The following is the text of a report set out on pages I-1 to I-68, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

To the Directors of Innovent Biologics, Inc., Morgan Stanley Asia Limited, Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities (Far East) Limited and China Merchants Securities (HK) Co., Limited

Introduction

We report on the historical financial information of Innovent Biologics, Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-5 to I-68, which comprises the consolidated statements of financial position of the Group as at 31 December 2016 and 2017 and 30 June 2018, the statements of financial position of the Company as at 31 December 2016 and 2017 and 30 June 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the two years ended 31 December 2017 and the six months ended 30 June 2018 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-5 to I-68 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 18 October 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the Group's financial position as at 31 December 2016 and 2017 and 30 June 2018, the Company's financial position as at 31 December 2016 and 2017 and 30 June 2018 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the six months ended 30 June 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparation of the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividend has been paid by the Company in respect of the Relevant Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 October 2018

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The currency of the primary economic environment in which the group entities operate is Renminbi ("RMB"). The Historical Financial Information is presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		Six months ended 30 June	
	NOTES	**2016**	**2017**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenue	*6*	–	18,538	10,000	4,436
Other income	*7*	33,307	64,406	4,534	7,892
Other gains and losses	*8*	(81,931)	(42,079)	2,181	498,966
Research and development expenses		(384,653)	(611,922)	(225,386)	(420,040)
Administrative expenses		(52,875)	(79,490)	(29,152)	(73,108)
Business development expenses		(4,505)	(8,278)	(3,067)	(10,094)
Listing expenses		–	–	–	(32,740)
Finance costs	*9*	(53,799)	(57,225)	(28,388)	(32,908)
Loss and total comprehensive expenses for the year/period		(544,456)	(716,050)	(269,278)	(57,596)
(Loss) profit and total comprehensive (expenses) income for the year/period attributable to:					
Owners of the Company		(504,204)	(562,318)	(206,955)	43,894
Non-controlling interests		(40,252)	(153,732)	(62,323)	(101,490)
		(544,456)	(716,050)	(269,278)	(57,596)
(Loss) earnings per share	*14*				
Basic (RMB Yuan)		(6.57)	(5.96)	(2.38)	0.30
Diluted (RMB Yuan)		(6.57)	(5.96)	(2.38)	(1.17)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	At 31 December 2016 RMB'000	At 31 December 2017 RMB'000	At 30 June 2018 RMB'000
Non-current assets				
Property, plant and equipment	15	771,880	761,818	782,912
Prepaid lease payments	16	55,338	54,090	53,466
Deposits for acquisition of property, plant and equipment		16,957	60,020	100,029
Other receivables and tax recoverables	19	100,875	135,533	119,772
		945,050	1,011,461	1,056,179
Current assets				
Inventories	18	36,631	57,722	48,980
Deposits, prepayments and other receivables	19	23,756	53,762	1,702,075
Contract assets	20	–	–	3,537
Income tax recoverables		13,874	13,068	13,233
Other financial assets	21	782,250	809,484	181,408
Prepaid lease payments	16	1,248	1,248	1,248
Bank balances and cash	22	1,012,991	510,471	1,887,114
		1,870,750	1,445,755	3,837,595
Current liabilities				
Trade payables	23	21,198	34,836	36,639
Other payables and accrued expenses	24	55,001	122,540	1,723,543
Contract liabilities	25	–	900	–
Borrowings	26	–	5,000	10,000
		76,199	163,276	1,770,182
Net current assets		1,794,551	1,282,479	2,067,413
Total assets less current liabilities		2,739,601	2,293,940	3,123,592
Non-current liabilities				
Contract liabilities	25	292,188	348,765	443,435
Borrowings	26	500,000	505,000	687,000
Government grants	27	9,799	11,211	16,916
Other financial liabilities	28	2,895,832	3,051,092	3,550,116
		3,697,819	3,916,068	4,697,467
Net liabilities		(958,218)	(1,622,128)	(1,573,875)
Capital and reserves				
Share capital	29	6	8	14
Reserves		(1,383,930)	(1,942,556)	(1,573,889)
Equity attributable to owners of the Company		(1,383,924)	(1,942,548)	(1,573,875)
Non-controlling interests		425,706	320,420	–
Deficiency of total equity		(958,218)	(1,622,128)	(1,573,875)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		At 31 December		At 30 June
	NOTES	**2016**	**2017**	**2018**
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Investment in a subsidiary	*17*	1,827,891	1,924,889	1,046,922
Other receivables	*19*	7,802	–	–
Amount due from a subsidiary	*31*	–	–	992,490
		1,835,693	1,924,889	2,039,412
Current assets				
Other receivables	*19*	–	29,093	1,606,480
Amount due from a subsidiary	*31*	540	646	650
Bank balances	*22*	61,693	41,238	34,415
		62,233	70,977	1,641,545
Current liabilities				
Trade payables	*23*	–	2,597	11
Other payables and accrued expenses	*24*	782	1,518	40,018
		782	4,115	40,029
Net current assets		61,451	66,862	1,601,516
Total assets less current liabilities		1,897,144	1,991,751	3,640,928
Non-current liability				
Other financial liabilities	*28*	2,180,623	2,288,836	3,550,116
Net (liabilities) assets		(283,479)	(297,085)	90,812
Capital and reserves				
Share capital	*29*	6	8	14
Reserves	*39*	(283,485)	(297,093)	90,798
(Deficiency of) total equity		(283,479)	(297,085)	90,812

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000* *(note)*	Share-based payment reserve *RMB'000*	Accumulated (losses) profit *RMB'000*	Subtotal *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2016	4	2,614	(44,391)	11,232	(425,604)	(456,145)	26,213	(429,932)
Loss and total comprehensive expenses for the year	–	–	–	–	(504,204)	(504,204)	(40,252)	(544,456)
Issuance of ordinary shares *(note 29e)*	–	100	–	–	–	100	–	100
Issuance of restricted shares *(note 29d)*	1	7,258	–	–	–	7,259	–	7,259
Recognition of equity-settled share based payment	–	–	(799)	8,400	–	7,601	799	8,400
Exercise of share options *(note 29f)*	1	971	–	(561)	–	411	–	411
Subsidiary's ordinary share issued to non-controlling interests	–	–	799,997	–	–	799,997	438,946	1,238,943
Effect of put option granted to non-controlling shareholders to convert their equity interests in a subsidiary to the Company's redeemable convertible preferred shares ("Preferred Shares")	–	–	(1,238,943)	–	–	(1,238,943)	–	(1,238,943)
At 31 December 2016	6	10,943	(484,136)	19,071	(929,808)	(1,383,924)	425,706	(958,218)
Loss and total comprehensive expenses for the year	–	–	–	–	(562,318)	(562,318)	(153,732)	(716,050)
Issuance of restricted shares *(note 29g)*	2	22,843	–	–	–	22,845	–	22,845
Recognition of equity-settled share based payment	–	–	(6,892)	29,295	–	22,403	6,892	29,295
Vesting of restricted shares	–	20,422	–	(20,422)	–	–	–	–
Subsidiary's ordinary share issued to non-controlling interests	–	–	62,693	–	–	62,693	41,554	104,247
Effect of put option granted to non-controlling shareholders to convert their equity interests in a subsidiary to the Company's Preferred Shares	–	–	(104,247)	–	–	(104,247)	–	(104,247)
At 31 December 2017	8	54,208	(532,582)	27,944	(1,492,126)	(1,942,548)	320,420	(1,622,128)

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000* *(note)*	Share-based payment reserve *RMB'000*	Accumulated (losses) profit *RMB'000*	Subtotal *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2018								
At 1 January 2018	8	54,208	(532,582)	27,944	(1,492,126)	(1,942,548)	320,420	(1,622,128)
Profit (loss) and total comprehensive income (expenses) for the period	–	–	–	–	43,894	43,894	(101,490)	(57,596)
Issuance of ordinary shares *(note 29i)*	–	190	–	–	–	190	–	190
Recognition of equity-settled share based payment	–	–	(8,192)	41,785	–	33,593	8,192	41,785
Vesting of restricted shares	–	324	–	(324)	–	–	–	–
Exercise of share options *(note 29h)*	6	124,046	–	(60,178)	–	63,874	–	63,874
Exercise of put option granted to non-controlling shareholders and convert their equity interests in a subsidiary to the Company's Preferred Shares	–	–	227,122	–	–	227,122	(227,122)	–
At 30 June 2018	14	178,768	(313,652)	9,227	(1,448,232)	(1,573,875)	–	(1,573,875)
For the six months ended 30 June 2017 (unaudited)								
At 1 January 2017	6	10,943	(484,136)	19,071	(929,808)	(1,383,924)	425,706	(958,218)
Loss and total comprehensive expenses for the period	–	–	–	–	(206,955)	(206,955)	(62,323)	(269,278)
Issuance of restricted shares *(note 29g)*	2	22,843	–	–	–	22,845	–	22,845
Recognition of equity-settled share based payment	–	–	(1,853)	7,876	–	6,023	1,853	7,876
Vesting of restricted shares	–	4,957	–	(4,957)	–	–	–	–
Subsidiary's ordinary share issued to non-controlling interests	–	–	62,693	–	–	62,693	41,554	104,247
Effect of put option granted to non-controlling shareholders to convert their equity interests in subsidiary to the Company's Preferred Shares	–	–	(104,247)	–	–	(104,247)	–	(104,247)
At 30 June 2017 (unaudited)	8	38,743	(527,543)	21,990	(1,136,763)	(1,603,565)	406,790	(1,196,775)

Note: Other reserve included 1) effect of put option granted to non-controlling shareholders to convert their equity interests in a subsidiary to the Company's Preferred Shares; 2) differences between the carrying amounts of net assets attributable to the additional non-controlling interests at the date of issuance of subsidiary's equity and the relevant proceeds received; 3) portion of deemed capital contribution over restricted shares or options granted to employees of subsidiary attributable to non-controlling interest and 4) effect of exercise of put option granted to non-controlling shareholders.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		Six months ended 30 June	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
OPERATING ACTIVITIES				
Loss for the year/period	(544,456)	(716,050)	(269,278)	(57,596)
Adjustments for:				
Loss on disposal of property, plant and equipment	–	–	–	3,405
Depreciation of property, plant and equipment	53,347	59,853	29,098	30,491
Amortisation of prepaid lease payments	1,248	1,248	624	624
Net foreign exchange (gain) loss	(23,264)	29,270	7,118	(51,204)
Gain on fair value changes of wealth management plans (financial assets mandatorily measured at fair value through profit or loss ("FVTPL")	(18,002)	(38,204)	(10,141)	(2,370)
Loss (gain) on fair value changes of other financial liabilities measured at FVTPL	123,197	51,013	842	(448,797)
Share-based payment expenses	8,500	29,295	7,876	41,975
Government grants income	(951)	(1,089)	(544)	(545)
Bank interest income	(4,540)	(7,982)	(3,873)	(6,068)
Interest on bank borrowings	26,530	24,908	12,318	12,430
Interest arising from a contract which contains significant financing component	27,269	32,317	16,070	20,478
Operating cash flows before movements in working capital	(351,122)	(535,421)	(209,890)	(457,177)
Increase in contract assets	–	–	–	(3,537)
(Increase) decrease in inventories	(20,994)	(21,091)	(867)	8,742
Increase in deposits, prepayments and other receivables	(49,686)	(40,146)	(50,953)	(62,769)
Increase in trade payables	10,355	13,638	7,275	1,803
Increase in other payables and accrued expenses	16,164	77,965	3,792	97,121
Increase in contract liabilities	28,882	25,160	2,640	73,292
Increase (decrease) in government grants	3,408	(12,375)	–	–
NET CASH USED IN OPERATING ACTIVITIES	(362,993)	(492,270)	(248,003)	(342,525)
INVESTING ACTIVITIES				
Interest received	4,217	4,755	2,133	8,069
Placement of term deposits with maturity dates over three months	(50,000)	(326,710)	(392,052)	(286,362)
Placement of pledged term deposits	–	–	–	(498)
Purchase of property, plant and equipment	(58,444)	(90,971)	(4,695)	(93,470)
Purchase of other financial assets	(767,000)	(790,000)	(910,000)	(330,000)
Release of term deposits with maturity dates over three months	5,000	50,000	50,000	260,544
Proceeds on release of other financial assets	290,148	800,970	745,711	960,446
Proceeds from disposal of property, plant and equipment	–	–	–	74
Receipt of government grants related to property, plant and equipment	4,000	2,500	–	6,250
Loan to Hua Yuan International Limited ("Hua Yuan")	–	–	–	(178,598)
Net cash inflow on acquisition of Oriza Xinda International Limited ("Oriza Xinda")	–	–	–	178,598
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(572,079)	(349,456)	(508,903)	525,053

	Year ended 31 December		Six months ended 30 June	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
FINANCING ACTIVITIES				
Interest paid	(26,599)	(24,841)	(12,386)	(14,183)
Proceeds from the issue of subsidiary's ordinary shares and written put options over a subsidiary	1,238,943	104,247	104,247	–
Proceeds from the issue of the Company's Preferred Shares	427,262	–	–	947,821
Payments on repurchase of shares	(1)	–	–	–
New borrowing raised	–	10,000	–	187,000
Payment of transaction costs attributable to issue of new shares	–	–	–	(745)
NET CASH FROM FINANCING ACTIVITIES	1,639,605	89,406	91,861	1,119,893
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	704,533	(752,320)	(665,045)	1,302,421
Effects of exchange rate changes	22,386	(26,910)	(6,283)	47,906
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	236,072	962,991	962,991	183,761
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD *(note 22)*	962,991	183,761	291,663	1,534,088

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 April 2011. The respective address of the registered office and principal place of business of the Company are stated at the "Corporate Information" section of the Prospectus.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in research and development of antibody and protein medicine products, sale of self-made products, and provision of related technology transfer, consultation and services.

