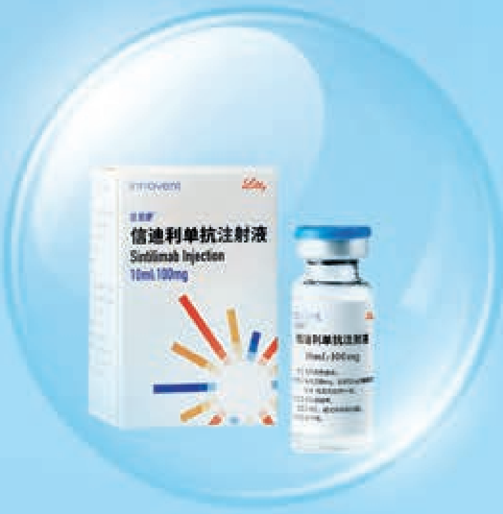
信達生物製藥
Innovent Biologics, Inc.

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

Stock Code 股份代號 : 1801



2018
ANNUAL REPORT 年報

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Company Profile

Overview

Our mission is to create a world-class China-based biopharmaceutical company that develops and commercialises high quality drugs that are affordable to ordinary people. We were founded in 2011 by Dr. De-Chao Michael Yu, a highly accomplished scientist, innovator and entrepreneur. We are committed to innovation in drug development and have complied with global quality standards for every aspect of the Company's business and operations.

To capitalise on the tremendous market opportunity both in China and beyond, we have developed a fully-integrated platform consisting of advanced research, discovery, development, manufacturing and commercialisation capabilities. These capabilities have enabled the Group to build a robust pipeline of innovative and commercially promising monoclonal antibodies and other drug assets in the fields of oncology, ophthalmology, and autoimmune and metabolic diseases. The full integration of our platform enables smooth collaboration between different functional groups at key points in the lifecycle of a drug candidate with the aim of increasing both the speed of development and the likelihood of success while at the same time reducing the cost of development.

Pipeline

Using our platform and through collaborations with global strategic partners, we have built a pipeline of 20 drug assets over the last 7.5 years, led by IBI-308 (trade name: Tyvyt®; generic name: sintilimab), our anti-PD-1 monoclonal antibody co-developed with Eli Lilly and Company ("Eli Lilly"), which has received marketing approval in China from the National Medical Products Administration ("NMPA") for relapsed/refractory classical Hodgkin's lymphoma ("r/r cHL") and has commenced sales; and three biosimilar candidates that are in late-stage clinical development in China, including IBI-305 (bevacizumab biosimilar), IBI-301 (rituximab biosimilar) and IBI-303 (adalimumab biosimilar).

Out of our pipeline of 20 drug assets, two, IBI-305 (bevacizumab biosimilar) and IBI-303 (adalimumab biosimilar), are under new drug application ("NDA") review by the NMPA; one, IBI-301 (rituximab biosimilar), has completed phase III clinical trial enrollment; one, IBI-306 (novel anti-PCSK9), has completed phase I single dose escalation; three, IBI-310 (anti-CTLA4), IBI-101 (novel anti-OX40) and IBI-188 (novel anti-CD47), have initiated phase I clinical trial enrollment in China; three, IBI-101 (novel anti-OX40), IBI-188 (novel anti-CD47) and IBI-318 (novel anti-PD-1/undisclosed target bispecific), have received investigational new drug ("IND") approval in China; one, IBI-307 (anti-RANKL), is initiating phase I clinical trials; three, IBI-110 (novel anti-LAG-3), IBI-315 (novel anti-HER2/anti-PD-1 bispecific), and IBI-322 (novel anti-CD47/anti-PD-L1 bispecific), have completed good laboratory practice ("GLP") toxicology studies and are under preparation for IND submission in China; and three, IBI-375 (pemigatinib FGFR1/2/3 inhibitor), IBI-376 (parsaclisib PI3Kδ inhibitor) and IBI-377 (itacitinib JAK1 inhibitor), were in-licensed from Incyte Biosciences International Sàrl ("Incyte"), a subsidiary of Incyte Corporation (the shares of which are listed on the Nasdaq Global Select Market (Ticker Symbol: INCY)), and are under preparation for IND submission in China.

In addition to developing our pipeline drug assets in the People's Republic of China ("China"), we have obtained IND approvals from the United States of America ("U.S."). Aside from the three drug candidates which were in-licensed from Incyte and are currently under clinical development outside of China by Incyte, we have initiated patient enrollment in the U.S. for a multi-center phase Ib/II clinical trial for Tyvyt® (sintilimab) and a phase Ia clinical trial for IBI-188 (novel anti-CD47). We have also obtained the IND approval from the U.S. FDA for IBI-101 (novel anti-OX40) and can proceed with clinical development in the U.S. accordingly.

Corporate Information

Board of Directors

Executive Directors

Dr. De-Chao Michael Yu
(Chairman of the Board and Chief Executive Officer)
Mr. Ronald Hao Xi Ede

Non-Executive Director

Mr. Shuyun Chen

Independent Non-Executive Directors

Dr. Charles Leland Cooney
Ms. Joyce I-Yin Hsu
Dr. Kaixian Chen

Audit Committee

Ms. Joyce I-Yin Hsu *(Chairman)*
Mr. Shuyun Chen
Dr. Kaixian Chen

Remuneration Committee

Ms. Joyce I-Yin Hsu *(Chairman)*
Dr. De-Chao Michael Yu
Dr. Kaixian Chen

Nomination Committee

Dr. De-Chao Michael Yu *(Chairman)*
Dr. Charles Leland Cooney
Dr. Kaixian Chen

Strategy Committee

Dr. De-Chao Michael Yu *(Chairman)*
Mr. Ronald Hao Xi Ede
Mr. Shuyun Chen
Dr. Charles Leland Cooney

Joint Company Secretaries

Ms. Yanju Wang
Ms. Lok Yee Chan

Authorised Representatives

Mr. Ronald Hao Xi Ede
Ms. Lok Yee Chan

Auditor

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

Corporate Information

Registered Office

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business in China

168 Dongping Street
Suzhou Industrial Park
China 215123

Principal Place of Business in Hong Kong

Room 1901, 19/F
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Legal Advisors

As to Hong Kong law and United States law
Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law
Han Kun Law Offices
33/F, HKRI Centre Two
HKRI Taikoo Hui
288 Shimen Road (No. 1)
Shanghai 200041
PRC

As to Cayman Islands law
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

Compliance Advisor

Guotai Junan Capital Limited
27/F Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Principal Share Registrar

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall
Cricket Square
KY1-1102
Cayman Islands

Corporate Information

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank Building
4-4A Des Voeux Road
Central
Hong Kong

China Construction Bank
Suzhou Industrial Park Subbranch
CSSD Building, No. 158 Wangdun Road
Suzhou Industrial Park
215028 China

Stock Code

1801

Company Website

www.innoventbio.com

Chairman's Statement

Dr. De-Chao Michael Yu

Executive Director, Chairman of the Board,
President and Chief Executive Officer

Dear Shareholders,

Thank you for your continued support for Innovent Biologics, Inc. since our successful initial public offering in October 2018. As I pause to reflect on what we have achieved in the last few months, I am proud to say that we have made significant progress with our drug pipeline and business operations and that we have comfortably lived up to our investors' high expectations.

Challenging though they might be, those expectations ensured our successful public market debut and led us to earn the "Asia-Pacific IPO of the Year" award and the "Hong Kong Equity Issue of the Year" award from Thomson Reuters' International Financing Review (IFR). In a December 2018 special report, IFR observed that our flawless IPO and stellar aftermarket trading performance, at a turbulent time for capital markets, raised investor's confidence, revived the interest of biotech listing in Hong Kong, and improved the Hong Kong Stock Exchange's efforts to create a sustainable new sector.

The support and recognition received from the industry motivated us to advance further, and we did not fail their expectations. We barely had time to celebrate this endorsement from the investment community. On 24 December 2018, ten days after IFR published the special report, Tyvyt® (sintilimab), our PD-1 monoclonal antibody co-developed with Eli Lilly, received marketing approval in China for relapsed/refractory classical Hodgkin's lymphoma (r/r cHL). Within a week, our production facilities received GMP certification from the NMPA for commercial manufacturing of Tyvyt® (sintilimab), clearing the last regulatory hurdle to the much-anticipated commercialization of our lead product and the domestically-developed and approved innovative PD-1 inhibitor with international quality, which will benefit a greater number of patients.

On 9 March 2019, after more than seven years of meticulous research and development, we commenced marketing and sales of Tyvyt® (sintilimab), now officially our first commercial drug product. This feat has

Chairman's Statement

propelled us to the commercial phase of the business cycle. It also unleashes the full power of our integrated multi-functional platform, and marks yet another milestone in our unwavering quest to build a world-class China-based biopharmaceutical company that develops and commercializes high-quality drugs that are affordable to ordinary people.

Meanwhile, in the last few months, we also submitted two more NDAs that were accepted by China's NMPA; entered into a collaboration and license agreement with Incyte to expand our pipeline to include 20 drug assets encompassing both biologics and small molecules; increased the number of clinical trials for registration from six to nine; and increased the number of our grants for the "National Major New Drugs Innovation and Development Projects" from two to four. We also continued to rapidly advance ongoing and planned clinical programs for our pipeline products both in China and in the U.S., and have expanded our manufacturing and commercialization capabilities in order to suit and support the continued expansion, development and successful launch of our drug pipeline.

All these achievements portend an exciting and promising future for us. However, we never for a second lost sight of the difficult reality that China's biotech and pharmaceutical industry still lags far behind that of more developed countries and regions such as the U.S. and Europe. Imported drugs continue to dominate China's biologics drug market, and for many Chinese patients, life-saving drugs remain unaffordable and out of reach. Against this backdrop, I see Innovent still in its infancy and continue to be on an extremely long and challenging path towards helping to change the status quo.

In that sense, not much has changed since we became a public company or since we brought our first product to market. We continue to race with time, day in and day out, strenuously developing our pipeline products while upholding global standards in every aspect of our business operations. We remain both realistic and optimistic, neither haughty nor humble about ourselves and about China's biotech and pharmaceutical industry. With your support, I am more confident than ever that Innovent will set a new model for global biopharmaceutical service providers and build Innovent gradually into a global powerhouse in biopharmaceutical innovation. We will work harder and continue to explore how to meaningfully improve ordinary people's lives, and rightfully earn the world's respect. To complete our mission and fulfill people's shared dream of combatting diseases, we will cooperate with partners around the world that shared our vision to forge ahead in this fascinating yet challenging journey of life.

Financial Highlights

Non-IFRS Measure:

To supplement the Group's consolidated financial statements, which are presented in accordance with the IFRS, the Company uses adjusted loss and total comprehensive expenses for the year and other adjusted figures as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that these adjusted measures provide useful information to shareholders and potential investors in understanding and evaluating the Group's consolidated results of operations in the same manner as they help the Company's management.

Adjusted loss and total comprehensive expenses for the year represents the loss and total comprehensive expenses for the year excluding the effect of certain non-cash items and one-time events, namely the loss on fair value changes of preferred shares (other financial liabilities measured at fair value through profit or loss) and share-based compensation expenses. The term adjusted loss and total comprehensive expenses for the year is not defined under the IFRS.

The table below sets forth a reconciliation of the loss and total comprehensive expenses for the year to adjusted loss and total comprehensive expenses for the year during the periods indicated:

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss and total comprehensive expenses for the year	**(5,872,982)**	(716,050)
Added:		
Loss on changes in fair value of preferred shares	**4,338,044**	51,013
Share-based compensation expenses	**53,244**	29,295
Adjusted loss and total comprehensive expenses for the year	**(1,481,694)**	(635,742)

- Adjusted loss and total comprehensive expenses for the year was RMB1,481.7 million for the year ended 31 December 2018, representing an increase of RMB846.0 million from RMB635.7 million for the year ended 31 December 2017, primarily due to the increase in the research and development expenses and the selling, marketing and business development expenses.

