You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018 included in the Accountants' Report set out in Appendix I to this prospectus, together with the respective accompanying notes. Our audited consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a biopharmaceutical company with a fully-integrated platform which boasts advanced research, discovery, development, manufacturing and commercialization capabilities. These capabilities have enabled us to build a robust pipeline of innovative and commercially promising monoclonal antibodies and other biologics in the fields of oncology, ophthalmology and autoimmune and metabolic diseases. Leveraging our platform, we have built up a pipeline of 17 antibody drug candidates in the last seven years, led by our four core products that are in late-stage clinical development in China, including sintilimab (IBI-308), our novel PD-1 antibody; IBI-305, our bevacizumab (Avastin) biosimilar; IBI-301, our rituximab (MabThera/Rituxan) biosimilar; and IBI-303, our adalimumab (Humira) biosimilar. For more information on our drug candidates, see the section headed "Business."

We currently have no products approved for commercial sale and have not generated any revenue from product sales. We have never been profitable and have incurred operating losses in each year since inception. Our loss and total comprehensive expenses were RMB544.5 million, RMB716.1 million, RMB269.3 million and RMB57.6 million for the years ended December 31, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively. Substantially all of our operating losses resulted from research and development expenses, administrative expenses, business development expenses and finance costs.

We expect to incur significant expenses and operating losses for at least the next several years as we further our pre-clinical research and development efforts, continue the clinical development of, and seek regulatory approval for, our drug candidates, launch commercialization of our pipeline products, and add personnel necessary to operate the fully-integrated platform with an advanced clinical candidate pipeline of products. Subsequent to the Listing we expect to incur costs associated with operating as a public company. We expect that our financial performance will fluctuate semi-annually and yearly due to the status of the development of our drug candidates, our efforts to obtain regulatory approval and commercialize our drug candidates.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on April 28, 2011. Our Company, as the holding company of our business, indirectly owns Innovent Suzhou and Innovent Technology, which run all of our operations in China. See the section headed "History, Development and Corporate Structure" for more details. Our consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Intercompany transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated on consolidation.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations, financial condition and the year-to-year comparability of our financial results are principally affected by the following factors:

Commercialization of Our Drug Candidates

Our business and results of operations depend on our ability to commercialize our drug candidates. We have a rich pipeline of drug candidates including six drug candidates in clinical development, four in IND stage and seven in pre-clinical development. Although we currently have no products approved for commercial sale and have not generated any revenue from product sales, we expect to commercialize one or more of our drug candidates over the coming years as they move toward the final stages of development. Sintilimab (IBI-308), our novel PD-1 antibody, is our drug candidate closest to commercialization. See the section headed "Business" for more information on the development status of our various drug candidates.

Cost Structure

Our results of operations are significantly affected by our cost structure, which primarily consists of research and development expenses, administrative expenses, business development expenses and finance costs.

Research and development activities are central to our business model. For the years ended December 31, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our research and development expenses accounted for 77.6%, 80.8%, 78.8% and 73.8% of our total expenses and costs, respectively. Our research and development expenses primarily consist of:

- third-party contracting costs incurred under agreements with consultants, contract research organizations, or CROs, and clinical trial sites that conduct research and development activities on our behalf;

- costs associated with purchasing raw materials for research and development of our drug candidates;

- employee salaries and related benefit costs, including share-based compensation expenses, for research and development personnel;

- payment of license fees pursuant to collaboration agreements and/or license agreements; and

- expenses associated with inspection and maintenance of facilities, depreciation and amortization expenses, travel expenses, insurance, utilities and other supplies used in research and development activities.

Our current research and development activities mainly relate to the clinical advancement of our 17 drug candidates, including six drug candidates in clinical development, four in IND stage and seven in pre-clinical development. We expect our research and development expenses to increase significantly for the foreseeable future, as we move these drug candidates into additional clinical trials, including potential registration trials, and as we continue to support the clinical trials of our drug candidates as treatments for additional indications.

Our administrative expenses consist primarily of salaries and related benefit costs, including share-based compensation expenses, for administrative personnel. Other administrative expenses include professional fees for legal, consulting, auditing and tax services as well as other direct and allocated expenses for rent and maintenance of facilities, travel costs, insurance and other supplies used in administrative activities. We also expect our administrative expenses to increase in future periods to support our drug and development efforts and support any commercialization activities with respect to our product candidates, if approved. These cost increases will likely be due to increased headcount, increased employee salaries and benefits, expanded infrastructure and increased costs for insurance. We also anticipate increased legal, compliance, accounting, insurance and investor and public relations expenses associated with being a public company in Hong Kong.

In addition to the research and development expenses and administrative expenses, we also anticipate that our business development expenses will increase and therefore our cost structure will evolve as we prepare for the commercialization of our drug candidates. For the year ended December 31, 2016 and 2017 and the six months ended June 30, 2018, our business development expenses consist of salaries and other expenses such as benefits, travel and share-based compensation expenses for business development personnel.

For the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018, we did not incur any sales and marketing costs. We are in the process of finalizing our sales and marketing strategy and expect to establish a sales and marketing team by end of 2018.

Funding for Our Operations

During the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018, we funded our operations primarily through bank loans and equity financing. Going forward, in the event of a successful commercialization of one or more of our drug candidates, we expect to fund our operations in part with revenue generated from sale of our commercialized drug products. However, with the continuing expansion of our business we may require further funding through public or private offerings, debt financing, collaboration and licensing arrangements or other sources. Any fluctuation in our ability to fund our operations will impact our cash flow plan and our results of operations.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles that conform with IFRSs issued by the IASB. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses. We evaluate our estimates and judgments on an ongoing basis, and our actual results may differ from these estimates. We base our estimates on historical experience, known trends and events, contractual milestones and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Our most critical accounting policies and estimates are summarized below. See note 4 and note 5 to the Accountants' Report set out in Appendix I for a description of our significant accounting policies.

Revenue Recognition and Contract Liabilities

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. We recognize revenue when it transfers control of a product or service to a customer.

Research and Development Service Fee Income

During the Track Record Period, we primarily earn revenues by providing research services to our customers through fee-for-service contracts.

Upfront payments received by us are initially recognized as a contract liability. Services revenue is recognized as a performance obligation satisfied over time based on the stage of completion of a contract. We use cost incurred to date as an input method to measure progress towards complete satisfaction of these performance obligations under IFRS 15.

Development milestone revenue is recognized when we can conclude that it is highly probable that there will not be a subsequent reversal of a significant amount of such revenue. With respect to payment for services that are not due from customers until the development milestones are completed, a contract asset is recognized over the period in which such services are performed.

License Fee Income

We license our patented intellectual property or right to commercialize our products to customers. The consideration for licensing consists of a fixed element (the upfront payment) and variable elements (including, but not limited to, development milestones and sales-based royalties). The upfront fee is recognized as revenue when customers have the ability to use the underlying intellectual property of the licence. Development milestones are recognized as revenue when we conclude that it is highly probable that there will not be a subsequent reversal of a significant amount of such revenue. Sales-based royalties are not recognized until a customer starts selling products that are manufactured by using the licensed intellectual property or the right to commercialization.

