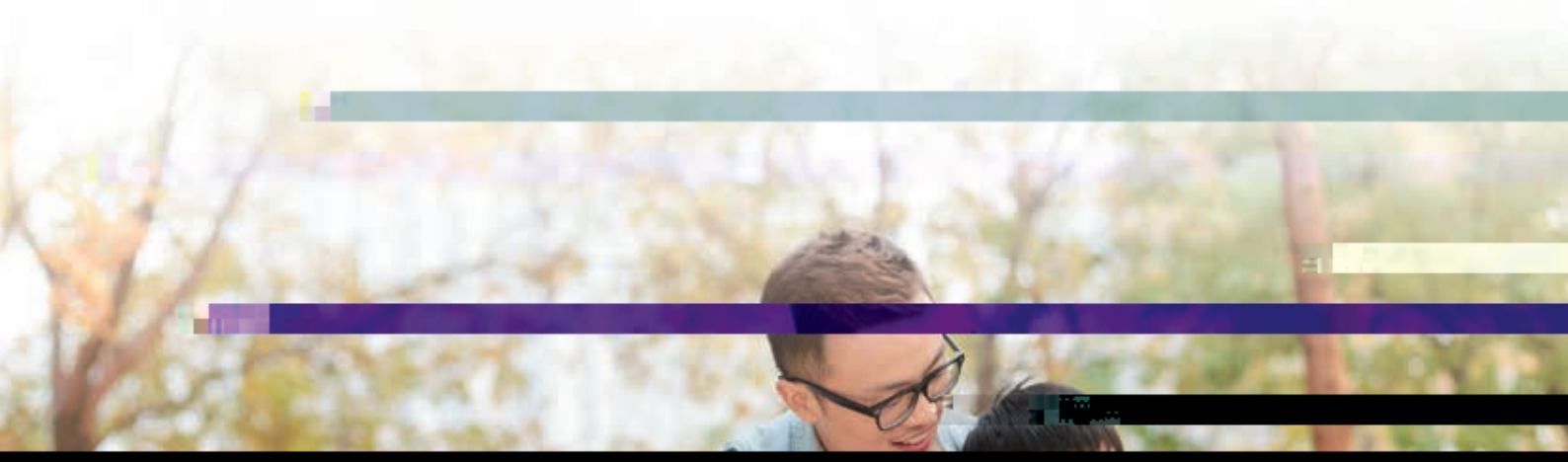
Hua Medicine
華領醫藥

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



ANNUAL REPORT 2018

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CHAIRMAN AND CEO STATEMENT

Dear Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2019, we have already achieved the following milestones:

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

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

- Completion of patient enrollment for our combination Phase III trial (HMM0302)
- Publish top-line 24-week results for our monotherapy Phase III trial (HMM0301)
- Our own commercial manufactr2301) h

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a pre-revenue China-based drug development company currently focused on developing dorzagliatin, a first-in-class oral drug for the treatment of Type 2 Diabetes (

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

Business outlook

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

Financial review

Other income

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

Other gains and losses

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

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

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses

Listing expenses

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

Research and development expenses

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

	For the year ended December 31,			
	2018	**%**	**2017**	**%**
	RMB'000		**RMB'000**	
Dorzagliatin Clinical Trials	133,619	49.7%	51,816	41.3%
Dorzagliatin Non-clinical Studies				

Indebtedness

As of December 31, 2018, we did not have any indebtedness, including but not limited to mortgages, charges, debentures, other

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

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

Non-executive Directors

Robert Taylor NELSEN, aged 55, was appointed as our Director on April 23, 2010 and re-designated as a non-executive Director on May 11, 2018. He is the Chairman of our Board, the Chairman of the Nomination Committee and a member of the Strategy Committee, and has also been a director of our subsidiary, Hua HK, since August 2010. Since 1994, Mr. Nelsen has served as a co-founder and managing director of ARCH Venture Partners, a venture capital firm focused on early-stage technology companies, and has played a significant role in the early sourcing, financing and development of more than 30 biopharmaceutical companies. Mr. Nelsen has been serving as a director of Denali Therapeutics, Inc. (stock code: DNLI) since May 2015, Sienna Biopharmaceuticals, Inc. (stock code: SNNA) since August 2015, Syros Pharmaceuticals, Inc. (stock code: SYRS) since August 2012, and Unity Biotechnology, Inc. (stock code: UBX) since November 2011, and previously served as a director of Juno Therapeutics, Inc. (stock code: JUNO) from August 2013 to March 2018, KYTHERA Biopharmaceuticals, Inc. (stock code: KYTH) from January 2006 Robert Taylor NELSE