Financial Highlights

IFRS Numbers:

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**9,477**	18,538
Other income	**93,795**	64,406
Other gains and losses	**(4,272,090)**	(42,079)
Research and development expenses	**(1,221,687)**	(611,922)
Administrative expenses	**(220,315)**	(79,490)
Selling, marketing and business development expenses	**(136,006)**	(8,278)
Listing expenses	**(57,187)**	–
Finance costs	**(68,969)**	(57,225)
Loss and total comprehensive expenses for the year	**(5,872,982)**	(716,050)
Non-IFRS measure:		
Adjusted loss and total comprehensive expenses for the year	**(1,481,694)**	(635,742)

- Total revenue and other income were RMB103.3 million for the year ended 31 December 2018, as compared to RMB82.9 million for the year ended 31 December 2017. For the year ended 31 December 2018, the revenue was generated from the research and development services provided to the customers and the other income consisted of government grants and bank interest.

- Research and development expenses increased by RMB609.8 million to RMB1,221.7 million for the year ended 31 December 2018, compared to RMB611.9 million for the year ended 31 December 2017, primarily due to additional clinical trials of late stage drug candidates and upfront payment under the collaboration and license agreement with Incyte.

- Selling, marketing and business development expenses increased by RMB127.7 million to RMB136.0 million for the year ended 31 December 2018, from RMB8.3 million for the year ended 31 December 2017, primarily due to the significant expansion of our sales and marketing capacity and activities in preparation for the commercialisation of Tyvyt® (sintilimab) in 2019.

- Loss and total comprehensive expenses increased by RMB5,156.9 million to RMB5,873.0 million for the year ended 31 December 2018, compared to RMB716.1 million for the year ended 31 December 2017, primarily attributable to the losses of RMB4,338 million in fair value change of the Company's preferred shares, which was a non-cash, one-time adjustment upon the listing as required under the International Financial Reporting Standard (the "IFRS").

Business Highlights

Since 31 October 2018 (the "Listing Date") when the Company was successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), we have delivered on our Pre-IPO forecast by making significant progress with respect to our drug pipeline and business operations, including the following milestones and achievements:

- Tyvyt® (sintilimab), our PD-1 monoclonal antibody co-developed with Eli Lilly received marketing approval from the NMPA of China for r/r cHL. Our manufacturing facilities have been certified as Good Manufacturing Practice ("GMP") compliant and commercialisation activities have commenced, propelling us into the commercial phase of the business cycle and unleashing the full power of our integrated platform.

- Key clinical results of Tyvyt® (sintilimab) in r/r cHL were published in *The Lancet Haematology* and featured as a cover story. Major media outlets and news channels including Xinhua News Agency, People's Daily and China Central Television reported and lauded this publication.

- IBI-305 (bevacizumab biosimilar) has met pre-defined primary endpoints in two randomised, head-to-head clinical trials comparing IBI-305 to branded bevacizumab: a phase III clinical trial in patients with advanced non-squamous non-small cell lung cancer and a pharmacokinetic study in healthy subjects.

- NDAs for IBI-305 (bevacizumab biosimilar) and IBI-303 (adalimumab biosimilar) were submitted to and accepted by the NMPA.

- Collaboration and license agreement was reached with Incyte for three late-stage clinical drug candidates, including pemigatinib (FGFR1/2/3 inhibitor), itacitinib (JAK1 inhibitor) and parsaclisib (PI3Kδ inhibitor), increasing our pipeline to include 20 drug assets encompassing both biologics and small molecules.

- Global collaboration agreement was reached with Hutchison China MediTech Limited ("Chi-Med") (LSE: HCM; Nasdaq: HCM), through its innovation platform subsidiary Hutchison MediPharma Limited ("Hutchison MediPharma") to evaluate the safety and tolerability of our Tyvyt® (sintilimab) in combination with Hutchison MediPharma's fruquintinib in patients with advanced solid tumors.

- Number of clinical trials for registration has increased from six at the Listing Date to a total of nine at the date of this annual report.

- Number of our drug and drug candidates that received the grants for the "National Major New Drugs Innovation and Development Projects" (國家重大新藥創製專項) increased from two at the Listing Date to a total of four at the date of this annual report.

For details of any of the foregoing, please refer to the rest of this annual report and, where applicable, the Company's prior announcements published on the websites of the Stock Exchange and the Company.

Management Discussion and Analysis

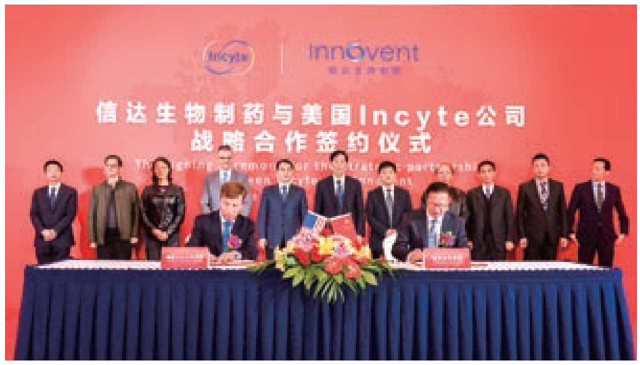
Overview

Our mission is to create a world-class China-based biopharmaceutical company that develops and commercialises high quality drugs that are affordable to ordinary people. We were founded in 2011 by Dr. De-Chao Michael Yu, a highly accomplished scientist, innovator and entrepreneur. We are committed to innovation in drug development and have complied with global quality standards for every aspect of the Company's business and operations.

To capitalise on the tremendous market opportunity both in China and beyond, we have developed a fully-integrated platform consisting of advanced research, discovery, development, manufacturing and commercialisation capabilities. These capabilities have enabled the Group to build a robust pipeline of innovative and commercially promising monoclonal antibodies and other drug assets in the fields of oncology, ophthalmology, and autoimmune and metabolic diseases. The full integration of our platform enables smooth collaboration between different functional groups at key points in the lifecycle of a drug candidate with the aim of increasing both the speed of development and the likelihood of success while at the same time reducing the cost of development.

Pipeline

Using our platform and through collaborations with global strategic partners, we have built a pipeline of 20 drug assets over the last 7.5 years, led by IBI-308 (trade name: Tyvyt®; generic name: sintilimab), our anti-PD-1 monoclonal antibody co-developed with Eli Lilly, which has received marketing approval in China from the NMPA for r/r cHL and has commenced sales; and three biosimilar candidates that are in late-stage clinical development in China, including IBI-305 (bevacizumab biosimilar), IBI-301 (rituximab biosimilar) and IBI-303 (adalimumab biosimilar).



Out of our pipeline of 20 drug assets, two, IBI-305 (bevacizumab biosimilar) and IBI-303 (adalimumab biosimilar), are under NDA review by the NMPA; one, IBI-301 (rituximab biosimilar), has completed phase III clinical trial enrollment; one, IBI-306 (novel anti-PCSK9), has completed phase I single dose escalation; three, IBI-310 (anti-CTLA4), IBI-101 (novel anti-OX40) and IBI-188 (novel anti-CD47), have initiated phase I enrollment in China; three, IBI-101 (novel anti-OX40), IBI-188 (novel anti-CD47) and IBI-318 (novel anti-PD-1/ undisclosed target bispecific), have received IND approval in China; one, IBI-307 (anti-RANKL), is initiating phase I clinical trials; three, IBI-110 (novel anti-LAG-3), IBI-315 (novel anti-HER2/anti-PD-1 bispecific), and IBI-322 (novel anti-CD47/anti-PD-L1 bispecific), have completed GLP toxicology studies and are under preparation for IND submission in China; and three, IBI-375 (pemigatinib FGFR1/2/3 inhibitor), IBI-376 (parsaclisib PI3Kδ inhibitor) and IBI-377 (itacitinib JAK1 inhibitor), were in-licensed from Incyte and are under preparation for IND submission in China.

Management Discussion and Analysis

The following chart summarises the China development status of our pipeline drug assets as of the date of this annual report:

	Candidate/ Reference Drug	Target(s)	Therapeutic Area: Disease Indications	Commercial Rights	Status (China)	
Lilly	sintilimab (IBI-308)	PD-1	Oncology: r/r Hodgkin's lymphoma, 1L and 2L melanoma, refractory gastrointestinal cancers, 2L NSCLC, 2L esophageal cancer, 1L and 2L squamous NSCLC, 1L non-squamous NSCLC, r/r NK/T-cell lymphoma, 2L ESCC, 1L gastric cancer, solid tumors, and esophageal carcinoma	Worldwide[1]	NDA approved Dec 24, 2018	★
	IBI-303 (adalimumab biosimilar)	TNF-alpha	Autoimmune: rheumatoid arthritis, juvenile idiopathic arthritis, psoriatic arthritis, ankylosing spondylitis, Crohn's disease, ulcerative colitis and psoriasis	Worldwide	NDA filed in Nov 2018	★
	IBI-305 (bevacizumab biosimilar)	VEGF-A	Oncology: r/r NSCLC and metastatic CRC	Worldwide	NDA filed in Jan 2019	★
Lilly	IBI-301 (rituximab biosimilar)	CD20	Oncology: non-Hodgkin's lymphoma, chronic lymphocytic leukemia, rheumatoid arthritis	Worldwide[1]	NDA to be filed in Q4 2019	
Incyte	IBI-377 (Itacitinib)	JAK1	Graft versus host disease (phase 3 in the US)	Mainland China, HK, Taiwan		
Incyte	IBI-376 (Parsaclisib)	PI3Kδ	NHL (phase 2 in the US)	Mainland China, HK, Taiwan		
Incyte	IBI-375 (Pemigatinib)	FGFR1/2/3	Cholangiocarcizoma, urothelial cancer (phase 2 in the US)	Mainland China, HK, Taiwan		
	IBI-306	PCSK9	Metabolic: homozygous familial hyperlipidemia; statin intolerant high CV risk patients	Mainland China, HK, Taiwan	IND approved: Sep 2017	
	IBI-310	CTLA-4	Oncology: melanoma and renal cell carcinoma	Worldwide	IND approved: Feb 2018	
	IBI-101	OX40	Oncology: advanced solid tumors, hepatitis B	Worldwide	IND approved: Jun 2018	★
	IBI-188	CD47	Oncology: B-cell lymphoma, ovarian cancer, colorectal cancer	Worldwide	IND approved: Aug 2018	★
Lilly	IBI-318	PD-1/ undisclosed target	Oncology: advanced tumors (undisclosed target)	Mainland China, HK, Macau[2]	IND approved: Feb 2019	★
	IBI-302	VEGF/Complement proteins	Ophthalmology: wet AMD	Worldwide	IND approved: Dec 2016	
	IBI-307	RANKL	Metabolic: osteoporosis and lytic bone lesions associated with cancer metastasis	Worldwide	IND approved: Jun 2018	
	IBI-110	LAG-3	Oncology: NSCLC, melanoma, mBrCA, advanced tumors	Worldwide		
	IBI-939	TIGIT	Oncology: advanced solid tumors	Worldwide		
Lilly	IBI-319	PD-1/ undisclosed target	Oncology: advanced tumors (undisclosed target)	Mainland China, HK, Macau[2]		
	IBI-322	PD-L1/CD47	Oncology: PDL1/CD47 coexpressing tumors, M1 macrophage signature tumors	Worldwide		
Hanmi	IBI-315	PD-1/HER2	Oncology: Her2 + cancers, mBrCA, gastric cancer, NSCLC	Worldwide		
	IBI-323	LAG-3/PD-L1	Oncology: PDL1+ tumors with "hot tumor" phenotype	Worldwide		

Status (China) stages: IND: Pre-clinical (Filed) (Accepted); Phase 1; Phase 2; Phase 3; NDA; Launched

★ Clinical advancement since IPO

Biologics — Small molecules — Clinical progress in the U.S.