The functional currency of the Company is Renminbi ("RMB"), which is the same as the presentation currency of the Historical Financial Information.

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with IFRSs issued by the IASB.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

3. ADOPTION OF NEW AND AMENDMENTS TO IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Group has consistently applied the accounting policies which conform with the IFRSs, which are effective for the Group's accounting period beginning on 1 January 2018 throughout the Relevant Periods.

In addition, the Group has applied Amendments to IFRS 9 Prepayment Feature with Negative Compensation in advance of the effective date, i.e. January 2019.

At the date of this report, the following new and amendments to IFRSs and interpretation have been issued but not yet effective:

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

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

[2] Effective for annual periods beginning on or after a date to be determined

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

Except as described below, the directors of the Company anticipate that the application of all the other new and amendments to IFRS and Interpretations will have no material impact on the Group's financial performance and positions and/or on the disclosures to the Group's Historical Financial Information.

IFRS 16 *Leases*

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

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

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

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

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 30 June 2018, the Group has non-cancellable operating lease commitments of approximately RMB20,256,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In additions, the Group currently considers refundable rental deposits paid of approximately RMB2,213,000 (note 19) as at 30 June 2018 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and complied with the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting periods, as explained in the accounting policies set out below.

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

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 Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment,* leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

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

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and the entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the equity owner of the Company.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Investments in a subsidiary

Investments in a subsidiary are included in the statements of financial position at cost less any identified impairment losses.

Revenue recognition

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

The Group recognises revenue from the following major sources:

(a) License fee income

The Group provides license of its patented intellectual property ("IP") or commercialisation license to customers and revenue is recognised when the customers obtain rights to use the underlying IP or license. The consideration for licence comprises a fixed element (the upfront payment) and variable elements (including but not limited to development milestones and royalties). The upfront fee is recognised as revenue when customers have ability to use the underlying IP of the licence. Development milestones is recognised as revenue when the Group can conclude that it is highly probable that there will not be a subsequent reversal of a significant amount of revenue. Sales based royalties are not included in the transaction price until customers makes sales.

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 of the contract provides the customer or the entity with a significant benefit of financing the transfer of services to the customers.

(b) Research and development service fee income

The Group primarily earns revenues by providing research services to its customers through fee-for-service contracts. Contract duration ranges from a few months to years. Upfront payments received by the Group is initially recognised as a contract liability. Services revenue are recognised as a performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group using cost incurred to date as an input method to measure progress towards complete satisfaction of these performance obligations under IFRS 15. Payment for services is not due from the customer until the development are completed and therefore a contract asset is recognised over the period in which the services are performed.

Leasing

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

The Group as lessee

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

Foreign currencies

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Borrowing costs are recognised in profit or loss for the period in which they are incurred.

Government grants

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

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

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

Retirement benefits costs

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

Short-term employee benefits

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

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

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

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress as described below are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties under construction for production, supply or administrative purposes are carried at cost which includes professional fees, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are in the location and condition necessary for them to be capable of operating in the manner intended by management.

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

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

Research and development expenditure

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

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

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

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

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

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

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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.

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

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

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

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

Inventories

Raw materials acquired for usage in research and development activities and for the production of trial batches for the research and development stage are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents estimated selling price for inventories less estimated costs necessary to make the sale. Trial batches manufactured prior to regulatory approval (including raw materials cost) is changed to development expenses when they are produced.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

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

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

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

By default, all other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised 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 amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

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. Specifically, for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item.

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to twelve-months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or

- 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

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

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

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

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

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

Write-off policy

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

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 as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as 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 original effective interest rate.

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

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

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

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to twelve-months ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account and does not reduce the carrying amount of the financial asset in the statements of financial position.

Derecognition of financial assets

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination 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.

Preferred Shares, which contained redemption features and other embedded derivatives, are designated as at financial liabilities at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement 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 'other gains and losses' line item.

However, 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 recognised 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. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship.

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 recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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

Put options written by the Company to non-controlling shareholders as set out in note 28 are accounted for as derivatives and are recognized at fair value upon initial recognition. Any changes of their fair values in subsequent reporting dates are recognized in the profit or loss.

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 instrument to be issued to exchange for the shares in a subsidiary with the corresponding debit to "other reserve". Prior to the exercise of the put options by non-controlling shareholders, the remeasurement of the estimated gross obligations under the written put options to the non-controlling shareholders is recognized in the profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgement in applying accounting policies

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

Research and development expenses

Development costs incurred on the Group's drug product pipelines are capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are expensed when incurred. Management will assess the progress of each of the research and development projects and determine the criteria are met for capitalization. During the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018, all development costs are expensed when incurred.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting periods, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the coming twelve months, are described below.

Useful lives of property, plant, and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is reference to the useful lives of property, plant and equipment of similar nature and functions in the industry. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete assets that have been abandoned or sold. As at 31 December 2016 and 2017 and 30 June 2018, the carrying amounts of property, plant and equipment are approximately RMB772 million, RMB762 million and RMB783 million, respectively as disclosed in note 15.

Fair value of other financial liabilities

The Company has issued Preferred Shares and has written put options over a subsidiary's ordinary shares to a group of investors during the Relevant Period as set out in note 28. The Group classified these financial instruments as other financial liabilities at FVTPL in which no quoted prices in an active market exist. The fair value of the financial instruments is established by using valuation techniques. These techniques include back-solve method and adopted equity allocation model. Valuation techniques are certified by an independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as fair value of the ordinary shares of the Company, possibilities under different scenarios such as initial public offering, liquidation and redemption, and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the other financial liabilities at FVTPL. The fair value of the other financial liabilities at FVTPL as at 31 December 2016 and 2017 and 30 June 2018 are RMB2,896 million, RMB3,051 million and RMB3,550 million, respectively.

6. REVENUE AND SEGMENT INFORMATION

Collaboration with Eli Lilly and Company ("Eli Lilly")

In March 2015, the Group entered into Exclusive License and Collaboration Agreement for China and Co-Development Agreement (collectively, the "Lilly China Agreement") with Eli Lilly, which governs the development and commercialization activities concerning (1) IBI-301, a Rituxan biosimilar, and (2) sintilimab (IBI-308), a Programmer Death 1 monoclonal antibody (collectively, the "China Products") in the People's Republic of China ("PRC"), including Hong Kong and Macau, but excluding Taiwan. Under the Lilly China Agreement, the Group will be responsible for developing and manufacturing each of the China Products and received an upfront payment of US$36 million (approximately RMB223,855,000). The Group will own all intellectual properties generated in connection with the development of (i) the China Products and (ii) the unique cell lines for the China Products.

The Group granted Eli Lilly an exclusive license (with the right to sublicense) under certain patents, know-how and regulatory approvals to commercialize the China Products in the PRC. The Group also provided Eli Lilly a non-exclusive license to certain trademarks in connection with Eli Lilly's commercialization of the China Products in the PRC and similarly received a non-exclusive license to Eli Lilly trademarks with the right to sublicense in connection with possible commercialization of the China Products. The Group will co-promote IBI-301 and sintilimab (IBI-308) in China per the agreement with Eli Lilly and will share profits and losses pertaining to commercialization of IBI-301 and sintilimab (IBI-308) equally.

Under the Lilly China Agreement, a joint steering committee was established with equal representation from each party to coordinate and oversee development and commercialization activities and decisions for the China Products. In general, the Group have final decision-making authority concerning the development of the China Products and Eli Lilly has final decision-making authority on commercialization decisions following regulatory approval of the China Products except certain decisions over downsizing of development plan or increase the development activities for sintilimab (IBI-308) require unanimous consent.

Revenue will be commenced to recognise over time upon the customer receives and consumes the benefits during the commercialization stage. During each of the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018, the Group received collaboration fee on development cost sharing of approximately RMB28.9 million, RMB24.3 million, nil (unaudited) and RMB74.2 million, respectively. Since the periods between the transfer of license and customer's payments are, at contract inception, expected to be more than one year, the Group concluded that the contract contains a significant financing component and 11% was used in adjusting for the effect of time value of money over the promised amount of consideration and interest expenses recognised during each of the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018, amounting to RMB27.3 million, RMB32.3 million, RMB16.1 million (unaudited) and RMB20.5 million, respectively (note 9). Both consideration received and interest expenses recognised are recorded under contract liabilities (note 25) at the end of each reporting period.

License and research and development agreements with a customer

In January 2017, the Group entered into an agreement with a customer for licensing of patented technology to them for development and up-front license fee of RMB10 million was received and upon the Group transfer the control of rights to use of the patented technology to customer, the Group recorded up-front license fee as revenue in 2017.

The Group further entered into research and development agreements with the same customer. During the year ended 31 December 2017 and six months ended 30 June 2017 and 2018, the Group received non-refundable upfront and milestone payments of approximately RMB9.4 million, RMB2.6 million (unaudited) and nil, and recognised revenues of approximately RMB8.5 million, nil (unaudited) and RMB4.4 million in accordance with completion of relevant research and development services.

The Group derives its revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Year ended 31 December		Six months ended 30 June	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Timing of revenue recognition				
At a point in time				
License fee income	–	10,000	10,000	–
Overtime				
Research and development service fee income	–	8,538	–	4,436
	–	18,538	10,000	4,436

For the purpose of resource allocation and assessment of segment performance, the chief executive officer of the Company, being the chief operating decision maker, focuses and reviews on the overall results and financial position of the Group as a whole which are prepared based on the same accounting policies set out in note 4. Accordingly, the Group has only one single operating segment and no further analysis of the single segment is presented.

Geographical information

Substantially all of the Group's operations and non-current assets are located in the PRC. An analysis of the Group's revenue from external customers, analysed by their respective country/region of operation, is detailed below:

Revenue by geographical location

	Year ended 31 December		Six months ended 30 June	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
The PRC	–	18,538	10,000	4,436
	–	18,538	10,000	4,436

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December		Six months ended 30 June	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer A	–	18,538	10,000	4,436

7. OTHER INCOME

	Year ended 31 December		Six months ended 30 June	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Bank interest income	4,540	7,982	3,873	6,068
Government grants income *(note)*	28,767	56,424	661	1,824
	33,307	64,406	4,534	7,892

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

Fair value gains and losses, as well as investment returns on financial instruments classified as at FVTPL are included in 'other gains and losses' in note 8.