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

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

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

SENIOR MANAGEMENT

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

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

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

REPORT OF DIRECTORS

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

Principal activities

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

Business review

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

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

Financial key performance indicators

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

Final dividend

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

Annual general meeting and closure of register of Shareholders

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

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

Borrowings

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

Tax Relief and Exemption

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

Use of Net Proceeds from the Global Offering

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

Disclosure of Interests

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

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

Long positions in the ordinary Shares:

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

Notes:

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

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

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

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

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

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

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

Substantial Shareholders

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

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

Name of Shareholders	Capacity/Nature of interest	Number of Shares held [9]	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P. [1]	Beneficial interest	125,088,960(L)	11.86%
Robert Taylor NELSEN[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Keith Lawrence CRANDELL[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Clinton Whitewood BYBEE[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Venrock Associates V, L.P. [2]	Beneficial interest	103,475,595(L)	9.81%
Venrock Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.81%
Venrock Partners V, L.P. [2]	Beneficial interest	103,475,595(L)	9.81%
Venrock Partners Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.81%
VEF Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	

Name of Shareholders	Capacity/Nature of interest	Number of Shares held [9]	Approximate percentage of shareholding in the Company [10]
Pandanus Partners L.P. [3] [5]	Interest in controlled corporation	107,686,470(L)	10.21%
Pandanus Associates Inc. [3] [5]	Interest in controlled corporation	107,686,470(L)	10.21%
Wuxi Pharmatech Healthcare Fund I L.P. [6]	Beneficial interest	74,029,635(L)	7.02%
WuXi AppTec Co., Ltd. [6]	Interest in controlled corporation	74,029,635(L)	7.02%
Ge LI[6]	Beneficial interest	28,015,170(L)	2.66%
	Interest in controlled corporations	74,029,635(L)	7.02%
Ning ZHAO[6]	Beneficial interest	28,015,170(L)	2.66%
	Interest in controlled corporations	74,029,635(L)	7.02%
Harvest Yuanxiang (Cayman) Limited[7]	Beneficial interest	65,665,860(L)	6.22%
Harvest Investment Management Co., Ltd (— ¼ ³ M # Þ " ® !) [7]	Interest in controlled corporation	65,665,860(L)	6.22%
The Core Trust Company Limited[8]	Trustee	116,536,062(L)	11.05%
HLYY Limited[8]	Nominee of a trust	116,536,062(L)	11.05%

Notes:

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

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

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

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

   As such, under the SFO, Impresa Fund III Limited Partnership, Impresa Management LLC, Abigail P. JOHNSON, Edward C. JOHNSON IV

6. To the best of our Directors' knowledge, the general partner of Wuxi Pharmatech Healthcare Fund I L.P. is Wuxi PharmaTech Fund I General

Non-exempt Continuing Connected Transactions

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

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

For the year ended December 31, 2018, the total amount payable by our Group to the WuXi AppTec Group for the services F.1329 Tm(For the y

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

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

Internal control measures for non-exempt continuing connected transactions

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

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

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

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

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

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

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

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

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

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

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

2. under normal commercial terms or better; and

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

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

1. have not been approved by the Board;

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

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

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

Interests in Competitor

The Company does not hold any interests in our competitors.

Principal Risks and Uncertainties

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

h Drug approval related to dorzagliatin:

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

h Our clinical trials may not progress as expected:

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

h Company reliance on third parties:

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

h Dorzagliatin as cornerstone therapy:

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

h National Reimbursement Drug List entry is not certain:

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

- Retention of key staff members:

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

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

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

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

Key Relationships

- Key customers

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

- Service Providers and Suppliers

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

- Hospitals

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the report

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

Basis of preparation

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

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

Scope

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

We consider talent establishment as a major pillar of development of the Group. We strive to lift the happiness and sense