Research and Development Expenses

Research and development expenses incurred on our drug candidate pipelines are capitalized and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete such intangible asset and our ability to use or sell such intangible asset, that such intangible asset will generate future economic benefits, the availability of resources to complete the pipeline and our ability to measure reliably the expenditure during the development. Research and development expenses which do not meet these criteria are expensed when incurred. Management will assess the progress of each research and development project and determine whether the criteria are met for capitalization. During the Track Record Period, all research and development expenses are expensed when incurred.

Equity-settled Share-based Payment Transactions

Equity-settled share-based payment to employees (including directors of the Company) are measured at the fair value of the equity instruments as of the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on our estimate of equity instruments that will eventually vest, with a corresponding increase in the share-based payment reserve. At the end of each reporting period, we review our estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share based payment reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

Early Application of IFRS 9 and IFRS 15

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments" for recognition and measurement for financial assets and liabilities. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. We have elected to early apply IFRS 9, which has been applied consistently in the Track Record Period.

We have assessed the effects of early adoption of IFRS 9 on our financial statements and concluded that there was no significant impact on our financial position and performance as compared to the requirements of IAS 39, specifically because:

(1) all our financial assets and financial liabilities would be measured on the same bases under IFRS 9 and IAS 39;

(2) the application of expected credit loss model under IFRS 9 would not cause a material impact on the impairment loss allowance for our financial assets measured at amortized cost during the Track Record Period as compared with the incurred loss model under IAS 39; and

(3) there are no fair value changes of our financial liabilities which we had designated as at FVTPL attributable to our credit risk change during the Track Record Period, and thus the measurement difference for the fair value changes of our financial liabilities designated as at FVTPL attributable to the credit risk change under IFRS 9 and IAS 39 has no impact on our profit or loss during the Track Record Period.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" replaces the previous revenue standards IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is effective for the first interim period within annual reporting periods beginning on or after January 1, 2018 and we have early applied IFRS 15 to our financial statements, which has been applied consistently in the Track Record Period.

We have assessed the effects of the early adoption of IFRS 15 on our financial statements as compared to the requirements of IAS 18 and summarized as follows:

(1) Advances from customers of RMB292.2 million, RMB349.7 million and RMB443.4 million as of December 31, 2016 and 2017 and June 30, 2018, respectively, under IAS 18, were classified as contract liabilities under IFRS 15.

(2) Unbilled revenue of nil, nil and RMB3.5 million as of December 31, 2016 and 2017 and June 30, 2018, respectively, under IAS 18, were recognized as contract assets under IFRS 15.

(3) In accordance with IFRS 15, a promised amount of consideration is adjusted for the effects of the time value of money, if the timing of payments agreed by the parties to the contract provides the entity with a significant benefit of financing the transfer of goods or services to the customer. In such circumstances, the contract is considered to contain a significant financing component under IFRS 15, irrespective of whether the promise of financing is stated explicitly in the contract or implied by the payment terms agreed by the parties to the contract. As a result, interest expenses in the amount of RMB27.3 million, RMB32.3 million and RMB20.5 million were recognized for the years ended December 31, 2016 and 2017 and for the six months ended June 30, 2018, respectively, which resulted in an increase of interest expenses and contract liabilities as compared with IAS 18.

(4) We also applied the input method in estimating the performance obligations satisfied under IFRS 15 in relation to the research and development service, which would not cause a material impact on revenue recognized during the Track Record Period as compared with IAS 18.

Based on the above, we concluded that there was no significant impact of the early adoption of IFRS 15, as compared with IAS 18, on our net consolidated financial position and performance during the Track Record Period, except that the increase of interest expenses and contract liabilities resulted from the early adoption of IFRS 15 had a significant impact on our performance for the six months ended June 30, 2018 as compared to our loss and total comprehensive expenses for the same period.

DISCUSSION OF CERTAIN KEY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

The following table summarizes our consolidated statements of profit or loss and other comprehensive income for the six months ended June 30, 2018 and 2017, and the years ended December 31, 2017 and 2016, respectively:

	Six Months Ended June 30,		Change		Year Ended December 31,		Change	
	2018	2017	RMB	%	2017	2016	RMB	%
	(RMB in thousands)							
Revenue	4,436	10,000	(5,564)	(55.6)	18,538	–	18,538	–
Other income	7,892	4,534	3,358	74.1	64,406	33,307	31,099	93.4
Other gains and losses	498,966	2,181	496,785	22,777.9	(42,079)	(81,931)	39,852	(48.6)
Expenses								
Research and development expenses	(420,040)	(225,386)	(194,654)	86.4	(611,922)	(384,653)	(227,269)	59.1
Administrative expenses	(73,108)	(29,152)	(43,956)	150.8	(79,490)	(52,875)	(26,615)	50.3
Business development expenses	(10,094)	(3,067)	(7,027)	229.1	(8,278)	(4,505)	(3,773)	83.8
Listing expenses	(32,740)	–	(32,740)	–	–	–	–	–
Finance costs	(32,908)	(28,388)	(4,520)	15.9	(57,225)	(53,799)	(3,426)	6.4
Total expenses and costs	(568,890)	(285,993)	(282,897)	98.9	(756,915)	(495,832)	(261,083)	52.7
Loss and total comprehensive expenses for the year	**(57,596)**	**(269,278)**	**211,682**	**(78.6)**	**(716,050)**	**(544,456)**	**(171,594)**	**31.5**

Revenue

All of our revenue in 2017 and the six months ended 2018 and 2017, respectively, was generated from the license fee paid by and research and development services we provided to a biopharmaceutical company in China. Our revenue from license fee income and research and development service fee income increased from zero and zero for the year ended December 31, 2016 to RMB10.0 million and RMB8.5 million, respectively, for the year ended December 31, 2017. The increase was primarily attributable to license fee recognition in connection with the licensing of our patented technology to such customer in the first half of 2017 with respect to an early-stage drug candidate that we discontinued to develop as a pipeline product candidate, and research and development revenue recognition in connection with provision of certain manufacturing and validation services to such customer in 2017 for production of samples for drug development and regulatory filings. Revenue decreased by RMB5.6 million to RMB4.4 million for the six months ended June 30, 2018, from RMB10.0 million for the six months ended June 30, 2017, because we recorded a one-off license fee income in the first half of 2017 as explained above.

The following table summarizes the components of our revenue for the six months ended June 30, 2018 and 2017 and for the year ended December 31, 2017 and 2016, respectively:

	Six Months Ended June 30,		Change		Year Ended December 31,		Changes	
	2018	*2017*	*RMB*	*%*	*2017*	*2016*	*RMB*	*%*
	(RMB in thousands)							
License fee income	–	10,000	(10,000)	(100.0)	10,000	–	10,000	–
Research and development service fee income	4,436	–	4,436	–	8,538	–	8,538	–
Total	**4,436**	**10,000**	**(5,564)**	**(55.6)**	**18,538**	**–**	**18,538**	**–**

Other Income

Other income consists of bank interest income and government grants income.

Bank Interest Income

Bank interest income increased by RMB3.5 million to RMB8.0 million for the year ended December 31, 2017, from RMB4.5 million for the year ended December 31, 2016. The increase in bank interest income was primarily attributable to an increase in cash balance close to the end of 2016 as a result of the deposit of the proceeds from the Series D equity financing, which led to a higher average cash balance in 2017 compared to 2016. Bank interest income increased by RMB2.2 million to RMB6.1 million for the six months ended June 30, 2018, from RMB3.9 million for the six months ended June 30, 2017, primarily attributable to the interest income earned on the proceeds of our series E financing in the first half of 2018.