As of 13 March 2019

Abbreviations: 1L = first-line; 2L = second-line; AMD = age-related macular degeneration; CV = cardiovascular; ESCC = esophageal squamous cell carcinomas; mBrCA = mutated breast cancer; NHL = non-Hodgkin's lymphoma; NK= natural killer; NSCLC = non-small cell lung cancer; r/r = relapsed, refractory.

(1) We and Eli Lilly will co-promote sintilimab (IBI-308) and rituximab (IBI-301) in Mainland China, Hong Kong and Macau.

(2) Eli Lilly may opt in to co-commercialise IBI-318 and IBI-319 with us in Mainland China, Hong Kong and Macau.

In addition to developing our pipeline drug assets in China, we have obtained IND approvals from the U.S.. Aside from the three drug candidates which were in-licensed from Incyte and are currently under clinical development outside of China by Incyte, we have initiated patient enrollment in the U.S. for a multi-center phase Ib/II clinical trial for Tyvyt® (sintilimab) and a phase Ia clinical trial for IBI-188 (novel anti-CD47). We have also obtained the IND approval from the U.S. FDA for IBI-101 (novel anti-OX40) and can proceed with clinical development in the U.S. accordingly.

Management Discussion and Analysis

Business Review

1. Events during the Reporting Period

The Company was successfully listed on the Stock Exchange on the Listing Date. Since then, the Group has delivered on its Pre IPO forecast by making significant progress with respect to its drug pipeline and business operations.

On 13 November 2018, the NDA for IBI-303 (adalimumab biosimilar) was accepted by the NMPA. IBI-303 is a recombinant human anti-TNF-monoclonal antibody solely developed by us for the treatment of ankylosing spondylitis, rheumatoid arthritis and psoriasis, and other autoimmune disorders. On the same day, we also released safety data updates for IBI-303. For further details, please refer to the Company's announcement dated 13 November 2018.

In November 2018, we entered into a global collaboration agreement with Chi-Med, through its innovation platform subsidiary, Hutchison MediPharma, to evaluate the safety and tolerability of our Tyvyt® (sintilimab) in combination with Hutchison MediPharma' s fruquintinib in patients with advanced solid tumors. Under the terms of the agreement, the parties will jointly explore and develop potential applications of such combination in solid tumors both in the U.S. and China to meet global unmet medical needs. For further details, please refer to the Company's announcement dated 29 November 2018.

Management Discussion and Analysis

On 10 December 2018, three grants were awarded from the "the National Major New Drugs Innovation and Development Projects" (國家重大新藥創製專項) approved by the Office of Key New Drug Innovation of the National Health and Family Planning Commission of the People's Republic of China (國家衛生計生委重大新藥創製科技重大專項實施管理辦公室), respectively for the development of our IBI-301 (rituximab biosimilar), IBI-303 (adalimumab biosimilar) and IBI-305 (bevacizumab biosimilar). Our Tyvyt® (sintilimab) and IBI-301 received such grants both in 2014. Our total number of drug and drug candidates that received such prestigious grants is four, among which our IBI-301 received such grants twice at different stages.

On 13 December 2018, we reported IBI-305 (bevacizumab biosimilar) has met pre-defined primary endpoints in two randomised, head-to-head clinical trials comparing IBI-305 to branded bevacizumab: a phase III clinical trial in patients with advanced non-squamous non-small cell lung cancer and a pharmacokinetic study in healthy subjects. IBI-305 is a recombinant humanised anti-VEGF monoclonal antibody and a biosimilar product candidate for Avastin (bevacizumab). For further details, please refer to the Company's announcement dated 13 December 2018.

On 16 December 2018, Incyte and us entered into a collaboration and license agreement. Pursuant to the agreement, Incyte has granted to us a license in China, Hong Kong, Macau and Taiwan in graft-versus-host disease, hematology and oncology fields to develop and commercialise three clinical-stage product candidates developed by Incyte, namely pemigatinib (FGFR1/2/3 inhibitor), itacitinib (JAK1 inhibitor) and parsaclisib (PI3Kδ inhibitor). Incyte is in return entitled to receive an upfront license fee of US$40 million and subsequent milestone and royalty payments. For further details, please refer to the Company's announcement dated 17 December 2018.

On 24 December 2018, Tyvyt® (sintilimab), a fully human PD-1 monoclonal antibody, was granted marketing approval by the NMPA for the treatment of patients with r/r cHL after two or more lines of systemic chemotherapy. For further details, please refer to the Company's announcement dated 27 December 2018.

On 29 December 2018, our manufacturing facilities received GMP certification from the NMPA for manufacturing our Tyvyt® (sintilimab).

Management Discussion and Analysis

2. Events after the Reporting Period

On 2 January 2019, the first patient was dosed in a phase III clinical trial (ORIENT-15) that is to evaluate Tyvyt® (sintilimab), in combination with paclitaxel and cisplatin, as first-line treatment in patients with advanced, recurrent or metastatic esophageal squamous cell carcinoma. For further details, please refer to the Company's press release dated 2 January 2019.

On 1 January 2019, the clinical results of Tyvyt® (sintilimab) in patients with r/r cHL (ORIENT-1 study) were published as the cover article in *The Lancet Haematology*. For further details, please refer to the Company's press release dated 5 January 2019.

On 14 January 2019, the first patient was successfully dosed in a phase I clinical trial of IBI-188, an anti-CD47 monoclonal antibody, for patients with advanced malignant tumors. For further details, please refer to the Company's announcement dated 14 January 2019.

On 17 January 2019, the first patient was dosed in a phase III clinical trial (ORIENT-16) that is to evaluate Tyvyt® (sintilimab), in combination with capecitabine and oxaliplatin, as first-line treatment for patients with advanced, recurrent or metastatic gastric or gastroesophageal junction adenocarcinoma. For further details, please refer to the Company's press release dated 17 January 2019.

On 29 January 2019, the NMPA accepted the NDA for IBI-305 (bevacizumab biosimilar). For further details, please refer to the Company's announcement dated 29 January 2019.

In February 2019, IBI-318, a recombinant fully human bispecific antibody targeting PD-1 and an undisclosed target for a tumor-associated antigen, has been approved by the NMPA to initiate clinical trials in patients with hematological and advanced solid tumors. For further details, please refer to the Company's announcement dated 7 February 2019.

On 13 February 2019, the first patient was dosed in a phase I clinical trial of IBI-101, a recombinant fully human anti-OX40 monoclonal antibody. For further details, please refer to the Company's announcement dated 13 February 2019.

In February 2019, we entered into a collaboration agreement with Shenzhen Chipscreen Biosciences Co., Ltd. ("Chipscreen Biosciences"), one of the leading enterprises of small molecule innovative drugs in China, to evaluate the safety and tolerability of the combination therapy of Tyvyt® (sintilimab) and IBI-305 (bevacizumab biosimilar) with Chipscreen Biosciences' Chidamide, a benzamide-based selective inhibitor of class I (subtypes 1, 2, 3) and IIb (subtype 10) histone deacetylases (HDACs), in patients with advanced colorectal cancer. For further details, please refer to the Company's announcement dated 18 February 2019.

On 22 February 2019, we held a forum in Beijing for launch of commercialisation of our Tyvyt® (sintilimab). For further details, please refer to the Company's press release dated 22 February 2019.

On 28 February 2019, the first patient was dosed in a phase II/III clinical trial (ORIENT-32) that is to evaluate Tyvyt® (sintilimab), in combination with IBI-305 (bevacizumab biosimilar), as first-line treatment for patients with advanced hepatocarcinoma. For further details, please refer to the Company's announcement dated 28 February 2019.

Management Discussion and Analysis

As of the date of this annual report, we have completed construction of our second stage production facilities and have completed installation of six 3,000L stainless steel bioreactors. These facilities are currently in validation phase. This expansion increased our total production capacity to 21,000L, and will provide us additional capacity to support commercial production as well as clinical trials. These facilities are scheduled to go into operation in the second half of 2019 and we expect them to provide us with sufficient manufacturing capacity to support our growth.

3. Future Development

The Group will continue the quest to build a world-class China-based biopharmaceutical company that develops and commercialises high quality drugs that are affordable to ordinary people. To accomplish this mission, we will strive to achieve successful commercialisation of our Tyvyt® (sintilimab) and, upon requisite approval of our NDAs under review, also our IBI-305 (bevacizumab biosimilar) and IBI-303 (adalimumab biosimilar), to the benefit of both our shareholders and Chinese patients in need. In the meantime, we will continue to rapidly advance both ongoing and planned clinical programs for our pipeline products both in China and in the U.S. and will seek both expedited regulatory review of our upcoming NDAs and ultimately marketing approvals. Among other things, we expect to submit the NDA for IBI-301 (rituximab biosimilar) to the NMPA in the fourth quarter of 2019. We will also strengthen our fully-integrated platform, with a deliberate focus on the expansion of our manufacturing and commercialisation capabilities, in order to suit and support the continued growth, maturation and fruition of our pipeline. Among other things, we expect that the validation of our second stage production facilities including the six 3,000L stainless steel bioreactors will be completed later this year.

Cautionary Statement required under Rule 18A.08(3) of the Listing Rules: We may not be able to ultimately develop and market our Core Product successfully.

Management Discussion and Analysis

Financial Review

Year Ended 31 December, 2018 Compared to Year Ended 31 December, 2017

Non-IFRS Measure

To supplement the Group's consolidated financial statements, which are presented in accordance with the IFRS, the Company also uses adjusted loss and total comprehensive expenses for the year and other adjusted figures as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that these adjusted measures provide useful information to shareholders and potential investors in understanding and evaluating the Group's consolidated results of operations in the same manner as they help the Company's management.

Adjusted loss and total comprehensive expenses for the year represents the loss and total comprehensive expenses for the year excluding the effect of certain non-cash items and one-time events, namely the loss on fair value changes of preferred shares (other financial liabilities measured at fair value through profit or loss) and share-based compensation expenses. The term adjusted loss and total comprehensive expenses for the year is not defined under the IFRS. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Group's results of operations or financial condition as reported under IFRS. The Company's presentation of such adjusted figure may not be comparable to a similarly titled measure presented by other companies. However, the Company believes that this and other non-IFRS measures are reflections of the Group's normal operating results by eliminating potential impacts of items that the management do not consider to be indicative of the Group's operating performance, and thus facilitate comparisons of operating performance from period to period and company to company to the extent applicable.