Promoting environmental-friendly operation

Environmental-friendly research

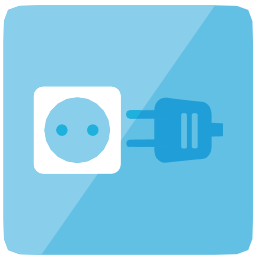
In order to promote the innovation of China's pharmaceutical industry, the National New Drug Research and Development Coordination Leading Group established the "1035 Project": Independently innovate 10 drugs, build 5 drug screening platforms, 5 drug safety evaluation centers, and 5 drug clinical research centers. Under the impetus of the project, City of Shanghai, Ministry of Science and Technology and Chinese Academy of Sciences have jointly established the National Biomedical Technology Industrial Base in Zhangjiang. They also have established a series of research centers represented by the Drug Metabolism Center, the

The emission category of Hua Medicine

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

Environmental-friendly office

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



Turn off the power before leaving work



Reasonably set the air conditioning temperature



Properly set computer energy saving mode



Use energy saving lamps









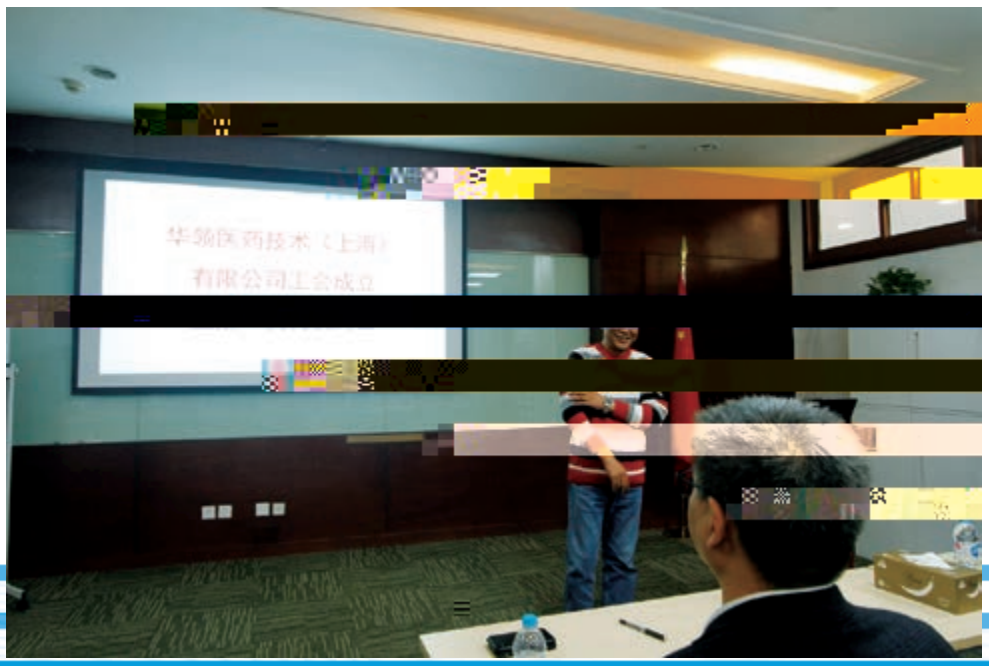
KPI

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

Labor principle

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

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



The founding ceremony of Hua Medicine trade union

Training and employee development

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

Our training is customized and diversified to meet the employees' various needs in different positions for sustainable development. The trainings include new employee orientation, production and quality assurance staff training, GMP and drug management regulations training, leadership training and others. By strengthership traiC posit1i B-0.Arssit1i 0tdH6u 0 0 9w5(By)0cmanenucteand drug manager



The training of project
leadership and communication
Training Course

The training of influence,
high performance, good habit





New employee orientation

Organizations and Structure

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

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

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

The chemistry, manufacturing & controls ("CMC") and the quality assurance department ("QA") conduct full-life cycle, full-process coverage quality controls for clinical research drugs. The Group adheres to the concept of "Quality comes from design"