Government Grants Income

Government grants consist of (i) government subsidies specifically for the capital expenditure related to the purchase of plant and machinery, which is recognized over the useful life of related assets, and (ii) incentive and other subsidies for research and development activities and interest subsidies, which are recognized upon the fulfillment of certain conditions set by the government.

Some of the government grants we received related to costs expected to be incurred in the future and were revocable if we failed to satisfy the conditions specified under such government grants. These government grants were recognized as income upon the satisfaction of such conditions.

Other government grants related to income receivables as compensation for our expenses or losses historically incurred or aimed to provide immediate financial support to us which does not directly relate to our costs to be incurred in the future. Such government grants were recognized as income in the periods in which they became receivables.

The government grants income increased by RMB27.6 million to RMB56.4 million for the year ended December 31, 2017, from RMB28.8 million for the year ended December 31, 2016. The government grants income increased by RMB1.1 million to RMB1.8 million for the six months ended June 30, 2018, from RMB0.7 million for the six months ended June 30, 2017. The increases in government grants income were primarily attributable to more research and development activities that are eligible for government subsidies.

Other Gains and Losses

Other gains and losses consist of unrealized gains and losses related to (i) fair value changes of wealth management plans (financial assets mandatorily measured at fair value through profit and loss), (ii) fair value changes of other financial liabilities measured at fair value through profit and loss, and (iii) changes in foreign currency exchange rates.

Our financial assets mandatorily measured at fair value through profit and loss primarily consist of wealth management plans managed by major state-owned commercial banks in China. Gain on fair value changes of financial assets mandatorily measured at fair value increased by RMB20.2 million to RMB38.2 million for the year ended December 31, 2017, from RMB18.0 million for the year ended December 31, 2016. The increase in gain on fair value changes of financial assets mandatorily measured at fair value through profit and loss was primarily attributable to the return we received on the wealth management plans we purchased in 2017 by using a portion of the proceeds from the Series D equity financing. Gain on fair value changes of financial assets mandatorily measured at fair value decreased by RMB7.7 million to RMB2.4 million for the six months ended June 30, 2018, from RMB10.1 million for the six months ended June 30, 2017, primarily due to maturity of certain wealth management products that we previously purchased.

Loss on fair value changes of other financial liabilities measured at fair value through profit and loss decreased by RMB72.2 million to RMB51.0 million for the year ended December 31, 2017, from RMB123.2 million for the year ended December 31, 2016. The decrease was primarily attributable to the fair value adjustment we made to the outstanding convertible redeemable preferred shares. We recorded a gain of RMB448.8 million on fair value changes of other financial liabilities measured at fair value through profit and loss for the six months ended June 30, 2018, as compared to a loss of RMB0.8 million on fair value changes of other financial liabilities measured at fair value through profit and loss for the six months ended June 30, 2017. The gain was primarily due to the decrease in the fair value of our series D preferred shares resulted from the new issuance of series E preferred shares in the first half of 2018. Series E preferred shares replaced series D preferred shares to have the highest liquidation preference relative to all the preferred shares issued in previous financing rounds. Lowering liquidation preference led to a downward adjustment on the fair value for series D preferred shares, which was recognized as a gain to the Company. Such gain was partially offset by an upward adjustment on the fair value of series D preferred shares resulted from a share premium contributed by the issuance of series E preferred shares, which represents the excess of the issue price for series E preferred shares over the fair value for series D preferred shares at the issue date of Series E preferred shares. However, such excess of issue price was relatively limited and, as a result, such upward adjustment in the fair value of series D preferred shares was less than the downward adjustment resulting from their lowered liquidation preference, leading to a decrease in the fair value of series D preferred shares and a gain on fair value change in respect of our other financial liabilities.

We had a net foreign exchange gain of RMB23.3 million for the year ended December 31, 2016 and had a net foreign exchange loss of RMB29.3 million for the year ended December 31, 2017. The foreign exchange loss in 2017 was primarily attributable to the impact of depreciation of USD on our funds that are denominated in USD. We recorded a net foreign exchange gain of RMB51.2 million for the six months ended June 30, 2018, as compared to a net foreign exchange loss of RMB7.1 million for the six months ended June 30, 2017. The net foreign exchange gain for the six months ended June 30, 2018 was primarily attributable to the impact of depreciation of RMB against USD on our funds that are denominated in USD.

Research and Development Expense

Research and development expense increased by RMB227.2 million, or 59.1%, to RMB611.9 million for the year ended December 31, 2017, from RMB384.7 million for the year ended December 31, 2016. Research and development expenses increased by RMB194.6 million, or 86.4%, to RMB420.0 million for the six months ended June 30, 2018, from RMB225.4 million for the six months ended June 30, 2017. The increases were primarily attributable to more expenses incurred as a result of some of our drug candidates' transition into more advanced clinical stages and additional clinical programs including, without limitation, expenses spent on purchase of raw materials, third party contracting costs, including engagement of CROs, and salaries of research and development personnel. The following table summarizes the components of our research and development expense for the six months ended June 30, 2018 and 2017 and for the year ended December 31, 2017 and 2016:

	Six Months Ended June 30,		Change		Year Ended December 31,		Changes	
	2018	2017	RMB	%	2017	2016	RMB	%
	(RMB in thousands)							
Third-party Contracting Costs	173,060	58,173	114,887	197.5	215,479	90,435	125,044	138.3
Raw Material	114,509	67,781	46,728	68.9	168,934	124,916	44,018	35.2
Staff Costs	68,331	39,736	28,595	72.0	84,495	51,388	33,107	64.4
Depreciation and Amortization	29,593	28,937	656	2.3	59,723	54,595	5,128	9.4
License Fee	1,695	16,936	(15,241)	(90.0)	40,731	35,300	5,431	15.4
Other	32,852	13,823	19,029	137.7	42,560	28,019	14,541	51.9
Total research and development expenses	**420,040**	**225,386**	**194,654**	**86.4**	**611,922**	**384,653**	**227,269**	**59.1**

In 2017, the research and development expenses that were spent on third-party contracting costs, purchasing raw materials, salary expenses incurred in connection with research and development personnel and depreciation and amortization of the property, plant and equipment constituted approximately 35.2%, 27.6%, 13.8% and 9.8% of the total research and development expenses, respectively, compared with 23.5%, 32.5%, 13.4% and 14.2% for 2016, respectively. Such percentages were 41.2%, 27.3%, 16.3% and 7.0% for the six months ended June 30, 2018, respectively, as compared to 25.8%, 30.1%, 17.6% and 12.8% for the six months ended June 30, 2017, respectively.

Administrative Expense

Administrative expense increased by RMB26.6 million, or 50.3%, to RMB79.5 million for the year ended December 31, 2017, from RMB52.9 million for the year ended December 31, 2016. The increase was primarily attributable to the following:

- RMB18.9 million increase of share-based compensation expense, primarily attributable to the increase in the number of options and restricted shares granted to directors and employees; and

- RMB4.1 million increase of employee salary and benefits, which was primarily attributable to our increased headcount.