8. OTHER GAINS AND LOSSES

	Year ended 31 December		Six months ended 30 June	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss on disposal of property, plant and equipment	–	–	–	(3,405)
Gain on fair value changes of wealth management plans (financial assets mandatorily measured at FVTPL) *(note 21)*	18,002	38,204	10,141	2,370
(Loss) gain on fair value changes of other financial liabilities measured at FVTPL *(note 28)*	(123,197)	(51,013)	(842)	448,797
Net foreign exchange gain (loss)	23,264	(29,270)	(7,118)	51,204
	(81,931)	(42,079)	2,181	498,966

9. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank borrowings	26,530	24,908	12,318	14,230
Interest arising from a contract which contains significant financing component *(note 6)*	27,269	32,317	16,070	20,478
Total borrowing costs on financial liabilities that are not at FVTPL	53,799	57,225	28,388	34,708
Less: amounts capitalised in the cost of qualifying assets	–	–	–	(1,800)
	53,799	57,225	28,388	32,908

10. LOSS BEFORE TAX

	Year ended 31 December 2016	Year ended 31 December 2017	Six months ended 30 June 2017	Six months ended 30 June 2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before tax has been arrived at after charging:				
Directors' emoluments *(note 11)*	6,756	7,666	2,963	19,497
Other staffs costs:				
Salaries and other allowances	45,119	76,008	35,053	55,622
Performance related bonus	8,421	11,345	5,289	13,008
Retirement benefit scheme contributions	12,779	15,127	7,839	8,157
Share-based payment expenses	4,493	25,653	6,791	25,120
Total staff costs	77,568	135,799	57,935	121,404
Auditors' remuneration	544	417	103	4,913
Amortisation of prepaid lease payments	1,248	1,248	624	624
Depreciation of property, plant and equipment	53,347	59,853	29,098	30,491
Minimum lease payments under operating leases in respect of office premises and staff quarters	2,115	2,383	1,032	2,474

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

Directors

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

Year ended 31 December 2016

	Fee	Salaries and other allowances	Performance related bonus	Retirement benefit scheme contributions	Share-based payment expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:						
Dr. De-Chao Michael Yu ("Dr. Yu")	–	1,633	510	41	3,907	6,091
Non-executive directors:						
Auerbach, Daniel E	–	–	–	–	–	–
Knight, Stephen Christian	–	–	–	–	–	–
Shi, Yi	–	–	–	–	–	–
Cai, Daqing	–	–	–	–	–	–
Shen, Ye	–	–	–	–	–	–
Lu, Simon Dazhong	–	–	–	–	–	–
Zhang, Leidi	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive director:						
Charles L. Cooney	665	–	–	–	–	665
	665	1,633	510	41	3,907	6,756

Year ended 31 December 2017

	Fee	Salaries and other allowances	Performance related bonus	Retirement benefit scheme contributions	Share-based payment expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:						
Dr. Yu	–	2,348	960	42	3,642	6,992
Non-executive directors:						
Auerbach, Daniel E	–	–	–	–	–	–
Knight, Stephen Christian	–	–	–	–	–	–
Shi, Yi	–	–	–	–	–	–
Cai, Daqing	–	–	–	–	–	–
Shen, Ye	–	–	–	–	–	–
Lu, Simon Dazhong	–	–	–	–	–	–
Zhang, Leidi	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive director:						
Charles L. Cooney	674	–	–	–	–	674
	674	2,348	960	42	3,642	7,666

Six months ended 30 June 2017 (unaudited)

	Fee	Salaries and other allowances	Performance related bonus	Retirement benefit scheme contributions	Share-based payment expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:						
Dr. Yu	–	1,034	480	21	1,085	2,620
Non-executive directors:						
Auerbach, Daniel E	–	–	–	–	–	–
Knight, Stephen Christian	–	–	–	–	–	–
Shi, Yi	–	–	–	–	–	–
Cai, Daqing	–	–	–	–	–	–
Shen, Ye	–	–	–	–	–	–
Lu, Simon Dazhong	–	–	–	–	–	–
Zhang, Leidi	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive director:						
Charles L. Cooney	343	–	–	–	–	343
	343	1,034	480	21	1,085	2,963

Six months ended 30 June 2018

	Fee	Salaries and other allowances	Performance related bonus	Retirement benefit scheme contributions	Share-based payment expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:						
Dr. Yu	–	1,414	681	22	16,665	18,782
Ede, Ronald Hao Xi *(note a)*	–	186	206	4	–	396
	–	1,600	887	26	16,665	19,178
Non-executive directors:						
Auerbach, Daniel E *(note b)*	–	–	–	–	–	–
Knight, Stephen Christian *(note b)*	–	–	–	–	–	–
Shi, Yi *(note c)*	–	–	–	–	–	–
Cai, Daqing *(note d)*	–	–	–	–	–	–
Shen, Ye *(note c)*	–	–	–	–	–	–
Lu, Simon Dazhong *(note c)*	–	–	–	–	–	–
Zhang, Leidi *(note c)*	–	–	–	–	–	–
Chen, Shuyun *(note e)*	–	–	–	–	–	–
Wang, Junfeng *(note c and note e)*	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive director:						
Charles L. Cooney	319	–	–	–	–	319
	319	1,600	887	26	16,665	19,497

Notes:

a. Ede, Ronald Hao Xi was appointed as an executive director of the Company on 4 June 2018.

b. Auerbach, Daniel E and Knight, Stephen Christian resigned as non-executive directors of the Company on 9 October 2018.

c. Shi, Yi, Shen, Ye, Lu, Simon Dazhong, Zhang, Leidi and Wang, Junfeng resigned on 16 October 2018.

d. Cai, Daqing resigned as a non-executive director of the Company on 4 April 2018.

e. Chen, Shuyun and Wang, Junfeng were appointed as the non-executive directors of the Company on 31 January 2018 and 4 April 2018, respectively.

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

The independent non-executive director emoluments shown above were for his services as a director of the Company.

Dr. Yu is also the chief executive of the Company, and his emoluments disclosed above included those services rendered by him as the chief executive.

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

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

Employees

The five highest paid individuals of the Group included one director of the Company for the years ended 31 December 2016 and 2017, six months ended 30 June 2017 (unaudited) and six months ended 30 June 2018 and details of his emoluments are set out above. The emoluments of the remaining 4 individuals for the years ended 31 December 2016 and 2017 and six months ended 30 June 2017 (unaudited) and six months ended 30 June 2018 are as follows:

	Year ended 31 December		Six months ended 30 June	
	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other allowances	6,398	8,628	4,596	4,865
Performance related bonus	479	1,291	1,291	1,166
Share-based payment expense	791	1,433	647	8,875
Retirement benefits scheme	19	44	21	88
	7,687	11,396	6,555	14,994

The emoluments of these employees (including a director of the Company for the years ended 31 December 2016 and 2017 and six months ended 30 June 2017 (unaudited) and six months ended 30 June 2018) were fell within the following bands:

	Number of individuals Year ended 31 December		Number of individuals Six months ended 30 June	
	2016	2017	2017 (unaudited)	2018
HK$1,000,001 to HK$1,500,000	–	–	2	–
HK$1,500,001 to HK$2,000,000	1	–	–	–
HK$2,000,001 to HK$2,500,000	2	2	1	–
HK$2,500,001 to HK$3,000,000	1	–	2	2
HK$4,000,001 to HK$4,500,000	–	1	–	–
HK$4,500,001 to HK$5,000,000	–	1	–	–
HK$5,500,001 to HK$6,000,000	–	–	–	1
HK$7,000,001 to HK$7,500,000	1	–	–	1
HK$7,500,001 to HK$8,000,000	–	1	–	–
HK$23,500,001 to HK$24,000,000	–	–	–	1
	5	5	5	5

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including a director of the Company and employees for the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 (unaudited) and the six months ended 30 June 2018) as an inducement to joint or upon joining the Group or as compensation for loss of office. No director of the Company has waived or agreed to waive any emoluments during the Relevant Periods.

12. DIVIDENDS

No dividend was paid nor declared by the Company during the Relevant Periods.

13. INCOME TAX EXPENSE

The Company is tax exempt under the laws of the Cayman Islands. Innovent Biologics (HK) Limited ("Innovent HK") is subject to Hong Kong profits tax rate of 16.5% on profits earned in Hong Kong. No provision for taxation has been made as Innovent HK's income neither arises in, nor is derived from, Hong Kong.

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

信達生物製藥(蘇州)有限公司 Innovent Biologics (Suzhou) Co., Ltd.* ("Innovent Suzhou") has been accredited as a "High and New Technology Enterprise" by the Science and Technology Bureau of Jiangsu Province and relevant authorities on 30 November 2016 for a term of three years, and has been registered with the local tax authorities for enjoying the reduced 15% EIT rate. Accordingly, the profits derived by the subsidiary is subject to 15% EIT rate for the Relevant Periods. The qualification as a High and New Technology Enterprise will be subject to review by the relevant tax authorities in the PRC for every three years.

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

	Year ended 31 December		**Six months ended 30 June**	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before tax	(544,456)	(716,050)	(269,278)	(57,596)
Tax charge at the PRC EIT rate of 25%	(136,114)	(179,013)	(67,320)	(14,399)
Tax effect of expenses not deductible for tax purpose	32,999	24,197	6,054	17,104
Tax effect of income not taxable for tax purpose	(539)	–	–	(116,425)
Effect of research and development expenses that are additionally deducted *(note)*	(35,212)	(67,457)	–	–
Tax effect of tax losses not recognised	116,694	190,618	46,259	106,744
Tax effect of deductible temporary differences not recognised	22,172	31,655	15,007	6,976
Tax charge for the year/period	–	–	–	–

Note: Pursuant to Caishui [2015] circular No. 119, Innovent Suzhou and 蘇州信達生物科技有限公司 Innovent Biologics Technology (Suzhou) Co., Ltd.* ("Innovent Technology") enjoy super deduction of 150% on qualifying research and development expenditures throughout the Relevant Periods.

* *English name for identification only*

As at 31 December 2016 and 2017 and 30 June 2018, the Group has unused tax losses of approximately RMB638 million, RMB1,391 million and RMB1,818 million, respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

The unused tax losses will be expired as follow:

	As at 31 December		As at 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
2017	9,889	–	–
2018	76,038	76,038	76,038
2024	75,849	75,849	75,849
2025	9,633	9,633	9,633
2026	466,776	466,776	466,776
2027	–	762,472	762,472
2028	–	–	426,977
	638,185	1,390,768	1,817,745

As at 31 December 2016 and 2017 and 30 June 2018, the Group has deductible temporary differences mainly related to government grants income and contract liabilities of RMB161 million, RMB288 million and RMB316 million, respectively. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company for the Relevant Periods is based on the following data:

(Loss) earnings figures are calculated as follows:

	Year ended 31 December		Six months ended 30 June	
	2016	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
(Loss) profit				
(Loss) profit for the year/period attributable to owners of the Company for the purpose of basic (loss) earnings per share	(504,204)	(562,318)	(206,955)	43,894
Effect of dilutive potential ordinary shares:				
Gain on fair value change in fair value of Series D Preferred Shares	–	–	–	(466,644)
Loss for the purpose of diluted loss per share	(504,204)	(562,318)	(206,955)	(422,750)
Number of shares				
Weighted average number of ordinary shares for the purpose of basic loss/earnings per share	76,794,223	94,310,080	87,104,290	145,822,859
Effect of dilutive potential ordinary share:				
Series D Preferred Shares	–	–	–	214,751,790
Weighted average number of diluted loss/earnings per share	76,794,223	94,310,080	87,104,290	360,574,649

The computation of basic and diluted loss (earnings) per share for each of the years ended 31 December 2016 and 2017 and six months ended 30 June 2017 and 2018 excluded the unvested restricted shares of the Company. Details of these restricted shares are set out in note 30.

The weighted average number of ordinary shares for the purpose of calculating basic loss (earnings) per share for the Relevant Periods has been retrospectively adjusted for the share subdivision as disclosed in note 29.

Diluted earnings per share for the six months ended 30 June 2018 did not assume vesting of restricted shares, conversion of series A, B, C and E Preferred Shares, and exercise of share options, as their inclusion would be anti-dilutive.

Diluted loss (earnings) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had three categories of potential ordinary shares, unvested restricted shares of the Company (note 30), Preferred Shares issued by the Company (note 28) and the shares options awarded under the share incentive plan (the "**Plan**") (note 30). As the Group incurred losses for each of the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for each of the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 are the same as basic loss per share of the respective years/period.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2016	389,725	7,143	365,841	4,051	2,023	2,710	771,493
Additions	–	–	–	–	1,603	56,177	57,780
Transfer	–	23,006	30,006	3,352	–	(56,364)	–
At 31 December 2016	389,725	30,149	395,847	7,403	3,626	2,523	829,273
Additions	–	711	–	200	–	48,880	49,791
Transfer	–	2,072	31,084	9,069	–	(42,225)	–
At 31 December 2017	389,725	32,932	426,931	16,672	3,626	9,178	879,064
Additions	–	–	–	–	–	55,064	55,064
Transfer	–	2,964	8,373	5,073	–	(16,410)	–
Disposal	–	–	(4,953)	–	(161)	–	(5,114)
At 30 June 2018	389,725	35,896	430,351	21,745	3,465	47,832	929,014
DEPRECIATION							
At 1 January 2016	–	380	1,320	1,325	1,021	–	4,046
Provided for the year	8,396	5,536	37,298	1,544	573	–	53,347
At 31 December 2016	8,396	5,916	38,618	2,869	1,594	–	57,393
Provided for the year	8,396	6,970	41,541	2,336	610	–	59,853
At 31 December 2017	16,792	12,886	80,159	5,205	2,204	–	117,246
Provided for the period	4,198	2,372	21,537	2,089	295	–	30,491
Disposal	–	–	(1,545)	–	(90)	–	(1,635)
At 30 June 2018	20,990	15,258	100,151	7,294	2,409	–	146,102
CARRYING VALUE							
At 31 December 2016	381,329	24,233	357,229	4,534	2,032	2,523	771,880
At 31 December 2017	372,933	20,046	346,772	11,467	1,422	9,178	761,818
At 30 June 2018	368,735	20,638	330,200	14,451	1,056	47,832	782,912

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

Buildings	2%
Leasehold improvement	Over the shorter of the term of the lease, or 7%
Plant and machinery	7%-20%
Furniture, fixtures and equipment	10 – 33%
Motor vehicles	25%

All buildings were held under leases in the PRC.