Quality audit

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

Quality issues

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

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

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

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

Hua Medicine Patents as of January 2019

Supply chain management

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

Regulation and document

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

Supplier entry

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

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

Supplier evaluation

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

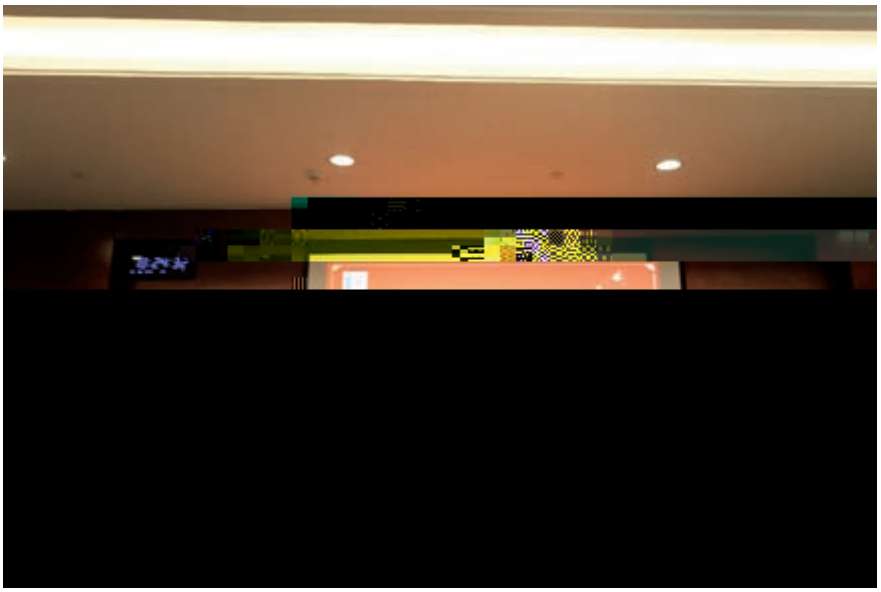
In addition to the audits, the QA department conducts a comprehensive assessment of the supplier's service quality, supply chain capabilities and financial capabilities every two years. The evaluation dimensions of service quality include but are not limited to the yield rate, complaint rate, audit findings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

Supply risk management

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

Interaction and communication

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



Supplier Award in Hua Medicine Annual Dinner

Creating a corruption-free environment

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

Regulations

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

Corporate culture

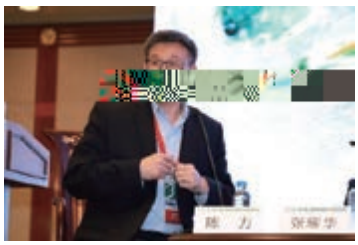
The Group's Employee Handbook indicates that Hua Medicine has very high legal and ethical standards for all of its business practices. All employees, regardless of their position, should promote the integrity of the Group, good reputation and brand, and smooth administration and business operations.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



Insider information management training

Monitoring execution

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













The First Drug Listing License Holder System and Industrialization Development Forum

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

The 3rd Medical Health Industry Innovation and Supervision Forum





Attend and exhibit in Zhangjiang Science City



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

Appendix: "ESG Reporting Guide" Content Index

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

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

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

Item	Descriptions		Hua Medicine

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

Item	Descriptions		Hua Medicine Related sections/Claim
B7. Anti-corruption			

BOARD OF DIRECTORS

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

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

BOARD COMPOSITION

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

The composition of the Board is as follows:

Executive Directors

Li CHEN *(Chief Executive Officer and Chief Scientific Officer)*

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

Non-executive Directors

Robert Taylor NELSEN *(Chairman)*

Lian Yong CHEN

Independent Non-executive Directors

Walter Teh-Ming KWAUK

William Robert KELLER

Junling LIU

Yiu Wa Alec TSUI

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and Chief Executive Officer are held by Mr. Robert Taylor NELSEN and Dr. Li CHEN respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company′toH1 Tf0.24 -0.053 Td(toH1 Tf0.24 -0.053 Tdness deen-opmentxecutdaily e fagementxecutoperaicer ageneral-US75 ƀD

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

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

Notes:

Types of Training

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

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

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

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

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

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

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

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

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

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

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

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

NOMINATION COMMITTEE

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

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

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

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

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

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

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

Board Diversity Policy

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

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

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

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

The Nomination Committee considered that the Board is sufficiently diverse.

Director Nomination Policy

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

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

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

STRATEGY COMMITTEE

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

- Risk management

  The Company has conducted risk assessment by the management to identify and assess enterprise risks (including environmental, social and governance risks) with reference to the Company's bp1 Tfiaep1 T5(p1 Tf g)0.5()0.6(j)0.6(c)0.6(c)0.5(i)0.fiov Td[(s)0

AUDITORS' REMUNERATION

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

COMPANY SECRETARY

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

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

SHAREHOLDERS' RIGHTS

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

CONVENING AN EXTRAORDINARY GENERAL MEETING

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

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

– Pursuant to Article 16.4 of the Company's Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice d office specifyod, which shall be at leatmEt t anTm(dayste r ⁄Lang (

