cash flow interest rate risk.

Sensitivity analysis

No sensitivity analysis is performed as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate cash at banks is insignificant because the current market interest rates are relatively low and stable and no sensitivity analysis is performed on the fixed-rate debt instruments at FVTOCI as the directors of the Company considered risk arising from fixed-rate debt instruments is insignificant because these investments have short maturity terms.

(iii) Other price risk

The Group is exposed to other price risk arising from derivative financial liabilities and money market fund.

The Group is also exposed to price risk arising from investments in fixed-rate debt instruments at FVTOCI.

Sensitivity analysis

Derivative financial liabilities

The sensitivity analyses below have been determined based on the exposure to price risk at the reporting date for derivative financial liabilities.

If the equity value of the Company had been changed based on the 5% higher/lower, the post-tax loss of the Group for the year ended December 31, 2018 would increase by RMB50,171,000 and decrease by RMB51,053,000 (2017: increase by RMB6,524,000 and decrease by RMB6,532,000).

Money market fund

No sensitivity analysis is performed as the directors of the Company consider that the exposure of other price risk arising from the money market fund is insignificant because investments in money market fund are mainly on government treasury securities with high credit rating and liquidity.

27. FINANCIAL INSTRUMENTS (continued)

27b Financial risk management objectives and policies (continued)

Market risk *(continued)*

(iii) Other price risk (continued)

Sensitivity analysis (continued)

Investments in debt instruments at FVTOCI

The sensitivity analysis below have been determined based on the exposure to other price risk at the reporting date for investments in debt instruments at FVTOCI.

If the prices of the respective investments had been changed based on the 5% higher/lower, OCI for the year ended December 31, 2018 would increase/decrease by RMB3,931,000 (2017: RMB19,886,000).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

In order to minimise credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default. Management uses publicly available financial information and the Group's own historical repayment records to rate other debtors and other debt instruments issuers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Life-time ECL - not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Life-time ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is write-off

27. FINANCIAL INSTRUMENTS (continued)

27b Financial risk management objectives and policies (continued)

***Credit risk** (continued)*

For other receivables and subscription receivable from a preferred shareholder, the directors of the Company considered that the ECL allowance is insignificant at the end of the reporting period.

The credit risk on time deposits, cash at banks, debt instruments at FVTOCI and investments in money market fund of the Group is limited because the counterparties are banks, bond issuers, government and financial institutions with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on Preferred Shares as a significant source of liquidity.

The Group issued Series A and B Preferred Shares to independent investors which do not contain any redemption term by the holders. The directors of the Company are satisfied that the Group will have sufficient financial resource to meet its financial obligation as they fall due for the foreseeable future after taking into account of the aforesaid proceeds from the Preferred Shares and the expected working capital requirements for the next twelve months from the end of the reporting period.

The following table details remaining contractual maturity of the Group for the payables which has been drawn up based on the undiscounted cash flows based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate *%*	Repayable on demand or less than 3 months *RMB'000*	Total undiscounted cash flows *RMB'000*	Total carrying amount *RMB'000*
At December 31, 2018				
Trade and other payables	**–**	**6,700**	**6,700**	**6,700**
At December 31, 2017				
Trade and other payables	–	4,051	4,051	4,051

27. FINANCIAL INSTRUMENTS (continued)

27c Fair value measurements of financial instruments

The fair value of financial assets and financial liabilities (except for those set out below) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

Financial assets and financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	December 31, 2018 *RMB'000*	December 31, 2017 *RMB'000*				
(1) Wealth management products	**16,792**	56,593	Level 2	Income approach – In this approach, the discounted cash flow method was used to estimate the return from underlying assets	N/A	N/A
(2) Conversion features derivatives	**1,015,648**	86,495	Level 3	Back-solve method and OPM method – the key inputs are: time to liquidity, risk-free interest rate, volatility and dividend yield, and possibilities under liquidation and IPO scenario	Possibilities under liquidation scenario 2018: 50% 2017: 80% Possibilities under IPO scenario 2018: 50% 2017: 20%	The higher the possibilities under IPO scenario, the higher the fair value (note)
(3) Corporate bonds	**37,325**	164,262	Level 1	Quoted bid prices in active market	N/A	N/A
(4) Treasury bills	**41,295**	233,448	Level 1	Quoted bid prices in active market	N/A	N/A
(5) Cash equivalents at FVTPL	**635,313**	8,215	Level 2	Based on the net asset values of the fund, which is determined with reference to observable and quoted prices of underlying investment portfolio and adjustments of related expenses	N/A	N/A