Administrative expenses increased by RMB43.9 million, or 150.3%, to RMB73.1 million for the six months ended June 30, 2018, from RMB29.2 million for the six months ended June 30, 2017.

The increase was primarily attributable to the following:

- RMB21.4 million increase of share-based compensation expense, which was primarily attributable to the increase in the number of options and restricted shares granted to directors and employees;

- RMB8.0 million increase of employee salary and benefits, which was primarily attributable to our business expansion; and

- RMB6.5 million increase of recruiting costs, which was primarily due to our intensified recruitment efforts in response to our business development needs.

Business Development Expense

Business development expenses consist of salaries and other expenses such as benefits, travel and share-based compensation expenses for business development personnel.

Business development expense increased by RMB3.8 million, or 84.4%, to RMB8.3 million for the year ended December 31, 2017, from RMB4.5 million for the year ended December 31, 2016. Business development expense increased by RMB7.0 million, or 225.8%, to RMB10.1 million for the six months ended June 30, 2018, from RMB3.1 million for the six months ended June 30, 2017. The increases were primarily attributable to the increase in headcount in business development department and salaries paid to business development personnel.

Finance Costs

Finance costs include interest on our bank borrowings and interest arising from a contract containing a significant financing component.

The stated amount of the consideration under such contract is adjusted based on the time value of such consideration if the timing of the payment of such consideration could be considered as providing us with a significant benefit similar to a financing provided by the customer under such contract.

Interest arising from a contract containing a significant financing component increased by RMB5.0 million to RMB32.3 million for the year ended December 31, 2017, from RMB27.3 million for the year ended December 31, 2016. Interest arising from a contract containing a significant financing component increased by RMB4.4 million, to RMB20.5 million for the six months ended June 30, 2018, from RMB16.1 million for the six months ended June 30, 2017. The increases were primarily attributable to the increase in the average balance of the payments that we have received in advance in connection with the commercialization license from Eli Lilly so far pursuant to the Lilly China Agreement.

Income Tax Expense

For the six months ended June 30, 2018 and 2017 and the years ended December 31, 2016 and 2017, we had no taxable income and therefore we had no income tax expenses. See note 13 to the Accountants' Report set out in Appendix I.

TAXATION

Cayman Islands

We were incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly is not subject to income tax in the Cayman Islands.

Hong Kong

Innovent HK is subject to Hong Kong profit tax at a rate of 16.5% for the years of assessment 2015/2016, 2016/2017 and 2017/2018. Commencing from the year of assessment 2018/2019, the first HK$2 million of profits earned by Innovent HK will be taxed at half the current tax rate (i.e., 8.25%) whilst the remaining profits will continue to be taxed at the existing 16.5% tax rate. Hong Kong does not impose a withholding tax on dividends.

China

Generally, our subsidiaries in China are subject to enterprise income tax on their taxable income in China at a rate of 25%, except that Innovent Suzhou benefits from a preferential tax rate of 15% as it is qualified as a "High and New Technology Enterprise" in Jiangsu Province. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards. The related tax authorities in Jiangsu Provision reviews the "High and New Technology Enterprise" status every three years. We expect Innovent Suzhou to continue to qualify as a "High and New Technology Enterprise" in Jiangsu Province for the foreseeable future.

DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from the Accountants' Report set out in Appendix I:

	As of June 30,	As of December 31,	
	2018	2017	2016
	(RMB in thousands)		
Total current assets	3,837,595	1,445,755	1,870,750
Total non-current assets	1,056,179	1,011,461	945,050
Total assets	**4,893,774**	**2,457,216**	**2,815,800**
Total current liabilities	1,770,182	163,276	76,199
Total non-current liabilities	4,697,467	3,916,068	3,697,819
Total liabilities	**6,467,649**	**4,079,344**	**3,774,018**
Share Capital	14	8	6
Reserves	(1,573,889)	(1,942,556)	(1,383,930)
Non-controlling interests	–	320,420	425,706
(Deficiency of) total equity	**(1,573,875)**	**(1,622,128)**	**(958,218)**

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of August 31, 2018 (Unaudited)	As of June 30, 2018	As of December 31, 2017	As of December 31, 2016
		(RMB in thousands)		
Current assets				
Inventories	52,127	48,980	57,722	36,631
Deposits, prepayments and other receivables	144,551	1,702,075	53,762	23,756
Income tax recoverables	13,649	13,233	13,068	13,874
Other financial assets	131,295	181,408	809,484	782,250
Prepaid lease payments	1,248	1,248	1,248	1,248
Contract assets	4,601	3,537	–	–
Bank balances and cash	1,773,539	1,887,114	510,471	1,012,991
Total current assets	**2,121,010**	**3,837,595**	**1,445,755**	**1,870,750**
Current liabilities				
Trade payables	48,576	36,639	34,836	21,198
Other payables and accrued expenses	224,219	1,723,543	122,540	55,001
Contract liabilities	–	–	900	–
Borrowings	10,000	10,000	5,000	–
Total current liabilities	**282,795**	**1,770,182**	**163,276**	**76,199**
Total net current assets	**1,838,215**	**2,067,413**	**1,282,479**	**1,794,551**

Inventories

Our inventories primarily consist of raw materials acquired for use in development activities and for the production of trial batches in the research and development stage of our drug candidates. Our inventories increased by RMB21.1 million to RMB57.7 million as of December 31, 2017 from RMB36.6 million as of December 31, 2016. The increase in inventories was primarily attributable to purchase of more raw materials due to the increased need in our clinical trials in 2017. Our inventories decreased by RMB8.7 million, to RMB49.0 million as of June 30, 2018, from RMB57.7 million as of December 31, 2017, primarily due to our increased consumption of inventories due to an increase in clinical trials in the first half of 2018. Subsequent to June 30, 2018, inventories in the amount of approximately RMB35.0 million, which accounted for 71.5% of our inventories as of June 30, 2018, have been consumed as of August 31, 2018.

Deposits, prepayments and other receivables

The following table sets forth our deposits, prepayments and other receivables as of the dates indicated:

	As of June 30,	As of December 31,	
	2018	2017	2016
	(RMB in thousands)		
Rental deposits	2,213	2,123	688
Prepayments	20,007	15,276	21,610
Other receivables	6,293	7,270	1,458
Subscription receivables for restricted shares	29,043	28,684	7,393
Receivables due from directors and an employee	71,871	409	409
Subscription receivables for preferred shares	1,504,033	–	–
Other loans	21,093	–	–
Deferred issue costs	6,329	–	–
Other tax recoverables	160,965	135,533	93,073
Total	**1,821,847**	**189,295**	**124,631**

The rental deposits increased by RMB1.4 million to RMB2.1 million as of December 31, 2017 from RMB0.7 million as of December 31, 2016. The rental deposits increased slightly by RMB0.1 million to RMB2.2 million as of June 30, 2018, from RMB2.1 million as of December 31, 2017. The increases were primarily attributable to the rental deposits we made in connection with the non-cancellable operating leases in respect of our office premises in Shanghai.

The prepayments primarily consist of prepayments made in connection with purchase of raw materials and services provided by CROs and hospitals. The prepayments decreased by RMB6.3 million to RMB15.3 million as of December 31, 2017 from RMB21.6 million as of December 31, 2016. The prepayments increased slightly by RMB4.7 million to RMB20.0 million as of June 30, 2018, from RMB15.3 million as of December 31, 2017.