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

Constitutional Documents

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

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

Policies relating to Shareholders

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Risk of misstatement of research and development expenses	
As disclosed in the consolidated statement of profit or loss and other comprehensive income, for the year ended December 31, 2018, the Group incurred significant research and development ("R&D") expenses, amounted to approximately RMB269 million. A large portion of the Group's R&D expenses are service fees paid to contract research organizations ("CROs"), clinical site management operators ("SMOs"), and contract manufacturing organizations ("CMOs") (collectively referred as "Outsourced Service Pe CCMOs	

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 7, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	Year ended December 31, 2018 RMB'000	2017 RMB'000
Other income	6	10,355	11,706
Other gains and losses	7	63,778	(6,557)
Administrative expenses		(100,398)	(31,086)
Finance cost	8	(3,534)	(2,958)
Listing expenses		(38,918)	{
Research and development expenses		(269,065)	(125,337)
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	25	(3,266,216)	(126,456)
Loss before tax	9	(3,603,998)	(280,688)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2018

	Attributable to owners of the Company								
	Share capital RMB'000	Treasury shares held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note 1)	Share option reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000 (Note 1)	Total (deficit) equity RMB'000
At January 1, 2017	48	{		(5,015)	11,385	(676,560)			

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

Notes:

1. To accommodate the needs of certain investors in the People's Republic of China (the "PRC") in the Company's Series C preferred share financing, Hua Medicine (Shanghai) Co., Ltd., the Company's subsidiary located in the PRC ("Hua Shanghai"), issued 711,111 ordinary shares to those investors ("Series C PRC Investors") for cash consideration of US Dollar ("US$") 16,000,000 (RMB equivalent 103,659,000) in April 2016 as the initial closing and 933,334 ordinary shares for cash consideration of US$21,000,000 (RMB equivalent 136,053,000) in March 2017 as the second closing. To accommodate the needs of certain PRC investors in the Company's Series D Preferred Share financing, Hua Shanghai issued 899,758 ordinary shares to those investors ("Series D PRC Investors") for cash consideration of US$10,000,000 (RMB equivalent 64,112,000) in January 2018. The Company recoRnetodajETssetC inv /Lang (en-US)/MCID 4236 BDC BT/T1171 Tf0.04 Tw 7.2 0 0 8 565.3441 Tm(equi

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

1. General information

Hua Medicine (the "Company") was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009, and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 14, 2018 (the "Listing Date"). The address of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" to the annual report. The Company is an investment

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

3. Significant accounting policies (Continued)

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the dount w of the Com

3. Significant accounting policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

Changes in the Group's interests in existing subsidiaries

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

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

reserves between the Group and the non-c9hat doGro8S29 Tm[cont0.6(statements)0.5(oeain t 302.1329 Tm(reserves between the

3. Significant accounting policies (Continued)

Foreign currencies

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

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

Government grants

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

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

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

3. Significant accounting policies (Continued)

Plant and equipment

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

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets - research and development expenditure

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

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

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

3. Significant accounting policies (Continued)

Share-based Payments

Equity-settled share-based payment transactions

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

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

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

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

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

Share options granted to individual consultants

3. Significant accounting policies (Continued)

Taxation

3. Significant accounting policies (Continued)

Impairment on tangible and intangible assets

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

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

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

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

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Amortized cost and interest income

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

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

Financial assets at FVTPL

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

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

Foreign exchange gains and losses

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

Impairment of financial assets

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

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

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk

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

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3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Definition of default

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

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

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

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

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

The gross financial liability arising from the put options is recognized when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the Group. The liability for the share redemption amount is initially recognized and subsequently measured at fair value of the financial instruments to be issued to exchange for the shares in a subsidiary with the corresponding debit to 'other

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Foreign exchange gains and losses

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

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

Derecognition of financial liabilities

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

Treasury shares

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

4. Critical accounting judgements and key source of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are rex0002 Tn to makeudgements ,stimatioeand keassumpon oandbt ɐ dicarryg p amntinof tasse and keliabilicaeanthatre dete

5. Segment information

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

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

6. Other income

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

Note:

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

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

7. Other gains and losses

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

8. Finance cost

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

9. Loss before tax

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

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

10. Income tax expense

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

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

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

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

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

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

10. Income tax expense (Continued)

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

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

11. License agreement

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

12. Directors' and chief executive's emoluments

12. Directors

* Chief Executive Officer

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

Mr. Bryan ROBERTS, Mr. Daniel AUERBACH, Mr. Frank YU, Dr. John J. BALDWIN, and Mr. Xiao Chuan QIU resigned and were