As at 31 December 2016 and 2017 and 30 June 2018, the Group has pledged property, plant and equipment with a net book value of approximately RMB701,395,000, RMB658,282,000 and RMB634,631,000, respectively, to secure borrowings as disclosed in the note 26.

16. PREPAID LEASE PAYMENTS

	At 31 December		At 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
The Group's prepaid lease payments comprise:			
Land use rights in the PRC	56,586	55,338	54,714
Analysed for reporting purposes as:			
Current asset	1,248	1,248	1,248
Non-current asset	55,338	54,090	53,466
	56,586	55,338	54,714

17. PARTICULARS OF SUBSIDIARIES

The Company

	At 31 December		At 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Innovent HK	1,827,891	1,924,889	1,046,922

During the six months ended 30 June 2018, changes in interest in Innovent HK was attributed by the deemed return of investments pursuant to the execution of the Framework Agreement (as defined in note 28).

During the Relevant Periods and as at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/registered capital	Shareholding/equity interest attributable to the Company as at 31 December 2016	31 December 2017	30 June 2018	The date of this report	Principal activities	*Notes*
Directly held:								
Innovent HK	Hong Kong 17 May 2011	Issued capital of HK$10,000 and paid-up capital of HK$10,000	100%	100%	100%	100%	Investing Holding	*(a)*
Indirectly held:								
Innovent Suzhou	PRC 24 August 2011	Registered capital of USD52,464,750 (equivalent to RMB337,611,640) and paid-up capital of USD52,464,750 (equivalent to RMB337,611,640)	77.21%	76.47%	100% *(note 28)*	100%	Research, development and sales of drugs	*(b)*
Innovent Technology	PRC 8 July 2013	Registered capital of RMB40,000,000 and paid-up capital of RMB40,000,000	77.21%	76.47%	100% *(note 28)*	100%	Research, development and sales of drugs	*(b)*
Oriza Xinda	Hong Kong 20 March 2018	Issued Capital of HK$50,000 and paid-up capital of nil	N/A	N/A	100% *(note 28)*	100%	Investing Company	*(c)*

* *English name for identification only*

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

Notes:

(a) The statutory financial statements of Innovent HK for the years ended 2016 and 2017 were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and were audited by W. L. Ho CPA Limited.

(b) The statutory financial statements of Innovent Suzhou and Innovent Technology for the years ended 2016 and 2017 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 蘇州方本會計師事務所, a certified public accountants registered in the PRC.

(c) No statutory financial statements have been issued for Oriza Xinda as the subsidiary was incorporated on 20 March 2018.

Details of non-wholly owned subsidiaries that have material non-controlling interests

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

Name of a subsidiary	Place of establishment and place of business	Proportion of ownership interests and voting rights held by non-controlling interests as at			Loss allocated to Non-controlling interests				Accumulated Non-controlling interests as at		
					Year ended 31 December		Six months ended 30 June				
		31 December 2016	31 December 2017	30 June 2018	2016	2017	2017	2018	31 December 2016	31 December 2017	30 June 2018
					RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Innovent Suzhou	PRC	22.79%	23.53%	– *(note)*	(40,252)	(153,732)	(62,323)	(101,490)	425,706	320,420	–

Note: On 1 June 2018, the Group has completed the equity transfer under a framework agreement and non-controlling interests of Innovent Suzhou have become preferred shareholders of the Company (note 28).

Innovent Suzhou and its subsidiary

	At 31 December 2016	At 31 December 2017
	RMB'000	*RMB'000*
Current assets	1,824,764	1,434,205
Non-current assets	921,539	952,688
Current liabilities	63,587	159,018
Non-current liabilities	814,497	865,875
Equity attributable to		
– Owners of the Company	1,442,513	1,041,580
– Non-controlling interests of Innovent Suzhou	425,706	320,420

	Year ended 31 December 2016 RMB'000	2017 RMB'000	1 January to 30 June 2017 RMB'000 (unaudited)	1 January to 1 June 2018 RMB'000
Revenue	–	18,538	10,000	3,697
Expenses	(423,070)	(672,005)	(274,915)	(435,097)
Loss for the year/period	(423,070)	(653,467)	(264,915)	(431,400)
Loss attributable to owners of the Company	(382,818)	(499,735)	(202,592)	(329,910)
Loss attributable to non-controlling interests of Innovent Suzhou	(40,252)	(153,732)	(62,323)	(101,490)
Loss for the year/period	(423,070)	(653,467)	(264,915)	(431,400)
Net cash outflow from operating activities	(416,482)	(487,407)	(246,189)	(266,606)
Net cash (outflow) inflow from investing activities	(572,079)	(349,455)	(508,903)	549,274
Net cash inflow from financing activities	1,741,317	103,112	105,566	172,225
Effect of exchange rate change	14,821	(25,004)	(5,347)	(1,994)
Net cash inflow (outflow)	767,577	(758,754)	(654,873)	452,899

18. INVENTORIES

	At 31 December 2016 RMB'000	2017 RMB'000	At 30 June 2018 RMB'000
Raw materials	36,631	57,722	48,980

Inventories consist of raw materials acquired for the production of trial batches.

19. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December 2016 RMB'000	2017 RMB'000	At 30 June 2018 RMB'000
Rental deposits	688	2,123	2,213
Prepayments	21,610	15,276	20,007
Other receivables	1,458	7,270	6,293
Subscription receivables for restricted shares *(note a)*	7,393	28,684	29,043
Receivables due from directors of the Company and an employee *(note b)*	409	409	71,871
Subscription receivables for Preferred Shares *(note c)*	–	–	1,504,033
Other loans *(note d)*	–	–	21,093
Deferred issue costs	–	–	6,329
Other tax recoverables	93,073	135,533	160,965
	124,631	189,295	1,821,847
Analysed as:			
Non-current	100,875	135,533	119,772
Current	23,756	53,762	1,702,075
	124,631	189,295	1,821,847

Notes:

(a) The balances represents subscription receivables due from various holders of the issuance of restricted shares in which approximately RMB7,294,000, RMB28,585,000 and RMB28,944,000 is due from Dr. Yu, as at 31 December 2016, 31 December 2017 and 30 June 2018 respectively, a director of the Company, which also represents the maximum subscription receivables for restricted share due from him during the respective year/period then ended. As at 31 December 2016, the subscription receivable has been classified as non-current receivables as the directors of the Company expected the subscription receivables will be recovered after twelve months from the report date period. Based on the bonus arrangement as disclosed in note 40(d), the subscription receivables due from the directors of the Company as at 30 June 2018 were subsequently converted to bonuses paid in advance to directors of the Company on 15 October 2018.

(b) As at 31 December 2016 and 2017, the balances amounting to approximately RMB409,000 and RMB409,000 represent the subscription receivables for share options due from Dr. Yu while as at 30 June 2018, receivables amounting to approximately RMB71,871,000 is due from the directors of the Company and an employee who have been accelerated the exercise of the share options and amounts represent the exercise price and other costs paid on behalf of them. As at 31 December 2016, the receivables has been classified as non-current receivables as the directors of the Company expected the receivables will be recovered after twelve months from the report date, while as at 31 December 2017 and 30 June 2018, the directors of the Company expected the receivables will be settled before the initial listing of shares of the Company on the Stock Exchange.

The balances at the end of each reporting period and maximum amount outstanding in respect of the receivables due from the directors of the Company and an employee during the Relevant Periods is as follows:

	Year ended 31 December		Six months ended 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Directors of the Company			
– Dr. Yu	409	409	58,051
– Ede, Ronald Hao Xi	–	–	12,497
Other employee	–	–	1,323
	409	409	71,871

Based on the bonus arrangement as disclosed in note 40(d), the outstanding receivables due from the directors of the Company as at 30 June 2018 were subsequently converted to bonuses paid in advance to directors of the Company on 15 October 2018.

(c) As at 30 June 2018, approximately RMB1,504,033,000 is due from onshore PRC investors for subscribing Preferred Shares issued by the Company as disclosed in note 28.

(d) On 2 May 2018, pursuant to the board resolution of the compensation committee of the Company, the board of the Company has approved the acceleration of exercise of shares options granted to 12 individuals. Along with the acceleration of share options as details disclosed in note 30(b), 9 individuals have signed separate loan agreements with the Company for onshore loan and Innovent Suzhou for offshore loan for financing their payment on exercising the share options and individual income tax. The loan is interest bearing at 3% to 4% per annum. The loan will be repaid according to the various repayment schedule before May 2022, in which approximately RMB3,122,000 will be repaid within a year and classified as current receivables while the remaining RMB17,971,000 will be repaid after twelve months and classified as non-current receivables.

For the purpose of impairment assessment for subscription receivables for restricted shares, receivables due from share options holders, subscription receivables for Preferred Shares and other loans, the loss allowance is measured at an amount equal to 12m ECL. In determining the ECL for these financial assets, the directors of the Company have taken into account the financial positions of the counterparties in estimating the probability of default of each of the other receivables and other current assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the lifetime ECL allowance is insignificant.

The Company

The balance represents the deferred issue costs, receivables from directors of the Company, other loans and subscription receivables for restricted shares and Preferred Shares as details set out in the note above.

20. CONTRACT ASSETS

	At 31 December		At 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Research and development contract	–	–	3,537

A contract asset is recognised over the period of research and development services performed and represents the entity's right to consideration for the services transferred to date. Contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

There were no impairment losses recognised on any contract asset in the Relevant Periods.

21. OTHER FINANCIAL ASSETS

The Group invested into wealth management plans managed by financial institutions in the PRC.

The principal is either guaranteed or unguaranteed by the relevant financial institutions with an expected return rate as stated in the contract ranging from 3.60% to 4.60% per annum, 2.30% to 5.10% per annum and 2.86% to 5.10% per annum as at 31 December 2016 and 2017 and 30 June 2018, respectively. All investments had maturity date within one year and classified as financial assets at FVTPL.

22. BANK BALANCES AND CASH

The Group

	At 31 December		At 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank	546,684	164,075	1,534,556
Term deposits	466,220	346,313	352,528
Cash on hand	87	83	30
	1,012,991	510,471	1,887,114
Analysed as:			
Cash and cash equivalents	962,991	183,761	1,534,088
Term deposits with maturity date between three months to one year	50,000	326,710	352,528
Pledged bank deposits *(note)*	–	–	498
	1,012,991	510,471	1,887,114

Note: Pledged bank deposits represent deposits pledged to the bank to secure banking facilities granted to the Group. As the Group can withdraw these deposits by replacing other pledged items, it is classified as current assets.

Bank balances carry interest at market rates ranging as follows per annum:

	At 31 December		At 30 June
	2016	2017	2018
Term deposits	1.20%-1.82%	2.16%-2.49%	1.35%-4.65%
Cash at bank	0.05%-0.30%	0.05%-0.30%	0.01%-0.39%

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

	At 31 December		At 30 June
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
USD	483,346	431,647	1,309,499

The Company

The bank balances of the Company carry interest at market rates of 0.01% throughout the Relevant Periods and denominated in USD.

23. TRADE PAYABLES

The Group

	At 31 December		At 30 June
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	21,198	34,836	36,639

The credit period on trade purchases is 0 to 60 days. Ageing analysis of the Group's trade payables based on the invoice dates at the end of each reporting period is as follows:

	At 31 December		At 30 June
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
0 – 30 days	20,311	33,853	34,704
31 – 60 days	664	556	849
Over 60 days	223	427	1,086
	21,198	34,836	36,639

The Company

Trade payables balances represent payables for research and development expenses aged less than 30 days.

24. OTHER PAYABLES AND ACCRUED EXPENSES

The Group

	At 31 December 2016 RMB'000	At 31 December 2017 RMB'000	At 30 June 2018 RMB'000
Accrued expenses			
– Research and development	11,090	77,115	97,561
– Legal and professional fee	289	1,485	8,136
– Issue costs and listing expenses	–	–	34,412
– Others	3,588	5,955	6,014
	14,967	84,555	146,123
Interest payables	681	748	795
Other payables	4,516	7,192	11,763
Other tax payable	2,398	1,082	26,504
Payables in respect of acquisition of property, plant and equipment	6,970	8,854	8,657
Staff payroll payables	12,960	20,109	25,668
Consideration payable for acquiring non-controlling interests of a subsidiary *(note 28)*	–	–	1,504,033
Government grants *(note 27)*	12,509	–	–
	55,001	122,540	1,723,543

The Company

Balance represents accrued expenses for directors' remuneration, professional fee, issue costs and listing expenses.