The table below sets forth a reconciliation of the loss and total comprehensive expenses for the year to adjusted loss and total comprehensive expenses for the year during the periods indicated:

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss and total comprehensive expenses for the year	**(5,872,982)**	(716,050)
Added:		
Loss on changes in fair value of preferred shares	**4,338,044**	51,013
Share-based compensation expenses	**53,244**	29,295
Adjusted loss and total comprehensive expenses for the year	**(1,481,694)**	(635,742)

Management Discussion and Analysis

IFRS Results

	Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**9,477**	18,538
Other income	**93,795**	64,406
Other gains and losses	**(4,272,090)**	(42,079)
Research and development expenses	**(1,221,687)**	(611,922)
Administrative expenses	**(220,315)**	(79,490)
Selling, marketing and business development expenses	**(136,006)**	(8,278)
Listing expenses	**(57,187)**	–
Finance costs	**(68,969)**	(57,225)
Loss and total comprehensive expenses for the year	**(5,872,982)**	(716,050)
Non-IFRS measure:		
Adjusted loss and total comprehensive expenses for the year	**(1,481,694)**	(635,742)

1. Overview

For the year ended 31 December 2018, the Group recorded revenue and other income of RMB103.3 million, as compared with RMB82.9 million for the year ended 31 December 2017, and the loss and total comprehensive expenses of RMB5,873.0 million, as compared with RMB716.1 million for the year ended 31 December 2017. The adjusted loss and total comprehensive expenses of the Group was RMB1,481.7 million for the year ended 31 December 2018, representing an increase of RMB846.0 million from RMB635.7 million for the year ended 31 December 2017, primarily due to the increase in the research and development expenses and the selling, marketing and business development expenses. The research and development expenses of the Group was RMB1,221.7 million for the year ended 31 December 2018, as compared with RMB611.9 million for the year ended 31 December 2017.

The administrative expenses was RMB220.3 million for the year ended 31 December 2018 as compared with RMB79.5 million for the year ended 31 December 2017. The selling, marketing and business development expenses was RMB136.0 million for the year ended 31 December 2018 as compared with RMB8.3 million for the year ended 31 December 2017.

2. Revenue

For the year ended 31 December 2018, we generated revenue of RMB9.5 million from the research and development services provided by the Group to its customers. Our research and development revenue was recognised in accordance with the completion percentage of our services each year. Our revenue in 2018 decreased by RMB9.0 million, or 49%, from RMB18.5 million in 2017, which included an one-off license fee of RMB10.0 million we recorded in the first half of 2017.

Management Discussion and Analysis

3. Other Income

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

For the year ended 31 December 2018, the other income of the Group increased by RMB29.4 million, or 46%, to RMB93.8 million, from RMB64.4 million for the year ended 31 December 2017. The increase was primarily due to the interest earned on the proceeds of our series E financing and our initial public offering on the Stock Exchange ("IPO") and the increase in the government grant attributable to more research and development activities of us that are eligible for government subsidies.

4. Other Gains and Losses

The Group's other gains and losses consist of unrealised gains and losses related to (i) fair value changes of wealth management plans (financial assets mandatorily measured at fair value through profit or loss), (ii) fair value changes of preferred shares (other financial liabilities measured at fair value through profit or loss), (iii) changes in foreign currency exchange rates, and (iv) disposal of long-term assets.

For the year ended 31 December 2018, the other gains and losses of the Group increased by RMB4,230.0 million to a loss of RMB4,272.1 million from a loss of RMB42.1 million for the year ended 31 December 2017.

Fair Value Changes of Preferred Shares

The Group's other gains and losses for the year ended 31 December 2018 were primarily comprised of RMB4,338.0 million of loss on the fair value changes of preferred shares, representing an increase of RMB4,287.0 million from the year ended 31 December 2017. Such loss on the fair value changes of preferred shares was a non-cash and non-recurring accounting adjustment recognised as of the Listing Date, as the fair value of the preferred shares was deemed to be increased upon the completion of the IPO of the Company. As all of the Company's preferred shares were converted to ordinary shares upon the Listing Date, the Group will not incur any additional losses related to the fair value changes of preferred shares in 2019.

5. Research and Development Expenses

The Group's research and development expenses, including on the Group's four core drug candidates (i.e. Tyvyt® (sintilimab), IBI-305 (bevacizumab biosimilar), IBI-301 (rituximab biosimilar) and IBI-303 (adalimumab biosimilar), collectively "**Core Product**", which were identified during the IPO process), primarily consist of:

- third-party contracting costs incurred under agreements with consultants, contract research organisations, and clinical trial sites that conduct research and development activities on the Group's behalf;
- costs associated with purchasing raw materials for research and development of the Group's drug candidates;
- employee salaries and related benefit costs, including share-based compensation expenses, for research and development personnel;
- payment of license fees pursuant to collaboration agreements and/or license agreements; and
- expenses associated with inspection and maintenance of facilities, depreciation and amortisation expenses, travel expenses, insurance, utilities and other supplies used in research and development activities.

Management Discussion and Analysis

The following table sets forth the components of the Group's research and development expenses for the period indicated:

	Year Ended 31 December		Changes	
	2018	2017		
	RMB'000	RMB'000	RMB'000	%
Third-party Contracting Costs	**406,668**	215,479	191,189	89
Raw material	**228,038**	168,934	59,104	35
Staff Costs	**154,254**	84,495	69,759	83
Depreciation and Amortisation	**60,326**	59,723	603	1
License Fee	**292,727**	40,731	251,996	619
Other	**79,674**	42,560	37,114	87
Total research and development expenses	**1,221,687**	611,922	609,765	100

For the year ended 31 December 2018, the research and development expenses of the Group increased by RMB609.8 million, or 100%, to RMB1,221.7 million from RMB611.9 million for the year ended 31 December 2017. The increase was primarily attributable to (i) the increased expenses incurred for additional clinical trials and R&D activities as more drug candidates transitioned into clinical trial stage, and (ii) the upfront license fee payment of RMB271 million incurred under our collaboration and license agreement with Incyte.

6. Administrative Expenses

For the year ended 31 December 2018, the administrative expense of the Group increased by RMB140.8 million, or 177%, to RMB220.3 million from RMB79.5 million for the year ended 31 December 2017. The increase was primarily attributable to the investment in the infrastructure to support the Group's business expansion, such as increasing the supporting staff.

7. Selling, Marketing and Business Development Expenses

Selling, marketing and business development expenses of the Group consisted of salaries and other expenses such as benefits, travel and share-based compensation expenses for selling, marketing and business development personnel and the expenses of marketing and promotion activities.

For the year ended 31 December 2018, the selling, marketing and business development expenses of the Group increased by RMB127.7 million to RMB136.0 million from RMB8.3 million for the year ended 31 December 2017. The increase was primarily due to the significant expansion of the selling and marketing capacity and the launch of more marketing activities in preparation for the commercialisation of Tyvyt® (sintilimab) in 2019.

8. Listing Expenses

For the year ended 31 December 2018, the Group recognised one-off listing expenses of RMB57.2 million incurred in connection with the initial public offering and listing of the Company's shares on the Stock Exchange on 31 October 2018.

Management Discussion and Analysis

9. Finance Costs

Finance costs include interest on the Group's bank borrowings and interest arising from a contract containing a significant financing component.

For the year ended 31 December 2018, the finance costs of the Group increased by RMB11.8 million, or 21%, to RMB69.0 million from RMB57.2 million for the year ended 31 December 2017. This increase was primarily due to the increase in the average balance of the payments that we have received in advance from Eli Lilly in connection with the commercialisation license so far pursuant to the Exclusive License and Collaboration Agreement for China and Co-Development Agreement entered into between us and Eli Lilly in March 2015 ("Lilly China Agreement"), which governs the development and commercialisation activities concerning Tyvyt® (sintilimab) and IBI-301 (rituximab biosimilar). In accordance with IFRS, revenue from the Lilly China Agreement will commence to be recognised over time once the customers receive and consume the benefits during the commercialisation stage. During the year ended 31 December 2018, the Group received collaboration fee on development cost sharing of approximately RMB74.2 million, as compared to RMB24.3 million for the year ended 31 December 2017. Since the period between the transfer of license and customer's payments was, at contract inception, expected to be more than one year, the Group concluded that the contract contains a significant financing component and determined to use a return rate of 11% in adjusting for the effect of time value of money over the promised amount of consideration, and the interest expenses so recognised during the year ended 31 December 2018 was RMB43.9 million, and was RMB32.3 million during the year ended 31 December 2017. Both consideration received and interest expenses recognised are recorded under contract liabilities at the end of each reporting period.

10. Income Tax Expense

For the years ended 31 December 2018 and 2017, the Group did not incur any income tax expense as the Group did not generate taxable income in both years.

11. Loss for the Year

As a result of the above factors, the loss of the Company increased by RMB5,156.9 million to RMB5,873.0 million for the year ended 31 December 2018 from RMB716.1 million for the year ended 31 December 2017.

Selected Balance Sheet Data

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total current assets	**4,686,261**	1,445,755
Total non-current assets	**1,426,316**	1,011,461
Total assets	**6,112,577**	2,457,216
Total current liabilities	**670,321**	163,276
Total non-current liabilities	**1,247,842**	3,916,068
Total liabilities	**1,918,163**	4,079,344
Net current assets	**4,015,940**	1,282,479

Management Discussion and Analysis

12. Liquidity and Source of Funding and Borrowing

As at 31 December 2018, the Group's cash and cash equivalents increased to RMB4,524.8 million from RMB183.8 million as at 31 December 2017. The increase primarily resulted from the proceeds of the Group's series E equity financing and the initial public offering.

As at 31 December 2018, the current assets of the Group were RMB4,686.3 million, including bank balances and cash of RMB4,525.4 million and other current assets of RMB160.9 million. As at 31 December 2018, the current liabilities of the Group were RMB670.3 million, including trade payables of RMB42.8 million, contract liabilities of RMB17.0 million, other payables and accrued expenses of RMB600.5 million and borrowings of RMB10.0 million. As at 31 December 2018, the Group has available unutilised short-term bank loan facilities of approximately RMB128 million, as compared to RMB15 million as at 31 December 2017.

13. Key Financial Ratios

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

	As at 31 December	
	2018	2017
Current ratio(1)	**7.0**	8.9
Quick ratio(2)	**6.9**	8.5
Gearing ratio(3)	**NM(4)**	NM(5)

Notes:

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

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

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

(4) Gearing ratio is not meaningful as our interest-bearing borrowings less cash equivalents was negative as of 31 December 2018.

(5) Gearing ratio is not meaningful as our total equity was negative (deficiency of total equity) as of 31 December 2017.

Management Discussion and Analysis

14. Material Investments

The Group did not make any material investments during the year ended 31 December 2018.

15. Material Acquisitions and Disposals

The Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies for the year ended 31 December 2018.

16. Pledge of Assets

As at 31 December 2018, the Group had total RMB611.7 million of property, plant and equipment, RMB54.1 million of land use rights and RMB0.5 million of bank deposits pledged to secure its loans and banking facilities.

17. Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities.

18. Foreign Exchange Exposure

During the year ended 31 December 2018, the Group mainly operated in China and a majority of its transactions were settled in Renminbi, the functional currency of the Company's primary subsidiaries. As at 31 December 2018, a significant amount of the Group's bank balances and cash was denominated in U.S. dollars. Except for certain bank balances and cash, other receivables, trade and other payables, and other financial liabilities denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations as at 31 December 2018.

19. Employees and Remuneration

As at 31 December 2018, the Group had a total of 959 employees. The following table sets forth the total number of employees by function as of 31 December 2018:

Function	Number of employees	% of total
Research and Development	342	35.7
Manufacturing	271	28.3
Selling and Marketing	262	27.3
General and Administrative	84	8.7
Total	959	100.0

The total remuneration cost incurred by the Group for the year ended 31 December 2018 was RMB371.2 million, as compared to RMB135.8 million for the year ended 31 December 2017.

The remuneration of the employees of the Group comprises salaries, bonuses, employees provident fund and social security contributions, other welfare payments and share-based payment expenses. In accordance with applicable Chinese laws, the Group has made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for the Group's employees.

The Company also has adopted a Pre-IPO Share Incentive Plan, a post-IPO share option scheme and the Innovent Biologics, Inc. 2018 Restricted Share Plan. Please refer to the section headed "Equity Plans" in this report for further details.