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

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

The non-executive directors and independent non-executive directors emoluments shown above were for their services as

13. Five highest paid employees

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

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

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

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

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

14. Loss per share

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

Loss figures are calculated as follows:

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

15. Dividends

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

16. Plant and equipment

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

16. Plant and equipment (Continued)

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

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

17. Intangible assets

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

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

19. Prepayments to related parties

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

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

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

22. Trade and other payables

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

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

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Within 30 days	35,118	3,974
31 to 60 days	6,411	

23. Amounts due to related parties

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

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

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

23. Amounts due to related parties (Continued)

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

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

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

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

24. Deferred income

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

Movements of income related government grants

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

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

25. Financial liabilities at FVTPL

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

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

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

In April 2016, the Company issued 794,963 Series C-1 convertible redeemable preferred shares ("Series C-1 Preferred

25. Financial liabilities at FVTPL (Continued)

Presentation and classification

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

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

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

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

25. Financial liabilities at FVTPL (Continued)

Presentation and classification (Continued)

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

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

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

25. Financial liabilities at FVTPL (Continued)

Presentation and classification (Continued)

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

The Group has used the back-solve method to determine the underlying share value of the Group and adopted equity allocation model to determine the fair value of the Preferred Shares and gross obligation from Share Purchase Option written

26. Share capital

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

26. Share capital (Continued)

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

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

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

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

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

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

26. Share capital (Continued)

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

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

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

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

27. Share-based payment transactions

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

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

27. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company

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

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

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

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

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

Categories	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	December 4, 2014 ~ August 26, 2018	13,921,725	US$0.07 ~ 0.49
Mr. George Chien Cheng LIN	April 3, 2018	25,980,405	

27. Share-based payment transactions (Continued)

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

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

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

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

27. Share-based payment transactions (Continued)

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

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

27. Share-based payment transactions (Continued)

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

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

27. Share-based payment transactions (Continued)

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

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

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

27. Share-based payment transactions (Continued)

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

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

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

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

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

Restricted shares and restricted stock units of the Company

Restricted shares

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

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

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

27. Share-based payment transactions (Continued)

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

Restricted shares (Continued)

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

In April 2014, John CHOI, a director of the Company, entered into a restT/T13 1 Tf0.048 Tn .55 0 0ricted shb572.D 7471 Bell JETcondd int/Lang

29. Related party transactions

(a) Related party transactions

Purchase of research and development services from related parties:

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

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

(b) Related party balances

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

29. Related party transactions (Continued)

(c) Compensation of key management personnel

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

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Short term benefits	21,942	4,650
Post-employment benefits	56	46
Share based payments	20,926	760
	42,924	5,456

30. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to investors through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of net debts, which includes convertible redeemable preferred shares (net of bank balances and cash), and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

31. Financial instruments

(a) Categories of financial instruments

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial Assets at FVTPL	{	16,101

31. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk

Certain bank balances and cash, trade and other payables, amounts due to related parties, and convertible redeemable preferred shares are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

	Year ended December 31	
	2018	2017
	RMB'000	RMB'000
Assets		
US$		

31. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US$ and HK$, the foreign currency with which the Group may have a material exposure. No sensitivity analysis has

31. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	Over 3 years RMB'000	Total RMB'000	Carrying amount RMB'000
At December 31, 2018					
Trade and other payables	N/A	56,514	{	56,514	56,514
At December 31, 2017					
Trade and other payables	N/A	4,377	{	4,377	4,377
Amounts due to related parties	N/A	23,320	{	23,320	23,320
Financial liabilities at FVTPL	4	{	739,124	739,124	1,138,789

33. Details of subsidiaries

As of December 31, 2018 and 2017, the Company's subsidiaries are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ Registered capital US$	Attributable equity interest held by the Company 2018	2017	Principal activities
Directly held					
Hua Medicine Technology (Hong Kong) Limited ("Hua HK") 6 ï < ¹ ¦ "(0 ¥) Þ " ® ! (formerly known as Hua Medicine Limited)	Hong Kong August 12, 2010	Registered capital of US$1.00 and paid-in capital of US$1.00	100%	100%	Investment holding company
Indirectly held					
Hua Medicine (Shanghai) Co., Ltd. ("Hua Shanghai") 6 ï < ¹ ¦ " (j) Þ " ® !	The People's Republic of China June 22, 2011	Registered capital of US$25,218,839 and paid-in capital of US$23,441,222.39	100%	92.570% (Note)	Development and commercialization of innovative medicines