25. CONTRACT LIABILITIES

	At 31 December 2016 RMB'000	At 31 December 2017 RMB'000	At 30 June 2018 RMB'000
Amounts received in advance of delivery for research and development services *(note i)*	–	900	–
Amounts received in advance for license to commercialize *(note ii)*	292,188	348,765	443,435
	292,188	349,665	443,435
Analysed by:			
Current	–	900	–
Non-current	292,188	348,765	443,435
	292,188	349,665	443,435

Notes:

(i) Contract liabilities arise if a particular customers' upfront/milestone payments exceeds revenue recognised to date under the cost based input method. Contract liabilities amounted to RMB900,000 as at 31 December 2017 has been recognised as revenue during the six months ended 30 June 2018.

(ii) Revenue relating to license to commercialize is recognised over the commercialisation period, which is expected to commence after one year from the end of reporting periods.

26. BORROWINGS

	At 31 December 2016	At 31 December 2017	At 30 June 2018
	RMB'000	*RMB'000*	*RMB'000*
Variable-rate bank borrowings – at amortised cost	500,000	510,000	697,000
Analysed as:			
Secured	500,000	500,000	500,000
Unsecured	–	10,000	197,000
	500,000	510,000	697,000
The carrying amounts of the above borrowings are repayable*:			
Within one year	–	5,000	10,000
Within a period of more than one year, but not exceeding two years	5,000	10,000	11,000
Within a period of more than two years but not exceeding five years	50,000	110,000	209,000
Within a period of more than five years	445,000	385,000	467,000
	500,000	510,000	697,000
Less: Amounts due within one year shown under current liabilities	–	5,000	10,000
Amounts shown under non-current liabilities	500,000	505,000	687,000

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates on the Group's variable-rate borrowings are as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2018
Effective interest rate:				
Variable-rate borrowings	4.9% to 5.4%	4.9%	4.9%	4.9%

The Group pledged the following assets to secure credit facilities granted to the Group:

	At 31 December 2016	At 31 December 2017	At 30 June 2018
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	701,395	658,282	634,631
Land use rights	56,586	55,338	54,714
Pledged bank deposits	–	–	498
	757,981	713,620	689,843

27. GOVERNMENT GRANTS

	At 31 December		At 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Subsidies related to property, plant and equipment *(note a)*	9,799	11,211	16,916
Other subsidies *(note b)*	12,509	–	–
	22,308	11,211	16,916
Less: Amounts shown under current liabilities (included in other payables in note 24)	(12,509)	–	–
	9,799	11,211	16,916

Notes:

a. The Group received government subsidies for capital expenditure incurred for the plant and machineries. The amounts are deferred and amortized over the estimated useful lives of the respective assets.

b. Other subsidies are generally provided in relation to research and development activities of the Group.

28. OTHER FINANCIAL LIABILITIES

The Company entered into share purchase agreements with offshore independent investors and together with Innovent Suzhou, entered into investment agreement and option agreements with onshore investors, and issued five series of Preferred Shares as follows:

	Date of grants	Number of investors	Total number of shares issue	Subscription price per share	Total Consideration	Equivalent to RMB
					US$'000	*RMB'000*
Series A	11 October 2011	2	5,000,000	US$1	5,000	31,821
Series B						
– Trench 1	21 June 2012	3	9,090,912	US$2.2	20,000	126,270
– Trench 2	14 November 2012	1	2,272,727	US$2.2	5,000	31,500
– Trench 3	20 May 2013*	1	2,272,727	US$2.2	5,000	31,095
			13,636,366			
Series C						
– Trench 1A	26 December 2014	10	13,617,946	US$7.2375	98,560	604,168
– Trench 1B	26 December 2014*	1	198,963	US$7.2375	1,440	9,032
– Trench 2	17 December 2015	1	2,072,539	US$7.2375	15,000	95,367
			15,889,448			
Series D						
– Trench 1	26 September 2016	9	15,081,805	US$12.2	184,000	1,228,374
– Trench 2	23 December 2016*	4	6,393,374	US$12.2	78,002	542,078
			21,475,179			
Series E						
– Trench 1	31 January 2018	2	6,706,409	US$13.42	90,000	570,051
– Trench 2	4 April 2018	11	4,470,939	US$13.42	60,000	377,771
			11,177,348			

* *Subscribed by onshore PRC investors*

The key terms of the Preferred Shares are summarised as follows:

(a) Dividends rights

Each holder of a series of the Preferred Shares is entitled to receive non-cumulative dividends, out of any funds or assets legally available therefore, prior and in preference to any declaration or payment of any dividend on the ordinary shares or any other class or series of shares of the Company at a rate of eight percent (8%) of the original issue price per share per annum on each Preferred Share, payable and annually when, as and if declared by the board of directors of the Company. No dividend or distribution, whether in cash, in property or in shares of the capital of the Company, shall be paid on or declared and set aside for any ordinary shares or any other class or series of shares of the Company unless and until all dividends have been paid in full on the Preferred Shares (on an as-converted basis).

(b) Conversion feature

Each holders of the Preferred Shares shall have the rights to convert Preferred Shares into ordinary shares at any time after the issuance date into such number of fully paid and non-assessable ordinary shares as determined by dividing the relevant issue price by the then-effective conversion price. The "Conversion Price" shall initially be the Preferred Shares issue price, resulting in an initial conversion ratio of 1:1, and shall be subject to adjustment and readjustment (including but not limited to share splits and combinations, capital reorganisation or reclassification, and adjustment upon issuance of new securities for consideration per shares less than Conversion Price, and adjustment upon public offering of the ordinary shares of the Company on Hong Kong Stock Exchange with offering price per ordinary share less than 115% of the series E Conversion Price) from time to time.

All outstanding Preferred Share shall automatically be converted, at the applicable conversion ratio in effect at the time of conversion, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares upon the earlier of (i) the closing of a qualified initial public offering ("QIPO"), or (ii) the date specified by written consent or agreement approved by all preferred shareholders.

QIPO means a firm commitment underwritten public offering of the ordinary shares of the Company (or depositary receipts or depositary shares therefor) in a recognized exchange, provided that, the newly issued ordinary shares (or depositary receipts or depositary shares therefor) in such public offering shall be widely distributed to the public. Recognized Exchange means any nationally recognized securities exchange (Over-The-Counter Market and National Equities Exchange and Quotations excluded) in the United States, including NASDAQ and New York Stock Exchange, or any other internationally recognized securities exchange (Over-The-Counter Market and National Equities Exchange and Quotations (for the avoidance of doubt, including the National Equities Exchange and Quotations in China) excluded) approved by the majority preferred shareholders.

(c) Redemption feature

Upon the written request of each majority series preferred shareholders, the Company shall redeem the outstanding Preferred Shares, at any time after the earliest of (i) the seventh anniversary of the Series E issue date, and (ii) the date that any other class of equity securities of the Company becomes redeemable, with the written consent of the holders exercising at least a majority of the voting power of their outstanding Preferred Shares, following the order, first to holders of Series E, second to holders of Series D, third to holders of Series C, fourth to holders of Series B and lastly to holders of Series A. Any holder of the Preferred Shares may give a written notice by hand or letter mail or courier service to the Company at its principal executive offices at any time or from time to time requesting redemption of all of their Preferred Shares.

A redemption price shall be paid by the Company to the holders of Preferred Share in an amount equal to (i) the Preferred Shares issue price plus an eleven percent (11%) compounded annual interest, (ii) any declared but unpaid dividends on the share, with the redemption price to be paid on a date to be determined at the discretion of the Company, but in any event within sixty days of the date of the Preferred Share initial redemption notice.

(d) Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the Preferred Shareholders shall be entitled to received, prior and in preference to any distribution of any of the funds and assets of the Company to the holders of ordinary shares, the liquidation preference amount per share is equal to 100% for Series A and B, 125% for Series C, 110% for Series D and 110% for Series E of the original issues price, plus all declared but unpaid dividends on each series Preferred Share in the following order: first to holders of Series E Preferred Shares, second to holders of Series D Preferred Shares, third to holders of Series C Preferred Shares, fourth to holders of Series B Preferred Shares and lastly to holders of Series A Preferred Shares. After distributing or paying in full the liquidation preference amount to all of the preferred shareholders, the remaining assets and funds of the Company available for distribution shall be distributed ratably among all holders of the Preferred Shares and ordinary shares according to the relative number of ordinary shares hold by such holders.

(e) Voting rights

Each Preferred Share shall be entitled to such number of votes as equals to the whole number of ordinary shares into which such holder's collective Preferred Shares are convertible immediately after the close of business on the record date of the determination of the Group's members entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Group's members is first solicited.

Fractional votes shall not be permitted and fractional voting rights available on an as converted basis shall be rounded to the nearest whole number. To the extent that the Statute or the Articles allow a series of the Preferred Shares to vote separately as a class or series with respect to any matters, that series of the Preferred Shares, shall have the right to vote separately as a class or series with respect to such matters.

Investment Arrangement – Onshore PRC Investors

Certain of Series B, Series C and Series D Preferred Shares were issued to onshore PRC investors that the relevant investments were paid into capital of Innovent Suzhou. The Company has entered into additional option agreements with the onshore PRC investors, in which each investor is entitled to options for subscribing the same number of the same series Preferred Shares issued by the Company (subject to anti-dilutive adjustments) ("Share Purchase Options"). The number of the Preferred Shares issuable pursuant to the exercise of the Share Purchase Options shall be subject to (a) any appropriate adjustments for any subsequent share slots, share subdivisions, consolidation or combinations of shares, dividends or distributions of shares or other securities, reclassification, capital reorganization or similar arrangement, as well as merger, consolidation or redemption in accordance with the then applicable Amended and Restated Memorandum and Articles of Association of the Company and (b) any change or adjustment of the equity interest held by such investor pursuant to the investment agreement. The Share Purchase Options can be exercised at any time at the investor's own discretion, provide that the restructuring process for the investor's exercise of such Share Purchase Option complies with all applicable laws. The investors shall exercise their Share Purchase Option upon the Company's initial public offering on a public stock exchange. Innovent HK shall purchase from the investors and the investors shall sell to Innovent (HK), all of the investor's equity interest in Innovent Suzhou at the price equal to the Preferred Shares' purchase price. The investors shall pay the same price to the Company for the subscription of Preferred Shares. The equity transfer and the issuance of the Preferred Shares shall in any event be made and completed by the parties within the following period (the "Waiting Period"): (i) nine months after the date of the Share Purchase Option Notice if the Share Purchase Option Notice is issued within one year after the closing of the investors' investment in Innovent Suzhou; or (ii) six months after the date of the Share Purchase Option Notice if the Share Purchase Option is issued after one year of the closing of the investors' investment in Innovent Suzhou. In the event that the equity transfer and the issuance of the Preferred Shares to the investors fails to be completed by the parties within the Waiting Period, the Company shall purchase from the investors, and the investors shall sell to the Company, all of such investor's equity interest in Innovent Suzhou and such investor's option granted pursuant to the agreement at a price equal to the higher of (i) 100% of the investor's investment amount in Innovent Suzhou plus an annual return at a compound interest rate of 11% calculated from the closing of such investor's investment in Innovent Suzhou to the date of expiration of the Waiting Period or (ii) the Preferred Shares purchase price. The aggregate purchase price of the Preferred Shares upon the exercise of the investor's Share Purchase Option shall be determined by the multiple of the proportion of equity interest held by the investor in Innovent Suzhou upon the exercise of the Share Purchase Option and the fair market value of the Group. The fair market value shall be determined by the investors and the Company in good faith based on book value of the Company according to the latest audited financial statements of the Company, taking into accounting the Company's goodwill, ownership of valuable contractual obligations, cooperation and supply chain. No Share Purchase options has been exercised for the years ended 31 December 2016 and 2017.

On 10 April 2018, Innovent Suzhou, the Company and Innovent HK entered into a framework agreement (the "Framework Agreement") with ten onshore PRC investors to reorganize the group structure in preparation for the Company's IPO. Pursuant to the Framework Agreement, all onshore PRC investors (except China-Singapore Suzhou Industrial Park Ventures Co., Ltd. "CSVC") ("Mainstream PRC Investors") transfer all of their equity interests in Innovent Suzhou to Innovent HK for a total consideration of US$199,440,000 (equivalent to RMB1,277,972,000). Further, the Company entered into a convertible preferred share purchase agreement with each of Mainstream PRC Investors pursuant to which each of them agreed to subscribe the Preferred Shares of the Company accordingly at a total share subscription prices of US$199,440,000 (equivalent to RMB1,277,972,000). The equity transfer and Preferred Shares subscription by the Mainstream PRC investors came into effective on 1 June 2018. With the unsettled consideration, subscription receivables for Preferred Shares amounting to RMB1,319,615,000, which includes an exchange differences of RMB41,643,000 is recognised under deposits, prepayments and other receivables for the six months ended 30 June 2018.