Report of Directors

The Board of the Company is pleased to present this report of Directors together with the consolidated financial statements of the Group for the year ended 31 December 2018.

Directors

The Directors who held office during the year ended 31 December 2018 and up to the date of this annual report are:

Executive Directors:

Dr. De-Chao Michael Yu *(Chairman of the Board and Chief Executive Officer)*
Mr. Ronald Hao Xi Ede

Non-Executive Director:

Mr. Shuyun Chen

Independent Non-Executive Directors:

Dr. Charles Leland Cooney
Ms. Joyce I-Yin Hsu
Dr. Kaixian Chen

The name of the Directors resigned during the year ended 31 December 2018 is set out in Note 10 to the consolidated financial statements.

Biographical details of the current Directors are set out in the section headed "Directors and Senior Management" on pages 39 to 43 of this annual report.

General Information

The Company was incorporated in the Cayman Islands on 28 April 2011 as an exempted limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as amended or supplemented from time to time) of the Cayman Islands. The Company's Shares were listed on the Main Board of the Stock Exchange on 31 October 2018.

Principal Activities

The Company's mission is to create a world-class China-based biopharmaceutical company that develops and commercialises high quality drugs that are affordable to ordinary people. The Group was founded in 2011 by Dr. De-Chao Michael Yu, a highly accomplished scientist, innovator and entrepreneur. The Company is committed to innovation in drug development and have complied with global quality standards for every aspect of the Company's business and operations.

To capitalise on the tremendous market opportunity both in China and beyond, the Group has developed a fully-integrated platform consisting of advanced research, discovery, development, manufacturing and commercialisation capabilities. These capabilities have enabled the Group to build a robust pipeline of innovative and commercially promising monoclonal antibodies and other drug assets in the fields of oncology, ophthalmology, and autoimmune and metabolic diseases. The full integration of our platform enables smooth collaboration between different functional groups at key points in the lifecycle of a drug candidate with the aim of increasing both the speed of development and the likelihood of success while at the same time reducing the cost of development.

Results

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this annual report.

Report of Directors

Business Review

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. These discussions form part of this report. Events affecting the Company that have occurred since the end of the financial year is set out in the section headed "Important Events After the Reporting Period" in this report. An account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the "Environmental, Social and Governance Report" to be published within 3 months from the publication of this annual report.

Principal Risks and Uncertainties

The following list is a summary of certain principal risks and uncertainties faced by the Group, some of which are beyond its control:

- its financial position;
- its ability to obtain additional financing to fund its operations;
- its ability to development and commercialise its drug candidates, all of which are in pre-clinical or clinical development, except sintilimab with its approval indication;
- its ability to identify additional drug candidates;
- its success in demonstrating safety and efficacy of its drug candidates to the satisfaction of regulatory authorities or produce positive results in its clinical trials;
- material aspects of the research, development and commercialisation of pharmaceutical products being heavily regulated;
- lengthy, time-consuming and inherently unpredictable regulatory approval processes of the regulatory authorities for its drug candidates;
- competition in the pharmaceutical industry where the Group serves; and
- its ability to obtain and maintain patent protection for its drug candidate.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

Environmental Policies and Performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth.

Compliance with the Relevant Laws and Regulations

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 December 2018, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

Report of Directors

Employee and Remuneration Policies

As at 31 December 2018, the Group had 959 (2017: 415) employees. The following table sets forth the total number of employees by function as of 31 December 2018:

Function	Number of employees	% of total
Research and Development	**342**	**35.7**
Manufacturing	**271**	**28.3**
Selling and Marketing	**262**	**27.3**
General and Administration	**84**	**8.7**
Total	**959**	**100.0**

The Group believes in the importance of attraction, recruitment and retention of quality employees in achieving the Group's success. Our success depends on our ability to attract, retain and motivate qualified personnel. The number of employees employed by the Group varies from time to time depending on need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experience and performance. The remuneration policy and package of the Group's employees are periodically reviewed.

The remuneration of the employees of the Group comprises salaries, bonuses, employees provident fund and social security contributions, other welfare payments and share-based payment expenses. In accordance with applicable Chinese laws, the Group has made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for the Group's employees.

The Company also has adopted the Pre-IPO Share Incentive Plan, the Post-IPO ESOP and the RS Plan to provide incentives for the Group's employees. Please refer to the section headed "Equity Plans" in this report for further details.

The total remuneration cost incurred by the Group for the year ended 31 December 2018 was RMB371.2 million, as compared to RMB135.8 million for the year ended 31 December 2017.

During the year ended 31 December 2018, the Group did not experience any significant labour disputes or any difficulty in recruiting employees.

Report of Directors

Major Customers and Suppliers

Major Customers

During the year ended 31 December 2017, the Group derived all of its revenues from the license granted to and research and development services provided to a China-based biopharmaceutical company. During the year ended 31 December 2017, the Group entered into agreements with this customer for licensing of patented technology and provision of manufacturing and validation services to this customer with respect to an early-stage drug candidate that we have discontinued to develop as a pipeline product candidate, and the Group generated revenues from such activities. This drug candidate we licensed to this customer was an anti-vascular endothelial growth factor, fusion protein and was developed to treat age-related macular degeneration and tumor. For the year ended 31 December 2018, revenue from this largest customer accounted for 96.8% (2017: 100%) of the Group's total revenue and the Group had other customer revenue from which accounted for the remaining 3.2% of the Group's total revenue.

None of the Directors, their respective close associates, or any shareholder of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued capital, has any interest in any of the Group's two largest customers.

Major Suppliers

Our major suppliers include (i) third-party developers of human antibody discovery platforms; (ii) industry-leading, highly reputable drug equipment manufacturers and suppliers around the world; (iii) several reputable third-party suppliers of cell culture media; and (iv) contract research organisations and consultants that manage, conduct and support our clinical trials and pre-clinical studies in China and in the U.S. For the year ended 31 December 2018, purchases from the Group's five largest suppliers accounted for approximately 32.9% (2017: 39.2%) of the Group's total purchase amount in the same year. The Group's largest supplier for the year ended 31 December 2018 accounted for approximately 18.8% (2017: 13.1%) of the Group's total purchase amount for the same year.

None of the Directors, their respective close associates, or any shareholder of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued capital, has any interest in any of the Group's five largest suppliers.

During the year ended 31 December 2018, the Group did not experience any significant disputes with its customers or suppliers.

Financial Summary

A summary of the audited consolidated results and the assets and liabilities of the Group for the last three financial years, as extracted from the audited consolidated financial statements, is set out on page 133 of this annual report. This summary does not form part of the audited consolidated financial statements.

Report of Directors

Pre-emptive Rights

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

Tax Relief and Exemption

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

Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 16 to the consolidated financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2018 are set out in Note 14 to the consolidated financial statements.

Share Capital and Shares Issued

Details of movements in the share capital of the Company for the year ended 31 December 2018 and details of the Shares issued during the year ended 31 December 2018 are set out in Note 28 to the consolidated financial statements.

Donation

During the year ended 31 December 2018, the Group made charitable donations of approximately RMB20.2 million (2017: approximately nil).

Debenture Issued

The Group did not issue any debenture during the year ended 31 December 2018.

Equity-linked Agreements

Save for the Pre-IPO Share Incentive Plan, the Post-IPO ESOP and the RS Plan as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2018.

Dividends

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

Permitted Indemnity

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended 31 December 2018. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

Distributable Reserves

The Company may pay dividends out of the share premium account, retained earnings and any other reserves provided that immediately following the payment of such dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at 31 December 2018, the Company had distributable reserves for share premium of RMB11,751,242,000 (2017: RMB54,208,000).

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on pages 62 to 63 and in Note 37 to the consolidated financial statements, respectively.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 25 to the consolidated financial statements.

Report of Directors

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from the date of their service contracts or until the third annual general meeting of the Company since the Listing Date (whichever is sooner).

The non-executive Director has signed a letter of appointment with the Company for an initial term of three years with effect from the date of his letter of appointment or until the third annual general meeting of the Company since the Listing Date (whichever is sooner).

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years with effect from the date of the Prospectus until the third annual general meeting of the Company the Listing Date (whichever is sooner).

The above appointments are always subject to the provisions of retirement and rotation of directors under the Articles of Association.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the Note 33 to the consolidated financial statements, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2018.

Contracts with Controlling Shareholders

The Company has no Controlling Shareholders during the year ended 31 December 2018.

Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2018.

Report of Directors

Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

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

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding interest[1]
Dr. De-Chao Michael Yu	Beneficial owner	45,628,190[2](L)	3.96%
	Grantor of a trust	10,000,000[3](L)	0.87%
	Interest in a controlled corporation	90,100,040[4](L)	7.81%
Dr. Charles Leland Cooney	Beneficial owner	39,090[5](L)	0.00%
Mr. Ronald Hao Xi Ede	Beneficial owner	9,539,040[6](L)	0.83%

Notes:

1. The calculation is based on the total number of 1,153,602,710 Shares in issue as at 31 December 2018.
2. These Shares are directly held by Dr. De-Chao Michael Yu.
3. These Shares are held by Gloria Bingqinzi Yu as trustee of Yu Tong Family Irrevocable Trust, of which Dr. De-Chao Michael Yu and his spouse are the grantors. Under the SFO, Dr. Yu is deemed to be interested in these Shares.
4. These Shares are held by Great Biono Fortune LP, the general partner of which is Great Biono Fortune Limited. Dr. Yu is the sole shareholder of Great Biono Fortune Limited and is therefore deemed to be interested in these Shares for the purposes of the SFO. Of the 90,100,040 Shares held by Great Biono Fortune LP, Dr. De-Chao Michael Yu is beneficially interested in 59,511,000 Shares.
5. These Shares are held by Dr. Charles Leland Cooney.
6. These Shares are held by Great Biono Fortune LP as nominee for Mr. Ronald Hao Xi Ede.
7. (L) – Long position.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations.

Report of Directors

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2018, so far as the Directors are aware, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding interest
Asia Ventures II L.P. ("Asia Ventures")(2)	Beneficial interest	78,122,780 (L)	6.77%
Asia Partners II L.P.(2)	Interest in a controlled corporation	78,122,780 (L)	6.77%
FIL Capital Management Ltd(2)	Interest in a controlled corporation	78,122,780 (L)	6.77%
FIL Limited(2)	Interest in a controlled corporation	173,351,060 (L)	15.03%
Pandanus Partners L.P.(2)	Interest in a controlled corporation	173,351,060 (L)	15.03%
Pandanus Associates Inc.(2)	Interest in a controlled corporation	175,351,060 (L)	15.03%
F-Prime Capital Partners Healthcare Fund II LP ("F-Prime Capital")(3)	Beneficial interest	78,122,780 (L)	6.77%
F-Prime Capital Partners Healthcare Advisors Fund II LP(3)	Interest in a controlled corporation	78,122,780 (L)	6.77%
Impresa Fund III Limited Partnership(3)	Interest in a controlled corporation	156,245,560 (L)	13.54%
Impresa Management LLC(3)	Interest in a controlled corporation	156,245,560 (L)	13.54%
Abigail P. Johnson(3)	Trustee	156,245,560(L)	13.54%
Edward C. Johnson IV(3)	Trustee	156,245,560(L)	13.54%
FMR LLC(3)	Interest in a controlled corporation	156,245,560 (L)	13.54%
The Capital Group Companies, Inc.(4)	Interest in a controlled corporation	78,277,090 (L)	6.79%
TLS BETA PTE. LTD. ("TLS Beta")(5)	Beneficial interest	64,482,850 (L)	5.59%
Temasek Life Sciences Private Limited(5)	Interest in a controlled corporation	75,712,850 (L)	6.56%
Fullerton Management Pte Ltd(5)	Interest in a controlled corporation	75,712,850 (L)	6.56%
Temasek Holdings (Private) Limited(5)	Interest in a controlled corporation	75,712,850 (L)	6.56%
Great Biono Fortune LP(6)	Nominee shareholder	90,100,040 (L)	7.81%
Great Biono Fortune Limited(6)	Interest in a controlled corporation	90,100,040 (L)	7.81%

Report of Directors

Notes:

1. The calculation is based on the total number of 1,153,602,710 Shares in issue as at 31 December 2018.

2. FIL Limited is deemed to be interested in the equity interests held by both Asia Ventures and F-Prime Capital, due to (i) its interests in Asia Ventures, as a limited partner and the fact that it is the sole shareholder of FIL Capital Management Ltd, the general partner of Asia Partners II L.P., which in turn is the general partner of Asia Ventures; and (ii) its interests in F-Prime Capital as a limited partner. FIL Limited is controlled (as defined under the SFO) by Pandanus Partners L.P., whose general partner is Pandanus Associates Inc.