We recorded subscription receivables for restricted shares due to issuance of restricted shares under our Pre-IPO Share Incentive Plan. Subscription receivables for restricted shares increased by RMB21.3 million to RMB28.7 million as of December 31, 2017 from RMB7.4 million as of December 31, 2016, and further increased to RMB29.0 million as of June 30, 2018. The increases were primarily attributable to the subscription amount owed by Dr. Yu in connection with the restricted shares issued to him in 2017. Dr. Yu has not paid us the subscription price of these restricted shares and it is expected that such amount owed by Dr. Yu will be settled prior to the consummation of the Global Offering.

RMB0.4 million of receivables due from directors as of December 31, 2016 and 2017 represents the subscription receivables for share options due from Dr. Yu. RMB71.9 million of receivables due from directors and an employee as of June 30, 2018 represents the amounts of the exercise price and other costs payable by the directors and an employee who have accelerated their options. It is expected that such amount owed by our directors and an employee will be settled prior to the consummation of the Global Offering.

We recorded subscription receivables for preferred shares of RMB1,504.0 million as of June 30, 2018, relating to the preferred shares issued to certain onshore PRC investors. As of August 31, 2018, such subscription receivables related to preferred shares have been fully paid, leading to the significant decrease of our deposit, prepayment and other receivables from June 30, 2018 to August 31, 2018. We also recorded other loans of RMB21.1 million as of June 30, 2018, which include loans provided to certain employees for financing their payment on exercising the share options and individual income tax.

We recorded capitalized listing expenses as deferred issue costs. We recorded RMB6.3 million of deferred issue costs as of June 30, 2018.

Other tax recoverables are VAT recoverables. As we have not commercialized any of our drug candidates, the VAT recoverables primarily related to the VAT we paid for machines and equipment, goods and services we purchased which are expected to offset any VAT incurred once we start selling the drugs after their commercialization. We are able to carry the VAT recoverables forward for an infinite period of time.

Other Financial Assets

Our financial assets mandatorily measured at fair value through profit and loss primarily consist of wealth management plans managed by major state-owned commercial banks in China. Such wealth management plans come with an anticipated return rate ranging from 2.3% to 5.1% and mature within one year. As of June 30, 2018, more than 70% of such wealth management plans guarantee repayment of principal. We believe that purchase of these wealth management plans is in line with our treasury functions and are not speculative in nature.

Other financial assets increased by RMB27.2 million to RMB809.5 million as of December 31, 2017 from RMB782.3 million as of December 31, 2016. The increase was primarily attributable to purchase of additional wealth management plans by using a portion of the proceeds from our Series D equity financing. Other financial assets decreased by RMB628.1 million to RMB181.4 million as of June 30, 2018, from RMB809.5 million as of December 31, 2017, primarily due to reduced purchases of wealth management products based on our adjusted cash management policy. We have a risk management policy and internal control procedures and guidelines in place which we believe are effective in identifying the risks associated with investing in wealth management plans, including those that do not guarantee repayment of principal, and we have strictly adhered to such policies and guidelines.

Contract Assets

A contract asset is recognized over the period in which research and development services are performed and represents our right to consideration for the services transferred to a customer to date. A contract asset is reclassified as trade receivables at the point when it is invoiced to the customer. We did not recognize any contract assets as of December 31, 2016 and 2017, and we recognized contract assets of RMB3.5 million as of June 30, 2018 from our research and development contract with a biopharmaceutical company in China. As of August 31, 2018, none of these contract assets has been billed to customers subsequent to June 30, 2018 and we expect to fulfill the performance obligations and receive milestone payment in late September 2018.

Trade Payables

The trade payables arise from our purchase of raw materials and third-party contracting services. The trade payables increased by RMB13.6 million to RMB34.8 million as of December 31, 2017 from RMB21.2 million as of December 31, 2016. Trade payables increased by RMB1.8 million to RMB36.6 million as of June 30, 2018, from RMB34.8 million as of December 31, 2017. The increases were primarily attributable to more service fees payable to our third party service providers. Our credit terms on trade payables were up to 60 days. The average days payable outstanding in 2016 and 2017 are 24 days and 25 days, respectively. We have not been delinquent in repayment of our trade payables.

Set forth below is the ageing analysis of our trade payables as of the dates indicated:

	As of June 30,	As of December 31,	
	2018	2017	2016
	(RMB in thousands)		
0-30 days	34,704	33,853	20,311
31-60 days	849	556	664
Over 60 days	1,086	427	223
Total	**36,639**	**34,836**	**21,198**

Other Payables and Accrued Expenses

Our other payables primarily consisted of payroll payables to our staff and payables in respect to acquisition of property, plant and equipment. Our accrued expenses primarily consisted of accrued research and development expenses. The following table sets forth the components of our other payables and accrued expenses.

	As of June 30,	As of December 31,	
	2018	2017	2016
	(RMB in thousands)		
Accrued expenses			
Research and development	97,561	77,115	11,090
Legal and professional fee	8,136	1,485	289
Issue costs and listing expenses	34,412	–	–
Others	6,014	5,955	3,588
Subtotal of accrued expenses	**146,123**	**84,555**	**14,967**
Interest payables	795	748	681
Other payables[(1)]	11,763	7,192	4,516
Other tax payable	26,504	1,082	2,398
Payables in respect of acquisition of property, plant and equipment	8,657	8,854	6,970
Staff payroll payables	25,668	20,109	12,960
Consideration payable for acquiring non-controlling interest of a subsidiary	1,504,033	–	–
Government grants	–	–	12,509
Total	**1,723,543**	**122,540**	**55,001**

(1) Other payables primarily consist of payables to utility suppliers and general administrative service providers.

Our other payables and accrued expenses increased by RMB67.5 million from RMB55.0 million as of December 31, 2016 to RMB122.5 million as of December 31, 2017. The increase was primarily attributable to the increase in research and development expenses, the increase in payables relating to the construction of our manufacturing facility, and the increase in payroll payables as our headcount expanded in line with our overall business expansion. Our other payables and accrued expenses increased by RMB1,601.0 million to RMB1,723.5 million as of June 30, 2018, from RMB122.5 million as of December 31, 2017, primarily due to a RMB1,504.0 million of consideration payable for acquiring non-controlling interest of a subsidiary as part of our restructuring process. As of August 31, 2018, we have fully paid such consideration payable and acquired non-controlling interest of the subsidiary, leading to the significant decrease of our other payables and accrued expenses from June 30, 2018 to August 31, 2018.

Contract Liabilities

Contract liabilities include (i) payments we have received in advance in connection with our research and development services and (ii) payments we have received in advance in connection with the license to commercialize.

Contract liabilities arise when the payment we received from a customer in connection with the research and development services we provide to such customer exceeds the revenue recognized to date under the cost-based input method.

Payments we received in advance in connection with the commercialization license will be recognized as revenue over the commercialization period. With respect to the Lilly China Agreement, the commercialization period is expected to commence beginning 2019.

The contract liabilities relating to amounts we received in advance in connection with research and development services increased to RMB0.9 million as of December 31, 2017 from zero as of December 31, 2016 which was primarily attributable to the payment we received for the research and development services we provided to a biopharmaceutical company in China. In the first half of 2018, we provided services to settle the previous balance and recognized RMB0.9 million as our revenue for the six months ended June 30, 2018. As of June 30, 2018, we did not have any contract liabilities relating to amounts received in advance of delivery for research and development services.