Note: A 5% increase/decrease in the possibilities under IPO scenario, while all other variables keep constant, would increase the fair value of conversion features derivatives as at December 31, 2018 by RMB101,565,000 (2017: RMB21,623,000) or decrease the carrying amount as at December 31, 2018 by RMB101,565,000 (2017: RMB21,623,000).

27. FINANCIAL INSTRUMENTS (continued)

27c Fair value measurements of financial instruments (continued)

(ii) Reconciliation of Level 3 fair value measurements

Details of reconciliation of Level 3 fair value measurement for conversion features derivatives and Share Purchase Option are set out in note 20.

Fair value gains or losses on derivative financial liabilities at FVTPL are included in "Loss on fair value changes of derivative financial liabilities measured at FVTPL" under "other gains and losses".

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amount of the Group's financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

(iv) Fair value measurement and valuation process

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation or uses quoted forward exchange rates derived from quoted exchange rates matching maturities of the contracts at the end of the reporting period. The finance department of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

28. RECONCILIATION OF LIABILITIES OR ASSETS ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities or assets arising from financing activities, including both cash and non-cash changes. Liabilities or assets arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Derivative financial liabilities ***RMB'000 (note 20)***	**Subscription receivable of Preferred Shares** ***RMB'000 (note 15)***	**Interest payable** ***RMB'000***	**Accrued for issue costs** ***RMB'000 (note 18)***	**Total** ***RMB'000***
At January 1, 2017	6,562	(520)	240	–	6,282
Financing cash flows	–	–	(300)	–	(300)
Non-cash changes:					
Interest expenses	–	–	60	–	60
Foreign exchange rate changes	–	30	–	–	30
Fair value changes	79,933	–	–	–	79,933
At December 31, 2017	**86,495**	**(490)**	**–**	**–**	**86,005**
Financing cash flows	**43,876**	**–**	**–**	**(2,300)**	**41,576**
Non-cash changes:					
Foreign exchange rate changes	**–**	**(27)**	**–**	**–**	**(27)**
Fair value changes	**885,569**	**–**	**–**	**–**	**885,569**
Repurchase of preferred shares	**(292)**	**517**	**–**	**–**	**225**
Deferred issue costs accrual *(note 15)*	**–**	**–**	**–**	**8,312**	**8,312**
At December 31, 2018	**1,015,648**	**–**	**–**	**6,012**	**1,021,660**

29. PARTICULARS OF SUBSIDIARIES

General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are set out below:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/registered capital	Shareholding/equity interest attributable to the Company		Principal activities
			2018	2017	
Directly held					
CStone HK	Hong Kong	Issued capital of HK$1 and paid-up capital of HK$1	**100%**	100%	Investment holding
CStone Australia	Australia	Registered capital of AUD19,000,000 (equivalent to RMB99,476,400) and paid-up capital of AUD2,000 (equivalent to RMB10,035)	**100%**	100%	Research and development
Indirectly held:					
CStone Suzhou	The PRC (Note)	Registered capital of USD23,761,363 (equivalent to RMB153,882,413) and paid-up capital of USD23,761,363 (equivalent to RMB153,882,413)	**100%**	85.4369%	Research and development and sales of drugs
拓石藥業(上海)有限公司	The PRC (Note)	Registered capital of RMB4,080,000 and paid-up capital of RMB4,011,600	**100%**	85.4369%	Research and development
創石(北京)醫藥科技有限公司	The PRC (Note)	Registered capital of RMB1,200,000 and paid-up capital of RMB Nil	**100%**	N/A	Research and development

None of the subsidiaries had issued any debt securities at the end of the year.