   As such, under the SFO, FIL Capital Management Ltd is deemed to be interested in the 78,122,780 Shares held by Asia Ventures, and FIL Limited, Pandanus Partners L.P., and Pandanus Associates Inc. are deemed to be interested in the 156,245,560 Shares held by Asia Ventures and F-Prime Capital.

   In addition, FIL Limited, Pandanus Partners L.P., and Pandanus Associates Inc. are also deemed to be interested in the 17,105,500 Shares held by other entities under their control.

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

   As such, under the SFO, F-Prime Capital Partners Healthcare Advisors Fund II LP is deemed to be interested in the 78,122,780 Shares held by F-Prime Capital, and Impresa Fund III Limited Partnership, Impresa Management LLC, Abigail P. Johnson, Edward C. Johnson IV and FMR LLC are deemed to be interested in the 156,245,560 Shares held by Asia Ventures and F-Prime Capital.

4. The Capital Group Companies, Inc. is deemed to be interested in the 78,277,090 Shares held by a wholly-owned subsidiary, Capital Research and Management Company, which is deemed to be interested in the 78,277,090 Shares held by Capital Group International, Inc., a wholly-owned subsidiary of Capital Research and Management Company, which is in turn deemed to be interested in the 33,760,008 Shares held by Capital International, Inc., a wholly-owned subsidiary of Capital Group International, Inc..

5. TLS Beta is a wholly-owned subsidiary of Temasek Life Sciences Private Limited, which is in turn a wholly-owned subsidiary of Fullerton Management Pte Ltd, which is in turn a wholly-owned subsidiary of Temasek Holdings (Private) Limited. Under the SFO, Temasek Life Sciences Private Limited, Fullerton Management Pte Ltd and Temasek Holdings (Private) Limited are deemed to be interested in the 64,482,850 Shares held by TLS Beta.

   In addition, Temasek Life Sciences Private Limited, Fullerton Management Pte Ltd and Temasek Holdings (Private) Limited are also deemed to be interested in the 11,230,000 Shares held by other entities under their control.

6. The general partner of Great Biono Fortune LP is Great Biono Fortune Limited, which holds the interests of Great Biono Fortune LP as to 50% as its general partner. Dr. De-Chao Michael Yu is the sole shareholder of Great Biono Fortune Limited and a limited partner of Great Biono Fortune LP. Under the SFO, each of Great Biono Fortune Limited and Dr. Yu is deemed to be interested in the 90,100,040 Shares held by Great Biono Fortune LP. Of the 90,100,040 Shares held by Great Biono Fortune LP, Dr. Yu is beneficially interested in 59,511,000 Shares.

7. (L) – Long position.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors or chief executives of the Company whose interests are set out in the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or Any of its Associated Corporations” above had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

Report of Directors

Equity Plans

1. Pre-IPO Share Incentive Plan

The purpose of the Pre-IPO Share Incentive Plan is to promote the success of the Company and the interests of its shareholders by providing a means through which the Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of award recipients with those of the Company's shareholders generally.

Further details of the Pre-IPO Share Incentive Plan are set out in the Prospectus and Note 29 to the consolidated financial statements.

A summary of the principal terms of the Pre-IPO Share Incentive Plan is set out below:

Eligible Participants

Those eligible to participate in the Pre-IPO Share Incentive Plan include employees, advisers or consultants, all members of the Board and other individuals, as determined, authorised and approved by the Board or a committee authorised by the Board.

Maximum Number of Shares Available for Issue under the Pre-IPO Share Incentive Plan

The overall limit on the number of underlying shares which may be delivered pursuant to Awards granted under the Pre-IPO Share Incentive Plan is 165,476,820 of the Company's authorised but unissued Ordinary Shares with a par value of US$0.00001 each, subject to any adjustments for other dilutive issuances.

As at 31 December 2018, the aggregate number of underlying Shares pursuant to the outstanding options and share awards granted under the Pre-IPO Share Incentive Plan is 71,910,000 Shares, representing approximately 6.23% of the total issued Shares. Details of the Pre-IPO Share Incentive Plan are set out in Note 29 to the consolidated financial statements.

Consideration

Nil consideration is required to be paid by the grantees for the grant of awards under the Pre-IPO Share Incentive Plan.

Determination of Exercise Price

The exercise price of an option may be a fixed price based on the par value of an ordinary share of the Company or variable price related to the fair market value of an ordinary share of the Company. The exercise price of all the options and share awards granted under the Pre-IPO Share Incentive Plan is between US$0.017 and US$1.342.

Life of the Pre-IPO Share Incentive Plan

The Pre-IPO Share Incentive Plan commenced on 10 May 2012 (the "Effective Date") and will terminate at the close of business on the day before the 10th anniversary of the Effective Date. After the termination of the Pre-IPO Share Incentive Plan either upon such stated expiration date or its earlier termination by the Board, no additional awards may be granted, but previously granted awards (and the authority of the Administrator with respect thereto, including the authority to amend such awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Pre-IPO Share Incentive Plan.

Outstanding Share Options

The table below shows details of the outstanding share options granted to all grantees under the Pre-IPO Share Incentive Plan as of 31 December 2018. No options were granted since the Listing Date and up to the date of this Annual Report. For further details on the movement of the options during the Reporting Period, please see Note 29 to the consolidated financial statements.

No options have been granted to connected persons of the company (including directors of the company and the senior management) under the Pre-IPO Share Incentive Plan which are outstanding.

Report of Directors

Details of the movements of the options granted under the Pre-IPO Share Incentive Plan as at the date of this annual report are as follows:

				Number of options			
Name or category of grantee	Date of grant	Option period	Exercise price	Outstanding as at the Listing Date	Exercised during the Period	Cancelled/ Lapsed during the Period	Outstanding as at 31 December 2018
Other grantees than Directors, senior management and connected persons							
In aggregate	Between 10 May 2012 and 9 October 2018	10 years from the date of grant	Between US$0.017 and US$1.342	71,910,000	–	–	71,910,000
Total				71,910,000	–	–	71,910,000

2. Post-IPO ESOP

The purpose of the Post-IPO ESOP is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and Shareholders as a whole. The Post-IPO ESOP will provide our Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

Further details of the Post-IPO ESOP are set out in the Prospectus.

A summary of the principal terms of the Post-IPO ESOP is set out below:

Eligible Participants

Any individual, being an employee, director, officer, consultant, adviser, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our Group.

Maximum Number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO ESOP and any other schemes is 111,815,071, being no more than 10% of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the “Option Scheme Mandate Limit”).

As at 31 December 2018, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme and therefore the total number of Shares available for grant under the Post-IPO Share Option Scheme was 111,815,071 Shares, representing 9.69% of the issued share capital of the Company.

Report of Directors

On 15 March 2019, 17,260,038 options were granted to 145 grantees pursuant to the Post-IPO Share Option Scheme. Among which, 4,142,857 options were granted to Dr. Yu, subject to approval by the independent shareholders of the Company at the forthcoming extraordinary general meeting of the Company. Further details of the grant are set out in the announcement of the Company dated 15 March 2019.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO ESOP and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time.

The Option Scheme Mandate Limit may be refreshed at any time by obtaining prior approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the refreshed Option Scheme Mandate Limit cannot exceed 10% of the Shares in issue as at the date of such approval. Options previously granted under the Post-IPO ESOP and any other share option schemes of our Company (and to which provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, cancelled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Option Scheme Mandate Limit.

Limit of Each Participant

Unless approved by Shareholders in a general meeting, the maximum number of Shares underlying the options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue for the time being.

Duration

The Post-IPO ESOP shall be valid and effective for the period of ten years commencing on the Listing Date (after which, no further options shall be offered or granted under the Post-IPO ESOP), but in all other respects the provisions of the Post-IPO ESOP shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the Post-IPO ESOP.

Exercise Price

Pursuant to the Post-IPO Share Option Scheme, the participants may subscribe for the Shares on the exercise of an option at the price determined by the Board provided that it shall be at least the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

Consideration

An amount of HK$1.00 must be paid as consideration for the grant of the share options and such payment must be made within 20 business days from the date the share option grant offer is made to the grantee.

Report of Directors

3. RS Plan

The purpose of the RS Plan is to enable the directors, officers, and other key contributors and employees of the Group to share the success of the Company, in order to assure a closer identification of the interests of such persons with those of the Group and stimulate the efforts of such persons on the Group's behalf.

55,907,535 Shares will be issued by the Company within two years of the Listing for distribution of Shares corresponding to the restricted shares.

As at the date of this annual report, the Company has not identified any grantee under the RS Plan or granted any restricted shares to any grantee.

Further details of the RS Plan are set out in the Prospectus and Note 29 to the consolidated financial statements.

Life of the RS Plan

The term of the RS Plan shall be ten years from the date of approval and adoption of the RS Plan by the Board.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in this annual report, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

Emolument Policy and Directors' Remuneration

In compliance with Rule 3.25 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Equity Plans. Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 10 and Note 33C, respectively to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

For the year ended 31 December 2018, directors were granted discretionary bonuses of a total sum of RMB2.8 million excluding the special bonus set out in Note 18 to the consolidated financial statements (equivalent to approximately 7 months of their base salary). Save as disclosed above, none of the Directors were paid discretionary bonuses for the year ended 31 December 2018.

Directors' Interests in Competing Business

During the year ended 31 December 2018, none of our Directors had any interest in a business, apart from the business of our Group, which competed or was likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

Report of Directors

Continuing Connected Transactions

The Group has no non-exempt continuing connected transactions (the "Continuing Connected Transactions") for the Group for the year ended 31 December 2018. Details of related party transactions of the Group for the year ended 31 December 2018 are set out in Note 33 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the period from the Listing Date to 31 December 2018.

Material Litigation

The Company was not involved in any material litigation or arbitration during the year ended 31 December 2018. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended 31 December 2018.

Use of Net Proceeds from Global Offering

The Company's Shares were listed on the Stock Exchange on 31 October 2018 with a total of 271,802,000 offer shares (including shares issued as a result of the full exercise of the over-allotment option) issued and the net proceeds raised during the global offering were approximately HK$3,645.9 million. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus as follows:

- Approximately 65% of the net proceeds will be allocated to the Group's four Core Product as follows:

  (i) 52% of net proceeds, or approximately HK$1,895.9 million, to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of Tyvyt® (sintilimab);

  (ii) 8% of net proceeds, or approximately HK$291.7 million, to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of IBI-305 (bevacizumab biosimilar);

  (iii) 4% of net proceeds, or approximately HK$145.8 million, to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of IBI-301 (rituximab biosimilar); and

  (iv) 1% of net proceeds, or approximately HK$36.5 million, to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of IBI-303 (adalimumab biosimilar).