In addition, pursuant to the Framework Agreement, CSVC transferred its relevant holding interest in Innovent Suzhou to Oriza Xinda, a special purpose vehicle, owned by CSVC's subsidiary, Hua Yuan, for a cash consideration of USD27,872,000 (equivalent to RMB178,598,000). The settlement of consideration was financed by a bridge loan provided by Innovent HK to Hua Yuan as such the proceeds was injected to Oriza Xinda as capital subscription. Hua Yuan further transferred its entire interest in Oriza Xinda to Innovent HK at the transfer price equivalent to the bridge loan. Innovent HK then offset the share transfer price against the bridge loan and concurrently Hua Yuan subscribed for 2,272,727 Series B Preferred Shares for a consideration equivalent to the bridge loan. The transactions were completed on 1 June 2018 and Oriza Xinda became a wholly owned subsidiary of Innovent HK. With the unsettled consideration between CSVC and the Company, subscription receivables for Preferred Shares amounting to RMB184,418,000, which includes an exchange difference of RMB5,820,000, is recognised under deposits, prepayment and other receivables, for the six months ended 30 June 2018.

As a result of the above said arrangement pursuant to the Framework Agreement, all Share Purchase Options held by onshore PRC investors have been cancelled and derecognised as at 30 June 2018 and Innovent Suzhou, Innovent Technology and Oriza Xinda have became wholly-owned subsidiaries of the Group.

Presentation and Classification

The Group and the Company have designated the Preferred Shares as whole as financial liabilities measured 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, if any. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in the loss on fair value changes of other financial liabilities under the other gains and losses line item. Management considered that there is no credit risk of the financial liability that drives the change of the fair value of the financial liability.

The Group has recognised the gross obligations from Share Purchase Option written as financial liabilities measured at FVTPL as the put option is over the ordinary shares of Innovent Suzhou and therefore does not meet the definition of equity for the Company.

The Company has recognised the Share Purchase Option as financial liabilities measured at FVTPL.

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

The Group	**Preferred Shares** *USD'000*	**Gross obligation from Share Purchase Option written** *USD'000*	**Total** *USD'000*	**Shown in financial information as** *RMB'000*
At 1 January 2016	161,909	8,479	170,388	1,106,430
Issuance of Series D Preferred Shares and gross obligation from Share Purchase Option written *(note i)*	64,000	183,002	247,002	1,666,205
Change in fair value *(note ii)*	(995)	1,053	58	123,197
At 31 December 2016	224,914	192,534	417,448	2,895,832
Issuance of Series D gross obligation from Share Purchase Option written *(note i)*	–	15,000	15,000	104,247
Change in fair value *(note ii)*	21,176	13,319	34,495	51,013
At 31 December 2017	246,090	220,853	466,943	3,051,092
Issuance of Series E Preferred Shares	150,000	–	150,000	947,821
Exercise of share purchase options	161,277	(161,277)	–	–
Change in fair value *(note ii)*	(20,819)	(59,576)	(80,395)	(448,797)
At 30 June 2018	536,548	–	536,548	3,550,116

The Company	**Preferred Shares** *USD'000*	**Share Purchase Options** *USD'000*	**Total** *USD'000*	**Shown in financial information as** *RMB'000*
At 1 January 2016	161,909	–	161,909	1,051,372
Issuance of Series D Preferred Shares and Share Purchase Option *(note i)*	64,000	80,228	144,228	983,805
Change in fair value *(note ii)*	(995)	9,205	8,210	145,446
At 31 December 2016	224,914	89,433	314,347	2,180,623
Issuance of Series D Share Purchase Option *(note i)*	–	8,240	8,240	53,842
Change in fair value *(note ii)*	21,176	6,523	27,699	54,371
At 31 December 2017	246,090	104,196	350,286	2,288,836
Issuance of Series E Preferred Shares	150,000	–	150,000	947,821
Exercise of share purchase options	161,277	(77,501)	83,776	536,818
Change in fair value *(note ii)*	(20,819)	(26,695)	(47,514)	(223,359)
At 30 June 2018	536,548	–	536,548	3,550,116

Notes:

(i) Part of the subscription consideration of Trench 2 Series D Preferred Shares, amounting to US$15,000,000 receivable from an onshore PRC investor, was paid in January 2017. It is considered as completion of investment upon paid in date.

(ii) Change in fair value presented in RMB includes effect of exchange on translation from USD balances.

The Preferred Shares, gross obligations from Share Purchase Option written and Shares Purchase Options were valued by the directors of the Company with reference to valuation reports carried out by an independent qualified professional valuer, Solium Analytics LLC, which has appropriate qualifications and experiences in valuation of similar instruments. The address of Solium Analytics LLC is Suite 780, 221 Main Street, San Francisco, California 94105.

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

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

	At 31 December		**At 30 June**
	2016	**2017**	**2018**
Time to liquidity	2.5 years	2 years	2.5 years
Risk-free interest rate	1.34%	1.89%	2.58%
Volatility	58%	63.5%	65.9%
Dividend Yield	0%	0%	0%
Possibilities under liquidation scenario	100%	100%	90%
Possibilities under IPO scenario	0%	0%	10%

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

Changes in fair value of the other financial liabilities were recorded in "(loss) gain on fair value changes of other financial liabilities measured at FVTPL". Management considered that fair value change in the Preferred Shares that are attributable to changes of credit risk of this liability being not significant.

As at 31 December 2016 and 2017 and 30 June 2018, other financial liabilities shall be redeemed by the Company at an amount equal to the issue price per share, plus an 11% compounded annual interest and any declared but unpaid dividends, within a period of more than two years but not exceeding five years.

29. SHARE CAPITAL

The Group and the Company

	Number of ordinary shares	**Amount**
		USD'000
Ordinary shares		
Ordinary of USD0.0001 each		
Authorised		
At 1 January 2016	465,474,186	46
Reclassification and re-designation on issuance of series D Preferred Shares *(note a)*	(21,475,179)	(2)
At 31 December 2016 and 2017	443,999,007	44
Reclassification and re-designation on issuance of Series E Preferred Shares *(note b)*	(11,177,348)	(1)
Share subdivision *(note c)*	3,895,394,941	–
At 30 June 2018	4,328,216,600	43

	Number of shares	Amount USD'000	Equivalent amount of ordinary shares RMB'000
Issues and fully paid			
At 1 January 2016	7,670,454	1	4
Issuance of restricted shares *(note d)*	950,000	–	1
Issuance of ordinary shares *(note e)*	1,674	–	–
Exercise of share options *(note f)*	346,667	–	1
At 31 December 2016	8,968,795	1	6
Issuance of restricted shares *(note g)*	3,020,697	–	2
At 31 December 2017	11,989,492	1	8
Exercise of share options *(note h)*	9,010,004	1	6
Issuance of ordinary shares *(note i)*	2,235	–	–
Share subdivision *(note c)*	189,015,579	–	–
At 30 June 2018	210,017,310	2	14

Notes:

(a) On 23 December 2016, the Company redesignated and reclassified 21,475,179 shares into Series D Preferred Shares with details set out in note 28.

(b) On 31 January 2018, the Company redesignated and reclassified 11,177,348 shares into Series E Preferred Shares with details set out in note 28.

(c) With effect from 12 June 2018, each of the Company's authorised and issued 500,000,000 shares of a par value of US$0.0001 have be subdivided into ten shares of US$0.00001 par value each so that the authorised share capital of the Company shall be US$50,000 divided into (i) 4,328,216,600 authorised ordinary shares of a par value of US$0.00001, (ii) 50,000,000 Series A Preferred Shares of a par value of US$0.00001 each, (iii) 136,363,660 Series B Preferred Shares of a par value of US$0.00001 each, (iv) 158,894,480 Series C Preferred Shares of a par value of US$0.00001 each, (v) 214,751,780 Series D Preferred Shares of a par value of US$0.00001 each, (vi) 111,773,480 Series E Preferred Shares of a par value of US$0.00001 each.

(d) During the year ended 31 December 2016, 950,000 restricted shares with subscription price of US$1.10 per share was issued with details set out in note 30(a).

(e) During the year ended 31 December 2016, the Company issued 1,674 ordinary shares to one of the independent directors of the Company to settle part of its remuneration payable to him of approximately USD15,000 (equivalent to approximately RMB100,000).

(f) During the year ended 31 December 2016, share option holders exercised their rights to subscribe for 346,667 ordinary shares in the Company at US$0.17 per share.

(g) During the year ended 31 December 2017, 3,020,697 restricted shares with subscription price of US$1.1 per share issued and vested with details set out in note 30(a).

(h) On 1 May 2018, the Company issued 9,010,004 ordinary shares to Great Biono Fortune LP pursuit to an acceleration of options granted under the pre-IPO share incentive plan, with a total exercise price of US$10,076,000 (equivalent to RMB63,874,000). The exercise price of the share options were settled through current accounts with directors of the Company and other loans to employees of the Group.

(i) During the six months ended 30 June 2018, the Company issued 2,235 ordinary shares to one of the independent directors of the Company to settle parts of its remuneration payable to him of approximately USD30,000 (equivalent to approximately RMB190,000).

30. SHARE-BASED PAYMENT TRANSACTIONS

On 10 May 2012, the shareholders of the Company approved the adoption of the Plan for the purpose of incentivising, retaining and rewarding certain employees, board members and individual consultant or adviser who renders bona fide services to the Company or its subsidiaries ("Eligible Person") for their contributions the Group's business, and to align their interests with those of the Group. The Plan divided into two separate equity programs: (a) share award program and (b) option and share appreciation rights grant program. The overall limit on the number of underlying shares which may be delivered pursuant to all awards granted under the Plan is 165,476,820 shares of the Company, subject to any adjustments for other dilutive issuances.

(a) Share award program

Employees

On 23 December 2016, the Company issued an aggregate of 950,000 restricted shares of the Company for a subscription price of US$1.10 per share in exchange of the share options granted to Dr. Yu previously with details set out in note 30(b).

The restricted shares shall initially be unvested and subject to repurchase by the Company at subscription price paid by the employees upon voluntary or involuntary termination of employment (the "Repurchase Option"). One forth (25%) of the restricted shares shall vest immediately and the remaining portion (75% of the restricted shares) shall be vested ratably on a monthly basis over 36-months vesting period and released from the Repurchase Option, except for vesting due to specific clause and reasons.

The eligible employees shall not sell, assign, transfer, pledge, hypothecate or otherwise dispose of any unvested shares and the eligible employees shall not transfer any vested shares, or any interest therein until the employees has offered the Company the right to purchase the vested shares at the same price and on the same terms and conditions as those offered to any prospective transferee.

On 18 February 2017, the Company further entered into a restricted share agreement to which 3,020,697 ordinary shares at subscription price of US$1.1 per share for a total consideration of US$3,322,767 pursuant to which the vesting is subject to accomplishment of certain performance milestones conditions. All above said restricted shares have been vested during 2017.

The aforesaid arrangement has been accounted for as share-based payment transactions. Accordingly, the Group measured the fair value of the unvested restricted shares as of the grant dates and is recognising the amount as compensation expense over the vesting period for each separately vesting portion of the unvested restricted shares. The total expense recognised in the consolidated statements of profit or loss and other comprehensive income for restricted shares granted to employees and directors are approximately RMB1,464,000, RMB19,868,000, RMB4,442,000 (unaudited) and RMB197,000, respectively, for the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018.

The restricted shares were valued by the directors of the Company with reference to the valuation carried out by Solium Analytics LLC, on the grant date of the restricted shares. The address of Solium Analytics LLC is Suite 780, 221 Main Street, San Francisco, California 94105. The fair value of the restricted shares was determined to be RMB10.37 per share and RMB13.91 as of 23 December 2016 and 18 February 2017, respectively.

The following table summarised the Group's unvested restricted shares movement in the years ended 31 December 2016 and 2017 and the six months ended 30 June 2018:

	Numbers of unvested restricted shares	Weighted average grant date fair value
Unvested as of 1 January 2016	–	–
Granted	950,000	10.37
Unvested as of 31 December 2016	950,000	10.37
Granted	3,020,697	13.91
Vested	(3,475,905)	(13.45)
Unvested as of 31 December 2017	494,792	10.37
Vested	(118,750)	(10.37)
Share subdivision	3,384,378	
Unvested as of 30 June 2018	3,760,420	1.04

(b) Option and share appreciation rights grant program

Except as provided otherwise in the grant letter or offer in any other form by the board of directors, 25% of the shares subject to the option shall vest on the first vesting date, and the remaining 75% shares shall vest on a monthly basis over the next 36 months. The first vesting date should be determined by the Company and grantees for each grant agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options may not be exercised until they vest. Once vested, the vested portion of the options may be exercised in whole or in part, at any time.

No share appreciation rights outstanding nor issued during the Relevant Periods.