Note: CStone Suzhou is a foreign invested limited liability company. 拓石藥業(上海)有限公司 and 創石(北京)醫藥科技有限公司 are domestic owned limited liability companies.

29. PARTICULARS OF SUBSIDIARIES (continued)

Details of the non-wholly owned subsidiary that have material non-controlling interests

The table below shows details of the non-wholly owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
CStone Suzhou	The PRC	***(note)***	14.5631%	**(47,852)**	(33,643)	**–**	24,714

Note: On June 20, 2018, CStone HK made further capital contribution into CStone Suzhou amounting to USD3,863,636 (equivalent to RMB25,564,134). Upon the completion of this capital injection, the equity interest held by non-controlling interests of CStone Suzhou decreased from 14.5631% to 12.1951%. On August 22, 2018, upon the completion of the Shares Transfer Agreement (as defined in note 20), the non-controlling interests of CStone Suzhou have become preferred shareholders of the Company (note 20).

Summarised financial information in respect of CStone Suzhou that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	December 31, 2018 ***RMB'000***	2017 *RMB'000*
Current assets	**N/A**	93,842
Non-current assets	**N/A**	105,283
Current liabilities	**N/A**	(29,415)
Equity attributable to owners of the Company	**N/A**	144,996
Non-controlling interests of CStone Suzhou	**N/A**	24,714

29. PARTICULARS OF SUBSIDIARIES (continued)

Details of the non-wholly owned subsidiary that have material non-controlling interests (continued)

	January 1, 2018 to August 21, 2018 *RMB'000*	Year ended December 31, 2017 *RMB'000*
Expenses	**(358,560)**	(231,015)
Loss and total comprehensive expense for the period/year	**(358,560)**	(231,015)
Loss and total comprehensive expense attributable to:		
The Group	**(310,708)**	(197,372)
Non-controlling interests of CStone Suzhou	**(47,852)**	(33,643)
Loss and total comprehensive expense for the period/year	**(358,560)**	(231,015)

	January 1, 2018 to August 21, 2018 *RMB'000*	Year ended December 31, 2017 *RMB'000*
Net cash outflow from operating activities investing activities	**(240,847)**	(233,479)
Net cash inflow from investing activities	**32,714**	231,517
Net cash inflow from financing activities	**222,119**	–
Effects of foreign exchange rate changes	**1,354**	(1,198)
Net cash inflow (outflow)	**15,340**	(3,160)

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 *RMB'000*	2017 *RMB'000*
Non-current assets		
Investments in subsidiaries	**985,257**	117,185
Amount due from a subsidiary	**19,195**	–
	1,004,452	117,185
Current assets		
Other receivables	**15,811**	490
Debt instruments at FVTOCI	**78,620**	397,710
Time deposits	**761,216**	–
Cash and cash equivalents	**652,714**	44,960
	1,508,361	443,160
Current liabilities		
Other payables and accrued expenses	**55,786**	1,239
Amount due to a subsidiary	**1,069**	670
Derivative financial liabilities	**1,015,648**	98,567
	1,072,503	100,476
Net current assets	**435,858**	342,684
Net assets	**1,440,310**	459,869
Capital and reserves		
Ordinary share capital	**29**	26
Preferred share capital	**94**	49
Reserves	**1,440,187**	459,794
Total equity	**1,440,310**	459,869

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The movement of the reserves of the Company is as follows:

	Share premium *RMB'000*	Investments revaluation reserve *RMB'000*	Share-based payment reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At January 1, 2017	706,710	(33)	9,368	(200,843)	515,202
Loss and total comprehensive expense for the year	–	(1,444)	–	(82,052)	(83,496)
Recognition of equity-settled share-based payment	–	–	28,088	–	28,088
At December 31, 2017	706,710	(1,477)	37,456	(282,895)	459,794
Profit (loss) and total comprehensive income (expense) for the year	–	1,827	–	(1,185,079)	(1,183,252)
Issuance of Preferred Shares	1,925,285	–	–	–	1,925,285
Cancellation of Preferred Shares	(225)	–	–	–	(225)
Recognition of equity-settled share-based payment	29,159	–	205,803	–	234,962
Exercise of share options *(note 21(c))*	24,942	–	(21,319)	–	3,623
At December 31, 2018	2,685,871	350	221,940	(1,467,974)	1,440,187