Note:

To accommodate the needs of certain PRC Investors in the Company's Series C Preferred Share financing, Hua Shanghai received US$16,000,000 (RMB equivalent 103,659,000) in April 2016 as the initial closing of Series C Preferred Share financing, of which US$711,111 was recorded as paid-in capital, and US$21,000,000 (RMB equivalent 136,053,000), in March 2017 as the second closing, of which US$933,333 was recorded as paid-in capital. Upon the completion of the investments, the Company's interests in Hua Shanghai was diluted from 100% to 92.57% as of December 31, 2017.

In association with the Company's Series D Preferred Share financing, Hua Shanghai received US$10,000,000 (RMB equivalent 64,112,002) in January 2018, of which US$402,424 was recorded as paid-in capital. Upon the completion of the investment, the Company's indirect interests in Hua Shanghai was diluted from 92.57% to 91.885%.

In January 2018, those PRC investors who participated in purchasing Series C-2 Preferred Shares and Series D-2 Preferred Shares exercised the Share Purchase Option to convert their equity interests in Hua Shanghai into Series C-1 Preferred Shares and Series D-1 Preferred Shares, respectively. As a result, those PRC investors disposed alo2hares,

34. Reconciliation of liabilities arising from financing activities

35. Information of financial position of the Company and movements in the Company's reserves (Continued)

The movements in the Company's reserves of the Company for the year ended December 31, 2018 is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated deficit RMB'000	Total RMB'000
At January 1, 2017	{	11,396	(505,352)	(493,956)
Loss and total comprehensive expense for the year	{	{	(143,729)	(143,729)
Recognition of equity-settled payment for subsidiary	{	4,354	{	4,354
At December 31, 2017	{	15,750	(649,081)	(633,331)
Loss and total comprehensive expense for the year	{	{	(3,289,796)	(3,289,796)
Option exercised to purchase ordinary shares	549	{	{	549
Shares issued upon initial public offerings and over-allotment	776,193	{	{	776,193
Conversion of redeemable convertible preferred shares into ordinary shares	5,149,139	{	{	5,149,139
Transaction costs attributable to issue of new shares	(34,534)	{	{	(34,534)
Capitalization Issue	(6,043)	{	{	(6,043)
Recognition of equity-settled payment for subsidiary	{	58,500	{	58,500
Repurchase of vested share options to satisfy withholding tax obligation	{	(896)	{	(896)
At December 31, 2018	5,885,304	73,354	(3,938,877)	2,019,781

"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HK IPO"	the global offering of the Shares, comprising the Hong Kong public offering of 10,476,000 Shares and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company
"Hua HK"	Hua Medicine Technology (Hong Kong) Limited (6 ï < ¹ ¦ "(0 ¥) Þ " ® !), formerly known as Hua Medicine Limited (6 < ¹ Þ " ® !), a limited liability company incorporated under the laws of Hong Kong on August 12, 2010, being a wholly-owned subsidiary of the Company
"Hua Shanghai"	Hua Medicine (Shanghai) Ltd. (6 ï < ¹ ¦ "(j) Þ " ® !), a limited liability company incorporated under the laws of PRC on June 22, 2011, being an indirect wholly-owned subsidiary of the Company
"insulin"	a hormone produced by the º-cells in the pancreas that is critical in promoting

"PRC"	the People's Republic of China, excluding, for the purposes of this report, the Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Pre-IPO Share Incentive Scheme"	the share incentive scheme approved and adopted by the Company on March 25, 2013 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
"Post-IPO Share Option Scheme"	the post-IPO share option scheme approved and adopted by our Company on August 26, 2018 for the benefit of any director, employee, adviser or consultant of the Company or any of our subsidiaries; a summary of the principal terms is set forth in "Appendix IV W° Statutory and General Information W° D. Share Incentive Schemes W° 2. Post-IPO Share Option Scheme" of the Prospectus
"Prospectus"	the prospectus issued by the Company on August 31, 2018 in connection with the Hong Kong public offering of the Shares
"R&D"	research and development
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance
"SGLT-2"	Sodium-glucose co-transporter-2
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	