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

	Number of share options							
	Directors				Employees			
	Year ended 31 December		Six months ended 30 June		Year ended 31 December		Six months ended 30 June	
	2016	2017	2017 (unaudited)	2018	2016	2017	2017 (unaudited)	2018
At the beginning of the year/period	4,448,126	4,101,459	4,101,459	5,551,100	1,458,250	3,201,500	3,201,500	4,194,000
Granted *(note a)*	950,000	1,449,641	–	400,000	1,744,000	1,049,000	829,000	3,300,904
Forfeited	–	–	–	–	(750)	(56,500)	(50,750)	(304,500)
Cancelled *(note a)*	(950,000)	–	–	–	–	–	–	–
Exercised *(note b)*	(346,667)	–	–	(5,951,100)	–	–	–	(3,058,904)
Share subdivision *(note c)*	–	–	–	–	–	–	–	37,183,500
At the end of the year/period	4,101,459	5,551,100	4,101,459	–	3,201,500	4,194,000	3,979,750	41,315,000

Notes:

(a) On 10 January 2016, the Group has granted Dr. Yu options to subscribe 950,000 ordinary shares of the Group at an exercise price of US$1.1 per share. 25% of the option was vested as at 10 January 2017, of which the remaining 75% would be vested in the next 36 months, with the first instalment vesting on the last day of February 2017 and additional instalment vesting on the last day of each of the 35 months thereafter. On 23 December 2016, the Group cancelled the above said share options with replacement of 950,000 restricted shares of the Company at a subscription price of US$1.1. Vesting schedule of the restricted shares remains the same as the previous issued options.

(b) On 1 May 2018, pursuant to the board resolution of the compensation committee, the board of the Company has approved the acceleration of the vesting of 5,289,486 options and exercise of 9,010,004 options (including both the previously vested and accelerated ones).

(c) As a result of the share subdivision on 12 June 2018, the number of the outstanding share options were adjusted from 4,131,500 to 41,315,000.

As at 31 December 2016 and 2017 and 30 June 2018, 3,461,659, 5,006,108 (before the effect of the share subdivision) and 11,705,000 (after the effect of the share subdivision) respectively outstanding options were exercisable.

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

	Weighted average exercise price							
	Directors				Employees			
	Year ended 31 December		Six months ended 30 June		Year ended 31 December		Six months ended 30 June	
	2016	2017	2017 (unaudited)	2018 *(adjusted by the effect of share subdivision)*	2016	2017	2017 (unaudited)	2018 *(adjusted by the effect of share subdivision)*
Granted	US$1.1	US$1.98	N/A	US$0.20	US$1.1	US$1.98	US$1.98	US$0.20
Forfeited	N/A	N/A	N/A	N/A	US$0.35	US$1.16	US$1.09	US$0.11
Cancelled	US$1.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exercised	US$0.17	N/A	N/A	US$0.09	N/A	N/A	N/A	US$0.16

Fair value of share options granted

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

The fair values of share options were calculated using the Black-Scholes pricing model. The key inputs into the model were as follows:

	2013	2014	2015	2016	2017	2018 *(adjusted by the effect of share subdivision)*
Grant date option fair value per share	US$0.34 – US$0.37	US$0.37 – US$0.81	US$0.66 – US$1.15	US$1.01 – US$1.11	US$1.46 – US$1.47	US$0.15 – US$0.23
Weighted average share price	US$0.42 – US$0.47	US$0.49 – US$0.98	US$0.98 – US$1.5	US$1.36 – US$1.45	US$2.04 – US$2.07	US$0.21 – US$0.30
Exercise price	US$0.35	US$0.35	US$0.35 – US$1.1	US$1.1	US$1.98	US$0.20 – US$0.21
Expected volatility	85.78% – 90.57%	75.85% – 78.41%	74.3% – 79.47%	77.74% – 80.35%	74.63% – 79.88%	76.58% – 79.44%
Expected life	6.37 – 6.75 years	6.28 – 6.37 years	6.75 years	6.75 years	6.31 – 6.75 years	6.75 – 7.75 years
Risk-free rate	2.76% – 2.99%	2.3% – 2.72%	2.71% – 2.85%	2.11% – 2.46%	2.41% – 2.81%	2.71% – 2.91%
Expected dividend yield	0%	0%	0%	0%	0%	0%

The directors estimated the risk-free interest rate based on the yield of US Treasury Bonds with a maturity life close to the option life of the share option. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share option. Dividend yield is based on management estimation at the grant date. The total expense recognized in the consolidated statements of profit or loss for share options granted to directors and employees are approximately RMB6,936,000, RMB9,427,000, RMB3,434,000 (unaudited) and RMB41,588,000, respectively, for the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018.

31. AMOUNT DUE FROM A SUBSIDIARY

The Company

The amount is unsecured and interest-free. Except for the balances of approximately RMB540,000, RMB646,000 and RMB650,000, as at 31 December 2016 and 2017 and 30 June 2018, respectively, the directors of the Company expected that the remaining balance will be recovered after twelve months from the end of the reporting dates.

32. OPERATING LEASES COMMITMENTS

The Group as lessee

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

	At 31 December		At 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,836	4,542	4,849
In the second to fifth year inclusive	34	17,612	15,407
	1,870	22,154	20,256

The leases are generally negotiated for a lease term of one to five years at fixed rentals.

33. CAPITAL COMMITMENT

	At 31 December		At 30 June
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	6,884	131,270	242,345

34. RETIREMENT BENEFIT PLANS

The PRC

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are approximately RMB12,820,000, RMB15,169,000, RMB7,860,000 (unaudited) and RMB8,183,000 for the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively.

35A. TRANSACTIONS AND BALANCES WITH RELATED PARTIES OF A PREFERRED SHAREHOLDER

Except as disclosed elsewhere in the Historical Financial Information, the Group also entered into the following significant transactions during the Relevant Periods with certain related parties of a preferred shareholder which has the authority to appoint a director in the Company's board.

(I) Transactions

Nature of transaction	Year ended 31 December 2016	Year ended 31 December 2017	Six months ended 30 June 2017	Six months ended 30 June 2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Collaboration fee received	28,882	24,261	–	74,192
Consulting service expenses paid	(4,897)	(4,306)	(1,440)	(1,144)

(II) Balance

	At 31 December 2016	At 31 December 2017	At 30 June 2018
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	292,188	348,765	443,435

35B. TRANSACTIONS WITH DR. YU

Historically, the Group used certain domain names which are owned by Dr. Yu for free. On 11 June 2018, the Group and Dr. Yu formalised the arrangement and entered into agreement pursuant to which Dr. Yu agreed to license his rights in the domain names to Innovent Suzhou for use by it and the Group in connection with business and operations on an exclusive and royalty-free basis for a term commencing from the date of the agreement until such times that Dr. Yu ceases to hold shares or ceases to be a director of the Company. Such rights in the domain names are not transferable to any third parties.

35C. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	Year ended 31 December 2016	Year ended 31 December 2017	Six months ended 30 June 2017	Six months ended 30 June 2018
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Short term benefits	3,757	8,001	4,000	6,683
Retirement benefit scheme contributions	60	104	42	66
Share based payments	4,085	4,230	1,331	29,431
	7,902	12,335	5,373	36,180

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

36. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes bank borrowings, other financial liabilities and net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

37. FINANCIAL INSTRUMENTS

37a. Categories of financial instruments

	At 31 December		At 30 June
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
The Group			
Financial assets			
Amortised cost (including bank balances and cash)	1,022,939	548,957	3,521,660
Mandatorily measured at FVTPL	782,250	809,484	181,408
Financial liabilities			
Amortised cost	532,684	560,882	2,258,092
Designated as at FVTPL			
– Preferred Shares	1,560,226	1,607,998	3,550,116
– Gross obligation from Share Purchase Option written	1,335,606	1,443,094	–

	At 31 December		At 30 June
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
The Company			
Financial assets			
Amortised cost (including bank balances and cash)	70,035	70,977	2,627,689
Financial liabilities			
Amortised cost	504	2,875	2,095
Designated as at FVTPL			
– Preferred Shares	1,560,226	1,607,998	3,550,116
– Share Purchase Options	620,397	680,838	–

37b. Financial risk management objectives and policies

The Group's financial instruments include deposits and other receivables, subscription receivables for restricted shares and Preferred Shares, receivables due from directors of the Company, other loan, other financial assets, bank balances and cash, trade payables, other payables, borrowings and other financial liabilities. Details of these financial instruments are disclosed in the respective notes.

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

Market risk

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

The carrying amounts of certain significant foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets			Liabilities		
	At 31 December		30 June	31 December		30 June
	2016	2017	2018	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group						
USD	491,148	460,740	2,909,633	(2,896,392)	(3,068,904)	(5,018,243)

	Assets			Liabilities		
	At 31 December		30 June	31 December		30 June
	2016	2017	2018	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Company						
USD	70,035	70,997	2,627,689	(2,181,127)	(2,291,711)	(3,552,211)

Sensitivity analysis

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

	At 31 December		At 30 June
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
The Group			
Impact of USD on loss for the year/period	(120,262)	(130,408)	(105,431)

	At 31 December		At 30 June
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
The Company			
Impact of USD on loss for the year/period	(102,405)	(111,036)	(46,226)

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to other loans (note 19) and other financial liabilities (note 28) and cash flow interest rate risk in relation to variable-rate bank borrowings (note 26) and bank balances (note 22). The Company currently does not enter into any hedging instrument for both of the fair value interest rate risk and cash flow interest rate risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming the amounts of these financial instruments outstanding at the end of the relevant periods were outstanding for the whole year. A 50 basis point increase or decrease in the prevailing rates of relevant banks is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for variables rate bank borrowings, with all other variables held constant, the Group's post-tax loss for the years ended 31 December 2016 and 2017 and six months ended 30 June 2017 and 2018 would increase/decrease by RMB2,500,000, RMB2,550,000, RMB1,250,000 (unaudited) and RMB1,742,500, respectively.

Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant because the current market interest rates are relatively low and stable.

Other price risk

The Group is exposed to other price risk through Preferred Shares classified as other financial liabilities.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at end of the reporting period for financial liabilities at FVTPL.

If the equity value of the Company had been changed based on the 5% higher/lower:

- the post-tax loss of the Group for the year ended 31 December 2016 would increase by RMB139,018,000 and decrease by RMB133,511,000, as a result of the changes in fair value of the Company's equity value;

- the post-tax loss of the Group for the year ended 31 December 2017 would increase by RMB142,031,000 and decrease by RMB136,585,000, as a result of the changes in fair value of the Company's equity value;

- the post-tax loss of the Group for the six months ended 30 June 2018 would increase by RMB166,724,000 and decrease by RMB161,921,000, as a result of the changes in fair value of the Company's equity value.

Credit risk

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

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

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

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

Note 19 details the Group's maximum exposure to credit risk for subscription receivables for restricted shares, receivables due from share options holders, receivables for Preferred Shares and other loans and their measurement bases used to determine expected credit losses.

The credit risk on liquid funds of the Group is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the management monitors the utilisation of borrowings, and renews the borrowings upon expiry based on the actual operation requirement of the Group. The Group relies on bank borrowings and other financial liabilities as a significant source of liquidity.

As at 31 December 2016 and 2017 and 30 June 2018, the Group has bank borrowings of approximately RMB500,000,000, RMB510,000,000 and RMB697,000,000, respectively and details of which are set out in note 26. In addition, the Group issued Series E Preferred Shares to independent investors during January to April 2018, in which the earliest redemption dates of all previous issued Preferred Shares has also been extended to 2025. The directors of the Company are satisfied that the Group and the Company will have sufficient financial resource to meet its financial obligation as they fall due for the foreseeable future after taking into account of the aforesaid proceeds from the Preferred Shares and extension of earliest redemption dates of all previous issued Preferred Shares. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

The following table details remaining contractual maturity of the Group and the Company for the Preferred Shares designated as at FVTPL, gross obligation from Share Purchase Options written designated as at FVTPL of the Group and Share Purchase Options of the Company which has been drawn up based on the undiscounted cash flows based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from weighted average interest rate at the end of each reporting period.