31. SUBSEQUENT EVENTS

Except as disclosed elsewhere in the consolidated financial statements, the Group has the following subsequent events after December 31, 2018:

a. Pursuant to the written resolutions of the shareholders of the Company passed on January 30, 2019, and subject to the share premium account of the Company being credited as a result of the issue of offer shares pursuant to the Hong Kong public offering and the international public offering (collectively as the "Global Offering"), an aggregate of 598,241,649 shares credited as fully paid at par were alloted and issued on 26 February 2019 (the "Listing Date") to the holders of ordinary shares and Preferred Shares on the register of members of the Company in the Cayman Islands at the close of business on the business day preceding the Listing Date of the Global Offering, in proportion to their existing respective shareholdings (save that no holder of shares and Preferred Shares shall be entitled to be allotted or issued any fraction of a share). The shares allotted and issued pursuant to this resolution rank pari passu in all respects with the then existing issued shares of the Company. On March 21, 2019, the international underwriters of the Global Offering exercised the over-allotment option in full, pursuant to which the Company is required to allot and issue the option share, being 27,959,000 shares of the Company, representing approximately 15% of the maximum number of shares initially available under the Global Offering, at the offer price under the Global Offering. The net proceeds from the exercise of the over-allotment option were approximately HK$325.42 million (after deducting the commissions and other offering expenses payable by the Company in relation to the exercise of the over-allotment option).

b. From January 1, 2019 to March 22, 2019, the Company granted 385,000 share options to its employees. The vesting schedule of these share options and RSUs is 25% of the awards will be vested on the first anniversary of the vesting commencement date, and the remaining awards will be vested with equal monthly instalments over the following thirty-six month.

   Further on January 31, 2019, the directors of the Company approved the proposed issue of 307,735 share options to its employees, and 8,746,124 RSUs to a director of the Company and employees (the "2019 Pre-IPO Grant"). The vesting schedule of the 2019 Pre-IPO Grant is 25% of the awards will be vested on the first anniversary of the vesting commencement date, and the remaining awards will be vested with equal monthly instalment over the following thirty-six month. The 2019 Pre-IPO Grant is conditional upon a successful listing of the Company's shares on the Stock Exchange and the exercise of over-allotment option with a minimum fund raising of US$300,000,000.

c. On February 26, 2019, the Company was successfully listed on the Main Board of the Stock Exchange following the completion of issue of 186,396,000 new shares of par value of US$0.0001 each at the offer price of HK$12 per share. The gross proceeds arising from the listing amounted to approximately HK$2,237 million.

Definitions

In this report, unless the context otherwise requires, the following terms have the following meanings. These terms and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.

"Agios"	Agios Pharmaceuticals, Inc., a corporation incorporated on August 7, 2007 and existing under the laws of the State of Delaware, U.S., whose shares are listed on NASDAQ (ticker symbol: AGIO)
"AGM"	annual general meeting of the Company
"Articles" or "Articles of Association"	the fourth amended and restated articles of association of the Company adopted on January 30, 2019 with effect from Listing, as amended, supplemented or otherwise modified from time to time
"Audit Committee"	the audit committee of the Board
"Board", "our Board" or "Board of Directors"	the board of directors of our Company
"Board Committees"	the Audit Committee, the Nomination Committee, the Compensation Committee, and the Strategy Committee
"CAGR"	compound annual growth rate
"CDE"	Center for Drug Evaluation
"China" or "PRC"	the People's Republic of China, for the purposes of this report only, excluding Hong Kong and Macau SAR and Taiwan
"CG Code"	The Corporate Governance Code sets out in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"Company", "CStone", "our Company", or "the Company"	CStone Pharmaceuticals, (Stock code: 2616) an exempted company with limited liability incorporated under the laws of the Cayman Islands on December 2, 2015, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Compensation Committee"	the compensation committee of the Board
"Consolidated Financial Statements"	the audited consolidated financial statements of the Group