- Approximately 25% of net proceeds, or approximately HK$911.5 million, will be allocated to fund ongoing and planned clinical trials, preparation for registration filings and potential commercial launches (including sales and marketing) of the other drug candidates in the Group's pipeline.

- Approximately 10% of net proceeds, or approximately HK$364.5 million, will be allocated for working capital and general corporate purposes.

As at 31 December 2018, approximately RMB398.5 million of the net proceeds of the global offering had been utilised as follows:

- Approximately RMB145.0 million had been used for the Group's four core products as follows:

  (i) Approximately RMB121.3 million had been used to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of Tyvyt® (sintilimab);

Report of Directors

(ii) Approximately RMB10.9 million had been used to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of IBI-305 (bevacizumab biosimilar);

(iii) Approximately RMB9.2 million had been used to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of IBI-301 (rituximab biosimilar); and

(iv) Approximately RMB3.6 million had been used to fund ongoing and planned clinical trials, preparation for registration filings and planned commercial launches (including sales and marketing) of IBI-303 (adalimumab biosimilar).

- Approximately RMB94.3 million had been used for the ongoing and planned clinical trials, preparation for registration filings and potential commercial launches (including sales and marketing) of the other drug candidates in the Group's pipeline.

- Approximately RMB159.2 million had been used for working capital and general corporate purposes.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

Auditor

The consolidated financial statements of the Group have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

Important Events after the Reporting Period

Save as disclosed in the section headed "Management Discussion and Analysis – Business Review – 2. Events after the Reporting Period", no important events affecting the Company occurred since the reporting period and up to the date of this annual report.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this annual report, we do not have other plans for material investments and capital assets.

By the order of the Board
Dr. De-Chao Michael Yu
Chairman

Hong Kong
13 March 2019

Directors and Senior Management

Executive Directors

Dr. De-Chao Michael Yu ("**Dr. Yu**"), aged 55, is an executive Director, the Chairman of the Board, President and Chief Executive Officer of the Company. He founded the Group on 28 April 2011 and is responsible for the overall strategic planning and business direction of our Group and management of the Company. Dr. Yu was a director, president and chief executive officer of Chengdu Kanghong Biotech Co. Ltd. from 2006 to 2010. Dr. Yu was the vice president of research and development at Applied Genetic Technology Corporation (a company subsequently listed on the NASDAQ with ticker symbol: AGTC) in 2005. Between 1997 and 2001, Dr. Yu was the vice president of Calydon, Inc. which was later acquired by Cell Genesys, Inc. (a company subsequently listed on the NASDAQ with ticker symbol: CEGE), and worked there till 2005 following the acquisition as a principal scientist and a senior director. Dr. Yu received his doctor of philosophy degree in genetics from the Chinese Academy of Sciences in May 1993 and completed his post-doctoral training at the University of California San Francisco. He has been a Professor and Ph.D. Supervisor at Sichuan University since 2008.

Dr. Yu has engaged in innovative research on biopharmaceuticals for more than 20 years, who has invented three Class I new drugs and has led the development of Conbercept and sintilimab. Dr. Yu invented the world's first commercialized oncolytic virus-based immunotherapeutic product, Oncorine® (recombinant human type-5 adenovirus injection), creating a precedent for the use of viruses to treat tumors. Dr. Yu co-invented and led the development of China's first monoclonal antibody-like new drug with global intellectual property rights, Langmu® (Conbercept eye injection) which has changed the history of zero domestically developed medicine for Chinese patients with blindness caused by fundus diseases. Dr. Yu also co-invented and led the development of Tyvyt® (sintilimab injection) which is domestically-developed innovative PD-1 inhibitor with international quality and has been approved for marketing in China for relapsed or refractory classical Hodgkin's lymphoma (r/r cHL) on 24 December 2018.

Dr. Yu is an inventor of over 60 issued patents and patent applications, and has published more than 50 SCI scientific articles and book chapters. He was recognised as "Top Ten Persons in Innovation in China" in 2014, "The E&Y Entrepreneur of the Year in China" in 2015 and "Distinguished Entrepreneur of Jiangsu Province" in 2016. In 2017, Dr. Yu was selected as "Person of the Year in Innovation for Science and Technology in 2016", "2017 China Person of the Year in Pharmaceutical Economics" and "The Most Influential Person of the Year in Life Science in China in 2017". In 2018, Dr. Yu was awarded as the First Prize of "The Seventh National Overseas Returnee Contributions Awards" etc,.

Dr. Yu has served in different capacities in the following committees and associations in the PRC:

- as the chairman of the board of the Chinese Antibody Society (華人抗體協會) since 2017;
- as a deputy director of the National Technical Committee on Biochemical Products and Testing Technology of the Standardisation Administration of China (全國生化檢測標準化技術委員會) since 2007;
- as a deputy director of Drug Research and Development Special Committee of the China Pharmaceutical Innovation and Research Development Association (中國醫藥創新促進會藥物研發專業委員會) since 2015;
- as a deputy director of the Committee of the Cancer Immunology and Cancer Biotherapy of the Chinese Society for immunology (中國免疫學會腫瘤免疫與腫瘤生物治療專業委員會) since 2016;
- as a managing director of the Chinese Association for Medicinal Biotechnology (中國醫藥生物技術協會) from 2014 to 2019;
- as a standing committee member of the Special Committee of Gene Therapy Society of the Chinese Association of Medicinal Biotechnology (中國醫藥生物技術協會基因治療協會專業委員會) from 2013 to 2019;

Directors and Senior Management

- as a member of the Special Committee for Precision Medicine of the China Medicinal Biotech Association (中國醫藥生物技術協會精准醫療專業委員會) from 2015 to 2019; and
- as a member of the Special Committee of Cancer Biotherapy of the China Anti-Cancer Association (中國抗癌協會腫瘤生物治療專業委員會) since 2012.

Dr. Yu has been an independent non-executive director of BabyTree Group (a company listed on Main Board of the Stock Exchange with stock code: 1761) since June 2018 and served as an independent director at PharmaBlock Sciences (Nanjing), Inc. (a company listed on the Shenzhen Stock Exchange with stock code: 300725) from 2015 to 2018.

Mr. Ronald Hao Xi Ede ("**Mr. Ede**"), aged 60, is an executive Director and the Chief Financial Officer of the Company. Mr. Ede joined the Group on 1 January 2018 and is responsible for finance, investor relations, and information technology of our Group. Prior to joining the Group, between 2011 and 2016, Mr. Ede was the chief financial officer of Biosensors International Ltd. Between 2009 and 2011, Mr. Ede was the chief financial officer of Mindray Medical International Limited. Mr. Ede is a fellow member of the Institute of Singapore Chartered Accountants and an A-Share independent director certified by the Shenzhen Stock Exchange.

Mr. Ede received his bachelor of business administration degree from the University of Hawaii in December 1984 and a master of business administration degree from the University of Washington in December 1988.

Mr. Ede has held directorships in the following listed companies outside of the Group during the past three years:

- Mindray Medical International Limited (a company previously listed on the New York Stock Exchange (the "**NYSE**") and is currently listed on the Shenzhen Stock Exchange with stock code: 300760) as an independent non-executive director since 2006; and resigned as an independent non-executive director in 2016 after the company was privatised from the NYSE. In 2017, he rejoined the board as an independent non-executive director for Mindray; and
- Dawnrays Pharmaceutical (Holding) Ltd. (a company listed on the Hong Kong Stock Exchange with stock code: 2348) as a non-executive director since 2015. In 2017, Mr. Ede was re-designated as an independent non-executive director.

Non-executive Director

Mr. Shuyun Chen ("**Mr. Chen**"), aged 45, also known as Nick Chen, is a non-executive Director of the Company. He joined the Group on 31 January 2018 and is responsible for providing professional opinion and judgment to the Board. Mr. Chen is a partner and Head of China of Capital Group Private Markets ("**CGPM**"), part of the Capital Group Companies ("**Capital Group**"), one of the world's largest and most successful investment organizations. Mr. Chen has invested in leading Chinese companies such as Innovent Biologics, Didi, Jinxin Maternity, New China Life, among others. He is also a director of Jinxin Hospital Management Group Limited.

Prior to joining Capital Group in 2005, Mr. Chen worked at J.P.Morgan & Chase in investment banking roles in New York and Hong Kong from 1999, leaving as Vice President of the Asia mergers and acquisitions group. Before joining J.P. Morgan, he worked at Willis Towers Watson in the U.S. as a management consultant associate. Mr. Chen received his Bachelor of Arts degree (summa cum laude) in Business and Economics from Franklin & Marshall College in the U.S.

Directors and Senior Management

Independent Non-executive Directors

Dr. Charles Leland Cooney ("**Dr. Cooney**"), aged 74, is an independent non-executive Director of the Company. He joined the Group on 18 October 2015 and is responsible for providing independent opinion and judgment to the Board. Dr. Cooney joined the faculty of the Massachusetts Institute of Technology as an assistant professor in 1970, becoming full professor in 1982. His teaching focuses on bioprocess development and manufacturing and technological innovation, and his research interests include biochemical engineering and pharmaceutical manufacturing. Between 2002 to 2014, Dr. Cooney was the founding Faculty Director of the Deshpande Center for Technological Innovation.

Dr. Cooney is a consultant to multiple biotech and pharmaceutical companies and sits on the boards of private companies such as GreenLight Bioscience, Mitra Biotech and Mitra RxDx and LayerBio, and is an adviser to the Singapore MIT Alliance for Research and Technology (SMART) Innovation Center. He served as an independent non-executive director of Polypore International (a company listed on the NASDAQ with ticker symbol: PPO), and Biocon Limited (a company listed on the New York Stock Exchange with ticker symbol: BIOCON and on the Bombay Stock Exchange with stock code: 532523).

Dr. Cooney received his bachelor of science degree in chemical engineering from the University of Pennsylvania in June 1966, and his master of science and doctor of philosophy degrees in biochemical engineering from the Massachusetts Institute of Technology in September 1967 and February 1970, respectively.

Ms. Joyce I-Yin Hsu ("**Ms. Hsu**"), aged 44, is an independent non-executive Director of the Company. She was appointed to the Board on 18 October 2018 and is responsible for providing independent opinion and judgment to the Board. She currently acts as a partner of Cornell Capital, she has been involved in since its founding in 2013 towards the sourcing, evaluation, execution and ownership of investments, including strategies for cross-border expansion.

Ms. Hsu was a partner at Zoyi Capital between 2013 and 2015, being mainly responsible for investments and portfolio company monitoring. Prior to this, Ms. Hsu served as chief financial officer and director at Mindray between 2006 and 2009, leading Mindray through its NYSE IPO in 2006 and subsequently two overseas acquisitions in 2008 and 2013. She subsequently acted as the sole adviser Mindray on its delisting and private placement in 2016. Before that, Ms. Hsu was an executive director at Goldman Sachs Asia between 1998 and 2006, where she led the investment efforts in a number of successful deals in China including Focus Media Holding Limited, China Yurun Food Group Limited, and Mindray Medical, she was also heavily involved in the investments of C&M Communications in Korea and Japan Telecom in Japan.

Ms. Hsu has held directorships in the following listed and private companies outside of the Group during the past three years:

- Corelle Brands as a non-executive director;
- ACEA Bioscience as a non-executive director;
- Weconex as a non-executive director; and
- Mindray Medical International Limited as a director.

Ms. Hsu received her bachelor of science in business administration degree from the University of California at Berkeley in May 1998.