Liquidity table

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group								
At 31 December 2016								
Trade payables	–	21,198	–	–	–	–	21,198	21,198
Other payables	–	11,486	–	–	–	–	11,486	11,486
Bank borrowings – variable rate	5.29%	–	26,455	31,340	125,047	498,972	681,814	500,000
		32,684	26,455	31,340	125,047	498,972	714,498	532,684
Preferred Shares designated as at FVTPL	11%	–	–	–	–	2,948,978	2,948,978	1,560,226
Gross obligation from Share Purchase Options written designated as at FVTPL	11%	–	–	–	–	2,467,008	2,467,008	1,335,606
		–	–	–	–	5,415,986	5,415,986	2,895,832
At 31 December 2017								
Trade payables	–	34,836	–	–	–	–	34,836	34,836
Other payables	–	16,046	–	–	–	–	16,046	16,046
Bank borrowings – variable rate	4.9%	–	29,883	34,410	176,711	416,145	657,149	510,000
		50,882	29,883	34,410	176,711	416,145	708,031	560,882
Preferred Shares designated as at FVTPL	11%	–	–	–	–	3,083,296	3,083,296	1,607,998
Gross obligation from Share Purchase Options written designated as at FVTPL	11%	–	–	–	–	2,579,373	2,579,373	1,443,094
		–	–	–	–	5,662,669	5,662,669	3,051,092
At 30 June 2018								
Trade payables	–	36,639	–	–	–	–	36,639	36,639
Other payables	–	1,524,453	–	–	–	–	1,524,453	1,524,453
Bank borrowings – variable rate	4.9%	5,079	38,741	43,826	269,305	545,681	902,632	697,000
		1,566,171	38,741	43,826	269,305	545,681	2,463,724	2,258,092
Preferred Shares designated as at FVTPL	11%	–	–	–	–	9,176,920	9,176,920	3,550,116
		–	–	–	–	9,176,920	9,176,920	3,550,116

	Weighted average effective interest rate %	Repayable on demand or less than 3 months RMB'000	3 months to 1 year RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
The Company								
At 31 December 2016								
Other Payables	–	504	–	–	–	–	504	504
Preferred Shares designated as at FVTPL	11%	–	–	–	–	2,948,978	2,948,978	1,560,226
Share Purchase Options designated as at FVTPL	11%	–	–	–	–	2,467,008	2,467,008	620,397
		–	–	–	–	5,415,986	5,415,986	2,180,623
At 31 December 2017								
Trade payables		2,597	–	–	–	–	2,597	2,597
Other Payables	–	278	–	–	–	–	278	278
	–	2,875	–	–	–	–	2,875	2,875
Preferred Shares designated as at FVTPL	11%	–	–	–	–	3,083,296	3,083,296	1,607,998
Share Purchase Options designated as at FVTPL	11%	–	–	–	–	2,579,373	2,579,373	680,838
		–	–	–	–	5,662,669	5,662,669	2,288,836
At 30 June 2018								
Trade payables		11	–	–	–	–	11	11
Other Payables	–	2,084	–	–	–	–	2,084	2,084
	–	2,095	–	–	–	–	2,095	2,095
Preferred Shares designated as at FVTPL	11%	–	–	–	–	9,176,920	9,176,920	3,550,116
		–	–	–	–	9,176,920	9,176,920	3,550,116

36c. Fair value measurements of financial instruments

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

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

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

Financial assets and financial liabilities	Fair value as at 31 December 2016	2017	30 June 2018	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	RMB'000	*RMB'000*	*RMB'000*				
The Group							
(1) Other financial assets	782,250	809,484	181,408	Level 2	Income approach – in this approach, the discounted cash flow method was used to estimate the return from the underlying assets.	N/A	N/A
(2) Preferred Shares	1,560,226	1,607,998	3,550,116	Level 3	Back-solve Model and OPM Model – the key inputs are: time to liquidity, risk-free interest rate, volatility and dividend yield	Time to liquidity 2016: 2.5 years 2017: 2 years 2018: 2.5 years	The longer the time to liquidity, the higher the fair value *(note a)*
(3) Gross obligation from Share Purchase Options written	1,335,606	1,443,094	–	Level 3	Back-solve Model and OPM Model – the key inputs are: time to liquidity, risk-free interest rate, volatility and dividend yield	Time to liquidity 2016: 2.5 years 2017: 2 years 2018: N/A	The longer the time to liquidity, the higher the fair value *(note b)*
The Company							
(1) Share Purchase Options	620,397	680,838	–	Level 3	Back-solve Model and OPM Model – the key inputs are: time to liquidity, risk-free interest rate, volatility and dividend yield	Time to liquidity 2016: 2.5 years 2017: 2 years 2018: N/A	The longer the time to liquidity, the higher the fair value *(note c)*

Notes:

(a) A 0.5 years increase/decrease in the time to liquidity, while all other variables keep constant, would increase the carrying amount of Preferred Shares as at 31 December 2016 and 2017 and 30 June 2018 by RMB100,941,000, RMB130,756,000 and RMB157,249,000, decrease the carrying amount as at 31 December 2016 and 2017 and 30 June 2018 by RMB59,972,000, RMB172,039,000 and RMB180,793,000, respectively.

(b) A 0.5 years increase/decrease in the time to liquidity, while all other variables keep constant, would increase the carrying amount of gross obligation from Share Purchase Options written as at 31 December 2016 and 2017 and 30 June 2018 by RMB8,496,000, RMB27,512,000 and nil, respectively or decrease the carrying amount as at 31 December 2016 and 2017 and 30 June 2018 by RMB5,288,000, RMB45,798,000 and nil, respectively.

(c) A 0.5 years increase/decrease in the time to liquidity, while all other variables keep constant, would increase the carrying amount of Share Purchase Options as at 31 December 2016 and 2017 and 30 June 2018 by RMB8,496,000, RMB27,512,000 and nil, respectively or decrease the carrying amount as at 31 December 2016 and 2017 and 30 June 2018 by RMB5,288,000, RMB45,798,000 and nil, respectively.

(ii) Reconciliation of Level 3 fair value measurements

Details of reconciliation of Level 3 fair value measurement for Preferred Shares, gross obligation from Share Purchase Options written over subsidiary and Share Purchase Options are set out in note 28.

Fair value gains or losses on financial liabilities at FVTPL are included in '(Loss) gain on fair value changes of other financial liabilities measured at FVTPL'.

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

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

38. RECONCILIATION OF LIABILITIES OR ASSETS ARISING FROM FINANCING ACTIVITIES

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

	Interest payables	Borrowings	Subscription receivable for Preferred Shares	Consideration payable for acquiring non-controlling interests of a subsidiary	Share repurchase payable	Receivables due from directors of the Company and an employee and other loans	Subscription receivables for restricted shares	Gross obligation from Share Purchase Options written	Preferred Shares	Accrued issue costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 24)	*(note 26)*									
At 1 January 2016	750	500,000	–	–	1	–	(144)	55,058	1,051,372	–	1,607,037
Financing cash flows *(note)*	(26,599)	–	–	–	(1)	–	–	1,238,943	427,262	–	1,639,605
Issuance of restricted shares	–	–	–	–	–	–	(7,249)	–	–	–	(7,249)
Exercise of share options	–	–	–	–	–	(409)	–	–	–	–	(409)
Interest expenses	26,530	–	–	–	–	–	–	–	–	–	26,530
Loss on fair value changes of other financial liabilities	–	–	–	–	–	–	–	41,605	81,592	–	123,197
At 31 December 2016	681	500,000	–	–	–	(409)	(7,393)	1,335,606	1,560,226	–	3,388,711
Financing cash flows *(note)*	(24,841)	10,000	–	–	–	–	–	104,247	–	–	89,406
Issuance of restricted shares	–	–	–	–	–	–	(22,845)	–	–	–	(22,845)
Net foreign exchange gain	–	–	–	–	–	–	1,554	–	–	–	1,554
Interest expenses	24,908	–	–	–	–	–	–	–	–	–	24,908
Loss on fair value changes of other financial liabilities	–	–	–	–	–	–	–	3,241	47,772	–	51,013
At 31 December 2017	748	510,000	–	–	–	(409)	(28,684)	1,443,094	1,607,998	–	3,532,747
Financing cash flows *(note)*	(14,183)	187,000	–	–	–	–	–	–	947,821	(745)	1,119,893
Exercise of share purchase options	–	–	–	–	–	–	–	(1,033,428)	1,033,428	–	–
Exercise of share options	–	–	–	–	–	(63,874)	–	–	–	–	(63,874)
Prepaid individual income tax for directors and employees	–	–	–	–	–	(25,906)	–	–	–	–	(25,906)
Net foreign exchange loss	–	–	–	–	–	(2,775)	(359)	–	–	–	(3,134)
Interest expenses	14,230	–	–	–	–	–	–	–	–	–	14,230
Loss on fair value changes of other financial liabilities	–	–	–	–	–	–	–	(409,666)	(39,131)	–	(448,797)
Issue cost accrued	–	–	–	–	–	–	–	–	–	35,157	35,157
Reorganisation of group structure	–	–	(1,504,033)	1,504,033	–	–	–	–	–	–	–
At 30 June 2018	795	697,000	(1,504,033)	1,504,033	–	(92,964)	(29,043)	–	3,550,116	34,412	4,160,316

	Interest payables	Borrowings	Subscription receivable for Preferred Shares	Consideration payable for acquiring non-controlling interests of a subsidiary	Share repurchase payable	Receivables due from directors of the Company and an employee and other loans	Subscription receivables for restricted shares	Gross obligation from Share Purchase Options written	Preferred Shares	Accrued issue costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 24)	*(note 26)*									
At 1 January 2017	681	500,000	–	–	–	(409)	(7,393)	1,335,606	1,560,226	–	3,388,711
Financing cash flows	(12,386)	–	–	–	–	–	–	104,247	–	–	91,861
Issuance of restricted shares	–	–	–	–	–	–	(22,845)	–	–	–	(22,845)
Net foreign exchange loss	–	–	–	–	–	–	504	–	–	–	504
Interest expenses	12,318	–	–	–	–	–	–	–	–	–	12,318
Loss on fair value changes of other financial liabilities	–	–	–	–	–	–	–	(28,629)	29,471	–	842
At 30 June 2017	613	500,000	–	–	–	(409)	(29,734)	1,411,224	1,589,697	–	3,471,391

Note: The cash flows from interest payables, borrowings, share repurchase payable, subscription receivables, consideration payable for acquiring non-controlling interests of a subsidiary, gross obligation from Share Purchase Option written and Preferred Shares make up the net amount of proceeds and repayments in the consolidated statements of cash flows.

39. RESERVES OF THE COMPANY

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

	Share premium	Share-based payment reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	2,614	12,067	(171,042)	(156,361)
Loss and total comprehensive expense for the year	–	–	(143,292)	(143,292)
Issuance of ordinary shares	100	–	–	100
Issuance of restricted shares	7,258	–	–	7,258
Exercise of share options	971	(561)	–	410
Recognition of share-based payment expenses in respect of share options	–	8,400	–	8,400
At 31 December 2016	10,943	19,906	(314,334)	(283,485)
Loss and total comprehensive expense for the year	–	–	(65,746)	(65,746)
Issuance of restricted shares	22,843	–	–	22,843
Vesting of restricted shares	20,422	(20,422)	–	–
Recognition of share-based payment expenses in respect of share options	–	29,295	–	29,295
At 31 December 2017	54,208	28,779	(380,080)	(297,093)
Profit and total comprehensive income for the period	–	–	282,049	282,049
Issuance of ordinary shares	190	–	–	190
Vesting of restricted shares	324	(324)	–	–
Recognition of share-based payment expenses in respect of share options	–	41,784	–	41,784
Exercise of share options	124,046	(60,178)	–	63,868
At 30 June 2018	178,768	10,061	(98,031)	90,798

40. SUBSEQUENT EVENTS

Except as disclosed elsewhere of the Historical Financial Information, the Group has the following subsequent events entered subsequent to 30 June 2018:

a. In September 2018, the Group drawn down additional RMB100 millions from an existing bank loan facility.

b. From 1 July to 9 October 2018, the Group granted 31,910,000 share options to certain directors, employees and individual consultants.

c. On 9 October 2018, a shareholder's resolution was passed under which a total of 236,350,000 shares will be allotted and issued by the Company on the day preceding the Global Offering (as defined in the Prospectus).

d. On 15 October 2018, in consideration of future performance of their duties as directors of the Company, the Company granted bonuses in the total amount of approximately RMB201.02 million to certain directors of the Company (including Dr. Yu), which is equal to the sum of 1) receivables from these directors in the amount of approximately RMB99.49 million (comprising subscription receivables for restricted shares in the amount of approximately RMB28.94 million and receivables due from these directors in the amount of approximately RMB70.55 million) as at 30 June 2018 (see note 19 (a) and note 19 (b) on I-41), and 2) an amount of RMB101.53 million due from the directors of the Company in respect of the withholding tax resulting from the share subscriptions and the grant of these bonuses as at 15 October 2018. 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 and the amount paid or payable for these directors in respect of the withholding tax resulting from the share subscriptions and the grant of these bonuses as at 15 October 2018 were converted to bonuses paid in advance to directors of the Company. These directors of the Company shall be liable to return the whole or part of the bonuses and the relevant tax paid for them if certain service and/or performance conditions are not satisfied in accordance with the relevant terms of the respective directors' service agreements.

41 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for any of the companies comprising the Group subsequent to 30 June 2018.