The contract liabilities relating to amounts we received in advance in connection with the license to commercialize increased by RMB56.6 million to RMB348.8 million as of December 31, 2017 from RMB292.2 million as of December 31, 2016. The contract liabilities relating to amounts we received in advance in connection with the license to commercialize increased by RMB94.6 million to RMB443.4 million as of June 30, 2018, from RMB348.8 million as of December 31, 2017. The increase was primarily attributable to (i) the payments we received from Eli Lilly in 2017 and the first half of 2018 pursuant to the Lilly China Agreement and (ii) the interest arising from the aggregate balance of the payments we have received from Eli Lilly representing the financing component of the contract with Eli Lilly. See the section headed "Business – Collaboration Agreements – Collaboration with Eli Lilly" for more information about the Lilly China Agreement.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

	As of June 30,	As of December 31,	
	2018	2017	2016
Current Ratio[(1)]	2.2	8.9	24.6
Quick Ratio[(2)]	2.1	8.5	24.1
Gearing Ratio[(3)]	NM[(4)]	NM[(4)]	NM[(4)]

Notes:

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

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

(3) Gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents divided by (deficiency of) total equity and multiplied by 100%.

(4) Gearing ratio is not meaningful as our (deficiency of) total equity was negative as of December 31, 2016, December 31, 2017 and June 30, 2018.

See "– Discussion of Certain Key Statement of Profit or Loss and Other Comprehensive Income Items" in this section for a discussion of the factors affecting our results of operations during the respective periods.

LIQUIDITY AND CAPITAL RESOURCES

Management monitors and maintains a level of cash and cash equivalents deemed adequate to finance our operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of borrowings and, from time to time, evaluate the options to renew the borrowings upon expiry based on our actual business requirement. We rely on bank borrowings and equity financing as the major sources of liquidity.

Since inception, we have incurred negative cash flows from our operations. Substantially all of our operating cash outflows have resulted from our research and development expenses and administrative expenses associated with our operations. Our operating activities used RMB363.0 million, RMB492.3 million and RMB342.5 million for the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018, respectively.

As of June 30, 2018, we had cash and cash equivalents and other financial assets of RMB2,068.5 million.

The following table provides information regarding our cash flows for the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,	
	2018	2017	2017	2016
	(RMB in thousands)			
		(unaudited)		
Net cash used in operating activities	(342,525)	(248,003)	(492,270)	(362,993)
Net cash from (used in) investing activities	525,053	(508,903)	(349,456)	(572,079)
Net cash from financing activities	1,119,893	91,861	89,406	1,639,605
Net increase (decrease) in cash and cash equivalents	1,302,421	(665,045)	(752,320)	704,533

Use of Funds

Our primary use of our cash and cash equivalents and other financial assets in all periods presented was for our research and development activities and related supporting administrative costs.

Operating Activities

During the six months ended June 30, 2018, operating activities used RMB342.5 million of cash, which resulted principally from our net loss of RMB57.6 million, adjusting for non-cash gains of RMB432.5 million, interest on bank borrowings of RMB12.4 million, interest of RMB20.5 million arising from a contract which contains significant financing component and working capital changes of RMB114.7 million. Our net non-cash gains during the six months ended June 30, 2018 primarily consisted of RMB448.8 million gain on fair value changes of other financial liabilities measured at fair value through profit or loss and RMB51.2 million net foreign exchange gain.

During the year ended December 31, 2017, operating activities used RMB492.3 million of cash, which resulted principally from our net loss of RMB716.1 million, adjusting for non-cash charges of RMB123.4 million, interest on bank borrowings of RMB24.9 million, interest arising from a contract containing a significant financing component of RMB32.3 million, and working capital changes of RMB43.2 million. Our net non-cash charges during the year ended December 31, 2017 primarily consisted of depreciation of property, plant and equipment of RMB59.9 million, unrealized exchange loss of RMB29.3 million, shared-based payment expenses of RMB29.3 million and loss on fair value changes of other financial liabilities measured at fair value through profit or loss of RMB51.0 million, partially offset by gain on fair value through profit or loss changes of wealth management plans (financial assets mandatorily measured at fair value) of RMB38.2 million.

During the year ended December 31, 2016, operating activities used RMB363.0 million of cash, which resulted principally from our net loss of RMB544.5 million, adjusting for non-cash charges of RMB139.5 million, interest on bank loans of RMB26.5 million, interest arising from a contract containing significant financing component of RMB27.3 million, and working capital changes of RMB11.9 million. Our net non-cash charges during the year ended December 31, 2016 primarily consisted of depreciation of property, plant and equipment of RMB53.3 million and loss on fair value changes of other financial liabilities measured at fair value through profit or loss of RMB123.2 million, partially offset by unrealized exchange gain of RMB23.3 million and gain on fair value changes of wealth management plans (financial assets mandatorily measured at fair value) of RMB18.0 million.

Investing Activities

Net cash from investing activities was RMB525.1 million for the six months ended June 30, 2018. The net cash increase was primarily attributable to RMB960.4 million of proceeds from release of other financial assets and RMB260.5 million from release of term deposits with maturity dates over three months, partially offset by RMB330.0 million for purchase of other financial assets and RMB286.4 million for placement of term deposits.

Net cash used in investing activities was RMB349.5 million for the year ended December 31, 2017. The net cash decrease was primarily attributable to RMB326.7 million for placement of term deposits with maturity dates over three months, RMB91.0 million for purchase of property, plant and equipment and RMB790.0 million for purchase of wealth management plans, partially offset by RMB801.0 million of proceeds we received from those wealth management plans that matured in 2017.

Net cash used in investing activities was RMB572.1 million for the year ended December 31, 2016. The net cash decrease was primarily attributable to RMB50.0 million for placement of term deposits with maturity dates over three months, RMB58.4 million for purchase of property, plant and equipment and RMB767.0 million for purchase of wealth management plans, partially offset by RMB290.1 million of proceeds we received from those wealth management plans that matured in 2016.

Financing Activities

Net cash provided by financing activities was RMB1,119.9 million for the six months ended June 30, 2018, primarily consisting of RMB947.8 million of proceeds from the issue of our preferred shares and RMB187.0 million of new borrowings.

Net cash provided by financing activities was RMB89.4 million for the year ended December 31, 2017 and primarily consisted of RMB104.2 million from the proceeds of the capital contribution by PRC onshore investors to Innovent Suzhou as part of our series D equity financing and RMB10.0 million from a draw we made under the loan facility we entered into in 2017, partially offset by RMB24.8 million on interest paid on our bank borrowings.

Net cash provided by financing activities was RMB1.64 billion for the year ended December 31, 2016 and primarily consisted of RMB1.24 billion from the proceeds of the capital contribution by PRC onshore investors to Innovent Suzhou and RMB0.43 billion from the proceeds of the capital contribution by offshore investors to our Company, both of which are part of our series D equity financing, partially offset by RMB26.6 million on interest paid on our bank borrowings.

Cash Operating Costs

The following table sets forth key information relating to our cash operating costs for the period indicated.