Definitions

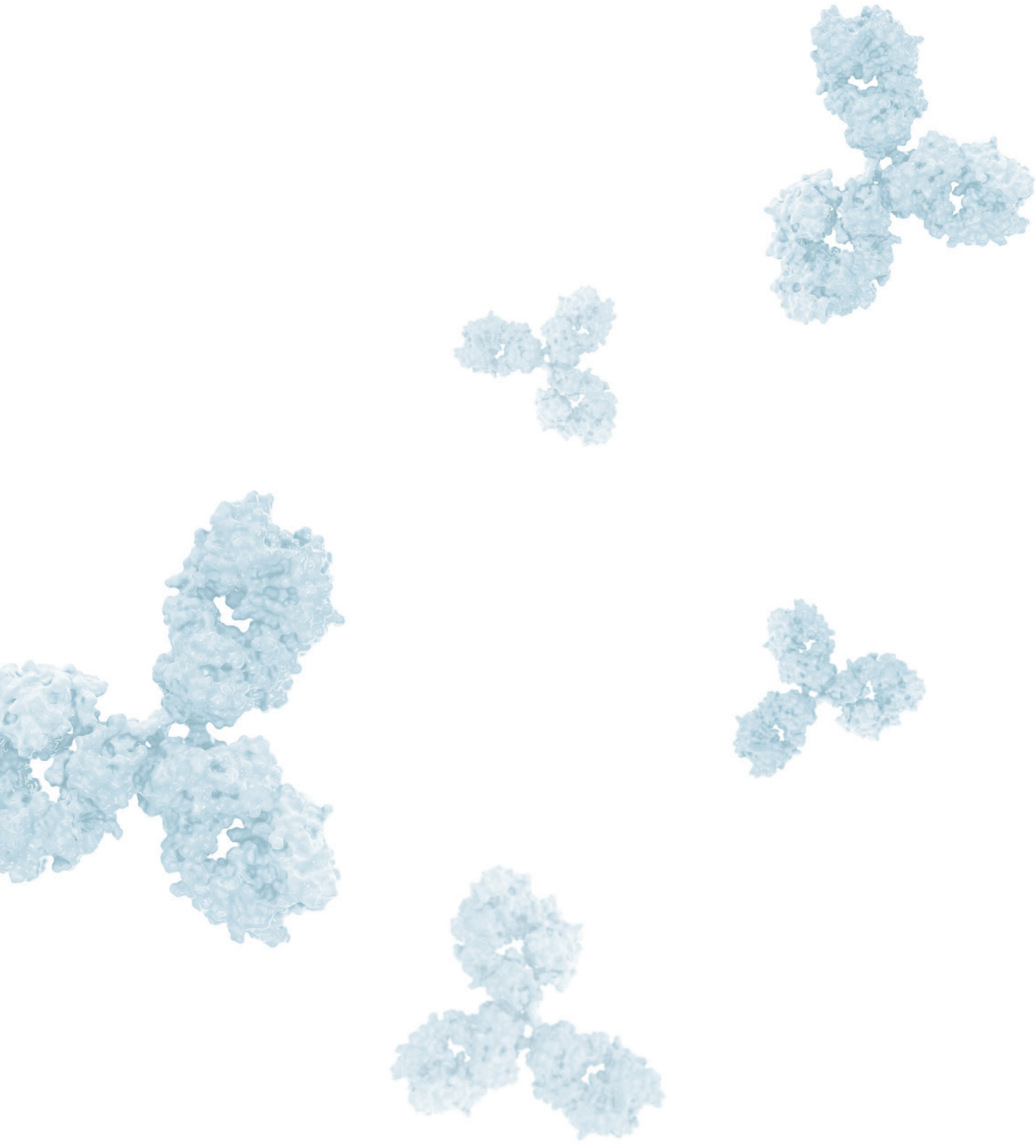
"Corporate Governance Report"	the corporate governance report of the Group for the year ended December 31, 2018
"CRO(s)"	contract research organization, a company that provides support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis
"CStone Suzhou"	CStone Pharmaceuticals (Suzhou) Co., Ltd. (基石藥業(蘇州)有限公司), a company established under the laws of the PRC on April 21, 2016 and one of the Company's subsidiaries
"CTA"	clinical trial agreement
"Director(s)"	the director(s) of our Company
"GIST"	gastrointestinal stromal tumor, a type of tumor that occurs in the gastrointestinal tract, most commonly in the stomach or small intestine
"Global Offering"	the Hong Kong public offering and the international offering of the Shares
"Group", "our Group", "the Group", "we", "us", or "our"	the Company and its subsidiaries from time to time
"HCC"	hepatocellular carcinoma, a type of cancer arising from hepatocytes in predominantly cirrhotic liver
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HKD" or "HK$" or "HK dollars"	Hong Kong Dollars, the lawful currency of Hong Kong
"IND"	investigational new drug or investigational new drug application, also known as clinical trial application in China or clinical trial notification in Australia
"Independent Auditor"	Deloitte Touche Tohmatsu
"INED(s)"	the independent non-executive Director(s)
"Internal Control Consultant"	the internal control consultant of our Company
"Internal Control Review"	The agreed-upon procedures performed by the Internal Control Consultant in connection the internal control during the period from August 2017 to July 2018
"IPO"	the initial public offering of the Company on the Stock Exchange