	For the six months ended June 30, 2018	For the year ended December 31, 2017	2016
	(RMB in thousand)		
Research and Development Costs for Core Products:			
Third-party contracting costs	134,482	122,286	82,198
Direct material(1)	52,930	104,062	84,723
Staff costs	26,079	41,855	29,352
Others	10,544	36,040	33,636
Total:			
Research and Development Costs:			
– Third-party contracting costs	156,463	208,637	99,002
– Direct material	106,173	187,488	137,365
– Staff costs	53,052	75,091	45,712
– Others	–	42,693	25,911
Workforce Employment(2)	121,404	135,799	77,568
Direct Production(3)	–	–	–
Commercialization(3)	–	–	–
Contingency Allowance	–	–	–

(1) The cash amount of accounts payable relating to the direct materials used in the research and development activities of core products was estimated based on the accounted amount on an accrual basis which closely approximates the cash amount of such accounts payables.

(2) Workforce employment costs represent total staff costs including salaries, bonus, retirement benefits and share-based payment expenses.

(3) We had not commenced product sales as of the Latest Practicable Date.

INDEBTEDNESS

The following table sets forth the breakdown of our financial indebtedness as of the dates indicated.

	As of August 31, 2018	As of June 30, 2018	As of December 31, 2017	2016
		(RMB in thousands)		
	(Unaudited)			
Consideration received from other financial liabilities (unsecured)*	3,647,527	3,647,527	2,699,705	2,595,458
Carrying amount of variable rate bank loans				
– secured	495,000	500,000	500,000	500,000
– unsecured	197,000	197,000	10,000	–
Total	**4,339,527**	**4,344,527**	**3,209,705**	**3,095,458**

* The aggregated proceeds we received from our various rounds of equity financing are recognized as consideration received from other financial liabilities (unsecured). As at December 31, 2016 and 2017 and June 30, 2018, the carrying amount of other financial liabilities amounting to RMB2,895.8 million, RMB3,051.1 million and RMB3,550.1 million, respectively, which includes the initial consideration received and subsequent fair value changes.

As of August 31, 2018, the outstanding balance of our bank loans was RMB692.0 million with effective interest rate of 4.9% per annum, out of which RMB10 million will become due in one year. We primarily used the proceeds of our bank borrowings for the construction of our manufacturing facilities and purchase of plant, property and equipment.

In 2015, we entered into a ten-year syndicated loan facility with China Construction Bank and Agricultural Bank of China, which bears the relevant benchmark interest rate published by the PBOC. The loan facility is secured and grants us a line of credit up to RMB500 million. Draw-downs on the facility will be repaid according to a repayment schedule. As of June 30, 2018, the credit line under this loan facility has been fully drawn down and utilized. As of August 31, 2018, the outstanding principal balance of this loan facility was RMB495 million, of which RMB5 million will become due in January 2019, and another RMB5 million will become due in July 2019.

In 2017, we entered into a ten-year syndicated loan facility with China Construction Bank and Agricultural Bank of China, which bears the relevant benchmark interest rate published by the PBOC. The loan facility is currently unsecured and grants us a line of credit up to RMB425 million. Draw-downs on the facility will be repaid according to a repayment schedule. As of August 31, 2018, the outstanding principal balance of the loan facility was RMB197.0 million and the unutilized loan facilities was RMB228 million.

Consent of the lenders under each of the two loan facilities is required before we incur any additional indebtedness. Our Directors confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. In 2018, we breached certain covenants under the syndicated loan facility we entered into in 2015 and had obtained waivers from the lenders of that facility by the Latest Practicable Date.

Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of the Latest Practicable Date.

WORKING CAPITAL CONFIRMATION

The Directors are of the opinion that, taking into account the financial resources available to the Group, including cash and cash equivalents, internally generated funds, available financing facilities and the estimated net proceeds from the Listing, the Group has sufficient working capital to cover at least 125% of our costs, including research and development expenses, business development and marketing expenses, and administrative and operating costs (including any production costs) for at least the next 12 months from the expected date of this prospectus.

CAPITAL EXPENDITURE

We regularly incur capital expenditures to purchase and maintain our property, plant and equipment, in order to enhance our research and development capabilities and expand our business operations. Historically, we funded our capital expenditures mainly through bank borrowings and equity financing. The table below sets forth our capital expenditures for the periods indicated:

	For the six months ended June 30,		**For the years ended December 31,**	
	2018	**2017**	**2017**	**2016**
	(RMB in thousand)			
		(unaudited)		
Purchases of property, plant and equipment	55,064	29,940	49,791	57,780

We expect to incur capital expenditures of approximately RMB300 million and RMB141.46 million in 2018 and 2019, respectively. These expected capital expenditures are primarily for the construction of new facilities and maintenance of our existing facilities to increase our manufacturing capabilities in anticipation of the commercialization of our drug candidates, if approved, in the near future. Please refer to the sections headed "Business – CMC and Manufacturing" and "Future Plans and Use of Proceeds" for further details. We expect to finance our capital expenditures through a combination of the net proceeds from the Global Offering and bank borrowings. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

CONTRACTUAL COMMITMENTS

Operating Lease Commitments

We lease office or manufacturing facilities in Suzhou and Shanghai under non-cancellable operating leases expiring on different dates. As of June 30, 2018, we have non-cancellable operating lease commitments of approximately RMB20.3 million. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. The following table sets forth our commitments for future minimum lease payments under our non-cancellable operating leases which fall due as indicated:

	As of June 30,	**As of December 31,**	
	2018	**2017**	**2016**
	(RMB in thousand)		
Within one year	4,849	4,542	1,836
In the second to fifth years inclusive	15,407	17,612	34
Total	**20,256**	**22,154**	**1,870**

Capital Commitments

As of June 30, 2018, December 31, 2017 and 2016, we had capital commitments in respect of acquisition of property, plant and equipment of approximately RMB242.3 million, RMB131.3 million and RMB6.9 million, respectively, primarily in connection with the construction of our manufacturing facility. The following table sets forth our capital commitments as of the date indicated:

	As of June 30,	**As of December 31,**	
	2018	**2017**	**2016**
	(RMB in thousand)		
Contracted but not provided for	242,345	131,270	6,884

OFF-BALANCE SHEET ARRANGEMENTS

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest and Credit Risk

Our financial instruments include deposits and other receivables, other financial assets, bank balances and cash, trade payables, other payables, borrowings and other financial liabilities. Our management manages and monitors exposures to ensure appropriate measures are implemented on a timely and effective manner. For details, including relevant sensitivity analysis, see note 37b to the Accountants' Report set out in Appendix I.

Interest rate risk

We are exposed to fair value interest rate risk in relation to our variable-rate bank borrowings and bank balances. Our management has considered our exposure to cash flow interest rate risk in relation to variable-rate bank balances to be limited because the current market interest rates on general deposits are relatively low and stable. For further details, see note 37b to the Accountants' Report set out in Appendix I.

Credit risk

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

In order to minimize credit risk, our finance team regularly review and evaluate our credit risk exposure. Our management uses publicly available financial information and our own historical repayment records to evaluate our other debtors. Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The credit risk on our liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. For further details, see note 37b to the Accountants' Report set out in Appendix I.

Currency Risk

Certain bank balances and cash, trade and other payables, and other financial liabilities are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. We did not use any derivative contracts to hedge against our exposure to currency risk during the Track Record Period and up to the Latest Practicable Date. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. For details, including relevant sensitivity analysis, see note 37b to the Accountants' Report set out in Appendix I.