"Listing"	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Date"	February 26, 2019, 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 of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
"Memorandum" or "Memorandum of Association"	the fourth amended and restated memorandum of association of the Company adopted on January 30, 2019 with effect from Listing, as amended, supplemented or otherwise modified from time to time
"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
"NMPA"	National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"Nomination Committee"	the nomination committee of the Board
"Post-IPO ESOP"	the Company's post-IPO employee share option plan
"Post-IPO RSU Scheme"	the Company's post-IPO restricted share award scheme
"Preferred Share(s)"	preferred share(s) in the share capital of the Company prior to the Listing Date
"Pre-IPO Incentivization Plan"	the Company's pre-IPO employee equity plan
"Prospectus"	the prospectus of the Company, dated February 14, 2019, in relation to its global offering
"Relevant Period"	the period from the Listing Date to the date of this report
"Reporting Period"	the one-year period from January 1, 2018 to December 31, 2018
"RET"	rearranged during transfection

Definitions

"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of China
"Securities Transactions Code"	the code of conduct of the Company regarding securities transactions, namely the Policy on Management of Securities Transactions by Directors
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	Ordinary share(s) of US$0.0001 each in the issued share capital of our Company
"Shareholders"	holders of Shares
"Share Incentivization Schemes"	the Pre-IPO Incentivization Plan, Post-IPO ESOP and Post-IPO RSU Scheme
"SM"	systemic mastocytosis, a form of mastocytosis, in which mast cells accumulate in internal tissues and organs such as the liver, spleen, bone marrow, and small intestines
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Board
"TGA"	Therapeutic Goods Administration of Australia
"USD" or "US$" or "US dollars"	United States Dollars, the lawful currency of the United States of America
"U.S. FDA"	U.S. Food and Drug Administration
"WuXi AppTec"	WuXi AppTec Co., Ltd, a limited company incorporated under the laws of PRC on December 1, 2000, whose shares are listed on the Shanghai Stock Exchange (stock code: 603259) and the Hong Kong Stock Exchange (stock code: 2359), and an independent third party
"WuXi Biologics"	WuXi Biologics (Cayman) Inc., a limited company incorporated under the laws of Cayman Islands on February 27, 2014, whose shares are listed on the Hong Kong Stock Exchange (stock code: 2269), and an independent third party
"WuXi Entities"	Wuxi Biologics and WuXi AppTec and their respective subsidiaries
"%"	percent

In this report, unless otherwise indicated, the terms "associate", "associated corporation", "connected person", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules.



基石药业
CSTONE
PHARMACEUTICALS