Liquidity Risk

To manage our liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. For details, see note 37b to Accountants' Report set out in Appendix I.

TRANSACTIONS WITH RELATED PARTIES OF A PREFERRED SHAREHOLDER

We had the following transactions during the Track Record Period with certain related parties of a preferred shareholder which has the authority to appoint a director on the Company's board:

	Six months ended June 30,		Year ended December 31,	
Nature of Transaction	**2018**	**2017**	**2017**	**2016**
		(RMB in thousand) (unaudited)		
Collaboration Fee Received	74,192	–	24,261	28,882
Consulting Service Expenses Paid	(1,144)	(1,440)	(4,306)	(4,897)

It is the view of our directors that each of the above transactions (i) was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties, and (ii) does not distort our track record period results or make our historical results not reflective of future performance.

TRANSACTIONS WITH DR. YU

As of December 31, 2016 and 2017 and June 30, 2018, we have subscription receivables arising from issuance of restricted shares to Dr. Yu amounting to RMB7.30 million, RMB28.6 million and RMB28.9 million, respectively. As of June 30, 2018, Dr. Yu had not paid us the subscription price of these restricted shares. Such amount owed by Dr. Yu together with other receivables were settled on October 15, 2018 pursuant to his service agreement of even date.

On October 15, 2018, in consideration of future performance of their duties as Directors, the Company granted bonuses in the total amount of approximately RMB201.02 million to certain Directors (including Dr. Yu) to convert the subscription receivables for restricted shares and receivables due from them (including the related tax liabilities), subject to fulfilment of certain performance conditions. Based on the relevant terms of the Directors' respective service agreements (which reflected the relevant contractual terms of these Directors' bonus plan), the outstanding receivables (including subscription receivables) and the withholding tax resulting from the share subscriptions and the grant of these bonuses as at October 15, 2018 were converted to the bonuses paid in advance to these Directors. These Directors shall be liable to return the whole or part of the bonuses and the relevant tax paid for them if certain performance conditions are not satisfied in accordance with the relevant terms of the service agreements. Please also see note 40(d) to the Accountants' Report set out in Appendix I for further details.

Our Directors confirm that our transactions with Dr. Yu during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

DIVIDENDS

We have never declared or paid any dividends on our ordinary shares or any other securities. We currently intend to retain all available funds and earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Investors should not purchase our ordinary shares with the expectation of receiving cash dividends.

Any future determination to pay dividends will be made at the discretion of our Directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors may deem relevant.

DISTRIBUTABLE RESERVES

As of June 30, 2018, we did not have any distributable reserves.

LISTING EXPENSES

Listing expenses to be borne by us are estimated to be approximately HK$179.3 million (including underwriting commission, assuming an Offer Price of HK$13.25 per Share, being the mid-point of the indicative Offer Price range of HK$12.50 to HK$14.00 per Share), assuming the Over-allotment Option is not exercised and no shares are issued pursuant to the Equity Plans. No such expenses were recognized and charged to our consolidated statements of profit or loss for the years ended December 31, 2016 and 2017. In the six months ended June 30, 2018, the listing expenses charged to profit or loss were RMB32.7 million and capitalized to deferred issue costs were RMB6.3 million. After June 30, 2018, approximately HK$18.90 million is expected to be charged to our consolidated statements of profit or loss, and approximately HK$116.19 million is expected to be accounted for as a deduction from equity upon the Listing. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group Attributable to Owners of the Company

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to our owners as at June 30, 2018 as if the Global Offering had taken place on such date.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to our owners has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to our owners as at June 30, 2018 or at any further dates following the Global Offering.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group is prepared based on the audited consolidated net tangible liabilities of our Group attributable to our owners as at June 30, 2018 as derived from the Accountants' Report set out in Appendix I to this prospectus and adjusted as described below.

	Audited consolidated net tangible liabilities of our Group attributable to our owners as at June 30, 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of our Group attributable to our owners as at June 30, 2018	Unaudited pro forma adjusted net tangible assets of our Group attributable to our owners per Share as at June 30, 2018	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$12.50 per Share	(1,573,875)	2,485,720	911,845	2.06	2.34
Based on an Offer Price of HK$14.00 per Share	(1,573,875)	2,785,767	1,211,892	2.74	3.11

Notes:

1. The audited consolidated net tangible liabilities of the Group attributable to owners of the Company as at June 30, 2018 is extracted from the consolidated statements of financial position set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on 236,350,000 Shares at the Global Offering of HK$12.50 (equivalent to RMB11.02) and HK$14.00 (equivalent to RMB12.34) per offer share, being the low-end and high-end of the stated offer price range, respectively, after deduction of the estimated underwriting fees and commissions and other related expenses paid/payable by the Group (excluding listing expenses charged to profit or loss prior to June 30, 2018) and without taking into account of any shares (i) which may be allotted and issued upon the exercise of the Over-allotment Option or (ii) which may be issued under Pre-IPO Share Incentive Plan or the Post-IPO ESOP or (iii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of shares granted to the directors of the Company.

   For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in HK$ has been converted into RMB at the rate of HK$1 to RMB0.8817, which was the exchange rate prevailing on October 9, 2018 with reference to the rate published by the People's Bank of China. No representation is made that the HK$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of the Group per Share is arrived at on the basis that 442,606,893 Shares were in issue (retrospectively adjusted for share subdivision as disclosed in Appendix I to the Prospectus) assuming that the Global Offering had been completed on June 30, 2018 and without taking into account of any shares (i) which may be allotted and issued upon the exercise of the Over-allotment Option or (ii) which may be issued under Pre-IPO Share Incentive Plan or the Post-IPO ESOP or (iii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of shares granted to the directors of our Company or (iv) the conversion of the Preferred Shares or (v) any unvested restricted shares.

4. For the purpose of unaudited pro forma adjusted consolidated net tangible assets of our Group per share, the amount stated in RMB is converted into Hong Kong dollar at the rate of HK$1 to RMB0.8817, which was the exchange rate prevailing on October 9, 2018 with reference to the rate published by the People's Bank of China. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group as at June 30, 2018 to reflect any trading result or other transaction of our Group entered into subsequent to June 30, 2018. In particular, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to our owners as shown on II-1 have not been adjusted to illustrate the effect of the conversion of preferred shares into ordinary shares. The conversion of Preferred Shares upon completion of IPO would then have reclassified the RMB3,550,116,000 Preferred Shares to equity. The conversion of preferred shares would have increased the total share in issue assumption stated in note 3 by 671,783,410 shares to a total of 1,114,390,303 shares in issue. The adjustment to the unaudited pro forma adjusted consolidated net tangible assets of our Group after conversion of Preferred Shares would be as follows:

	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our owners of the Company as at June 30, 2018 after conversion of the Preferred Shares	**Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to our owners per Share as at June 30, 2018 after conversion of the Preferred Shares**	
	RMB'000	*RMB*	*HK$*
		(Note 5)	*(Note 5)*
Based on an Offer Price of HK$12.50 per Offer Share	4,461,961	4.00	4.54
Based on an Offer Price of HK$14.00 per Offer Share	4,762,008	4.27	4.84

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2018 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since June 30, 2018 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.