Directors and Senior Management

Dr. Kaixian Chen ("**Dr. Chen**"), aged 73, is an independent non-executive Director of the Company. He was appointed to the Board on 18 October 2018 and is responsible for providing independent opinion and judgment to the Board. Dr. Chen has been a professor of the Shanghai Institute of Materia Medica, Chinese Academy of Sciences, since 1990, served as its director between 1996 and 2004, and has served as director of its degree committee since 2014. He has also been a professor of the Shanghai University of Traditional Chinese Medicine since 2005, served as its president from 2005 to 2014, and has served as chairman of its academic committee from 2014 to 2018.

Dr. Chen holds professional memberships and qualifications in different capacities in numerous organisations in the PRC, including the below:

- as an Academician of the Chinese Academy of Sciences (中國科學院) since 1999;
- as deputy president of the Chinese Pharmaceutical Association (中國藥學會) from 2007 to 2017, and the Director of the Division of Medicinal Chemistry, CPA (中國藥學會藥物化學專業委員會) since 2007;
- as member of the general expert group of the National Science and Technology Major Project "Innovative Drug Research & Development" (國家重大科技專項《重大新藥創制》) since 2008, and the deputy chief scientific and technical officer since 2016;
- as chairman of the Shanghai Association of Science and Technology (上海市科學技術協會) from 2011 to 2018;
- as editor in chief of Progress in Pharmaceutical Sciences, Chinese Journal of New Drugs and Clinical Remedies (藥學進展、中國新藥與臨床雜誌) since 2015; and
- as executive member and deputy director of the National Pharmacopoeia Commission of China (國家藥典委員會) since 2017.

Dr. Chen has served as a director of Zai Lab Limited (a company listed on the NASDAQ with ticker symbol: ZLAB) since 2018, and as an independent non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on the Stock Exchange with stock code: 1349) between 2014 and 2015.

Dr. Chen received his bachelor's degree in radiochemistry from Fudan University in August 1968, and his degree of Master of Science (MSC) and degree of Doctor of science (Ph.D.) from the Shanghai Institute of Materia Medica, Chinese Academy of Sciences in February 1982 and February 1985, respectively.

Senior Management

Dr. De-Chao Michael Yu ("**Dr. Yu**"), aged 55, is an executive director, the Chairman of the Board, President and Chief Executive Officer of our Company. For further details, please see the paragraphs headed "- Executive Directors" in this section.

Dr. Qinwei Zhou ("**Dr. Zhou**"), aged 56, is the Chief Operation Officer of our Company. Dr. Zhou is responsible for quality, manufacturing, supply chain, engineering, analytical science and process development management of our Group. Dr. Zhou served as assistant vice president at Eli Lilly from 2009 to 2011, and as vice president in charge of bioanalytical science from 2011 to 2016. Prior to Eli Lilly's acquisition of ImClone Systems, Inc., Dr. Zhou was employed at ImClone Systems Inc., joining the company as manager in 1994 and serving as senior director until the acquisition. Dr. Zhou was a manager at United Biomedical Inc. from 1990 to 1994.

Dr. Zhou obtained his bachelor of science and master of science degrees in chemistry from Fudan University in the PRC in June 1984 and June 1987 respectively, and earned his doctor of philosophy in chemistry from The City University of New York in the US in February 1996.

Mr. Ronald Hao Xi Ede ("**Mr. Ede**"), aged 60, is an executive Director and the Chief Financial Officer of our Company. For further details, please see the paragraph headed "- Executive Directors" in this section.

Directors and Senior Management

Joint Company Secretaries

Ms. Yanju Wang ("**Ms. Wang**"), aged 30, was appointed as our joint company secretary on 4 June 2018. She joined the Group in October 2015 as Executive Assistant. Prior to joining the Group, Ms. Wang worked as a production coordinator at Boshi Automobile Parts (Suzhou) Co., Ltd. (博世汽車零部件(蘇州)有限公司) from 2014 to 2015.

Ms. Wang received her bachelor in management degree from the Nanjing University of Posts and Telecommunications in June 2012 and her master of economics degree from Jiangsu University in June 2015. She obtained an accounting qualification certificate in August, 2014 and a banking qualification certificate in October, 2014.

Ms. Lok Yee Chan ("**Ms. Chan**"), aged 29, was appointed as our joint company secretary on 4 June 2018. She joined Vistra Corporate Services (HK) Limited in 2016 and is a Manager of Corporate Services. Ms. Chan has over four years of experience in providing a full range of company secretarial and compliance services and is currently serving a portfolio of clients including public listed companies and private companies.

Ms. Chan obtained a bachelor of arts from the Hong Kong Polytechnic University in October 2011 and a master of science in Professional Accounting and Corporate Governance in July 2015 from City University of Hong Kong.

She has been an associate member of The Hong Kong Institute of Chartered Secretaries and an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom since 2015.

Changes to Directors' Information

Save as disclosed herein, the Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Corporate Governance Report

The Board of Directors is pleased to present the corporate governance report for the Company for the year ended 31 December 2018.

Corporate Governance Practices

The Company is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company was only listed on the Main Board of the Stock Exchange on 31 October 2018. Since the listing of the Company to 31 December 2018, the Company has complied with all applicable code provisions set out in the CG Code except for the following deviations:

Pursuant to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. As the Company was only listed on 31 October 2018, only one Board meeting was held during the period from 31 October 2018 to 31 December 2018.

Pursuant to code provision A.2.1 of the CG Code, the roles of the chairman of the Board and the chief executive should be segregated and should not be performed by the same individual. The Company does not have separate chairman of the Board and chief executive officer, and Dr. De-Chao Michael Yu, the executive Director currently performs these two roles.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Model Code.

Specific enquiry has been made to all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code during the period from 31 October 2018 to 31 December 2018. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company during the period from 31 October 2018 to 31 December 2018.

Board of Directors

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors

Dr. De-Chao Michael Yu
(Chairman of the Board and Chief Executive Officer)
Mr. Ronald Hao Xi Ede

Non-executive Director

Mr. Shuyun Chen

Independent non-executive Directors

Dr. Charles Leland Cooney
Ms. Joyce I-Yin Hsu
Dr. Kaixian Chen

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 39 to 43 of this annual report.

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

Corporate Governance Report

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Company does not have separate chairman of the Board and chief executive officer, and Dr. De-Chao Michael Yu, the executive Director currently performs these two roles. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Board Meetings and Committee Meetings

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

As the Company was only listed on 31 October 2018, only one Board meeting was held during the period from 31 October 2018 to 31 December 2018. The Company expects to continue to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

A summary of the attendance record of the Directors at Board meetings and committee meetings during the period from 31 October 2018 to 31 December 2018 is set out in the following table below:

Name of Director	Number of meeting(s) attended/number of meeting(s) held for the year ended 31 December 2018				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee
Executive Directors:					
Dr. De-Chao Michael Yu	1/1	N/A	0/0	0/0	0/0
Mr. Ronald Hao Xi Ede	1/1	N/A	N/A	N/A	0/0
Non-executive Director:					
Mr. Shuyun Chen	1/1	1/1	N/A	N/A	0/0
Independent Non-executive Directors:					
Dr. Charles Leland Cooney	1/1	N/A	N/A	0/0	0/0
Ms. Joyce I-Yin Hsu	1/1	1/1	0/0	N/A	N/A
Dr. Kaixian Chen	1/1	1/1	0/0	0/0	N/A

Corporate Governance Report

Independence of Independent Non-Executive Directors

During the period from 31 October 2018 to 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Board has received from each of the independent non-executive Directors a written annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years with effect from the date of the Prospectus or until the third annual general meeting of the Company since the Listing Date (whichever is sooner).

Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

All the Directors are subject to retirement by rotation and re-election at annual general meeting. Pursuant to the Articles of Association, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office and be eligible for re-election at each annual general meeting, provided that every Director is subject to retirement by rotation at least once every three years. In addition, any new Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and be subject to re-election. Accordingly, the following Directors, Dr. De-Chao Michael Yu, Mr. Ronald Hao Xi Ede, Mr. Shuyun Chen, Dr. Charles Leland Cooney, Ms. Joyce I-yin Hsu and Dr. Kaixian Chen shall retire at the AGM and, being eligible, will offer themselves for re-election.

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is the primary decision making body of the Company and is responsible for overseeing the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board makes decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Group's senior management is responsible for the day-to-day management of the Group's business and is responsible for overseeing the general operation, business development, finance, marketing, and operations.

Board Committees

The Board has established four committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Strategy Committee for overseeing particular aspects of the Company's affairs. Each of these committees is established with defined written terms of reference.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting, risk management and internal controls system of the Group, review and approve connected transactions and to advise the Board. The terms of reference of the Audit Committee is available on the websites of the Company and the Stock Exchange.

The Audit Committee comprises two independent non-executive Directors, namely Ms. Joyce I-Yin Hsu and Dr. Kaixian Chen, and one non-executive director, namely Mr. Shuyun Chen. Ms. Hsu is the chairman of the Audit Committee.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 and has met with the independent auditor, Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

During the period from the Listing Date to 31 December 2018, the Audit Committee has convened one meeting.

Corporate Governance Report

Remuneration Committee

The Company established a Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and other senior management. The terms of reference of the Remuneration Committee is available on the websites of the Company and the Stock Exchange.

The Remuneration Committee comprises one executive Director, namely Dr. De-Chao Michael Yu, and two independent non-executive Directors, namely Ms. Joyce I-Yin Hsu and Dr. Kaixian Chen. Ms. Hsu is the chairman of the Remuneration Committee.

During the period from the Listing Date to 31 December 2018, the Remuneration Committee has not convened any meetings.

Details of the remuneration payable to each Director of the Company for the year ended 31 December 2018 are set out in Note 10 to the Financial Statements.

The remuneration of the members of senior management by band for the year ended 31 December 2018 is set out below:

Remuneration to the senior management by bands (RMB)	Number of senior management
0-10,000,000	1
10,000,001-20,000,000	1
100,000,000-110,000,000	1
Total	**3**

Corporate Governance Report

Nomination Committee

The Company has established a Nomination Committee in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of Board succession. The terms of reference of the Nomination Committee is available on the websites of the Company and the Stock Exchange.

The Nomination Committee comprises one executive Director, namely Dr. De-Chao Michael Yu, and two independent non-executive Directors, namely Dr. Kaixian Chen and Dr. Charles Leland Cooney. Dr. Yu is the chairman of the Nomination Committee.

During the period from the Listing Date to 31 December 2018, the Nomination Committee has not convened any meetings.

Strategy Committee

The Company has established a Strategy Committee. The primary duties of the Strategy Committee are to provide strategic guidance and advice in relation to the Company's business development.

The Strategy Committee comprises two executive Directors, namely Dr. De-Chao Michael Yu and Mr. Ronald Hao Xi Ede, one non-executive Director, namely Mr. Shuyun Chen and one independent non-executive Directors namely Dr. Charles Leland Cooney. Dr. Yu is the chairman of the Strategy Committee.

During the period from the Listing Date to 31 December 2018, the Strategy Committee has not convened any meetings.

Board Diversity Policy

The Company has adopted a board diversity policy (the "Diversity Policy") in accordance with the CG Code, which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to maintain the Company's competitive advantage and enhance its ability to attract, retain and motivate employees from the widest possible pool of available talent.

Pursuant to the Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including, but not limited to, gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The Company is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. The Nomination Committee will discuss and agree periodically on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At present, the Board has not set any measurable objectives.

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

Director Nomination Policy

On 6 December 2018, the Company adopted a director nomination policy (the "Director Nomination Policy") in accordance with the CG Code. The Director Nomination Policy sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Committee shall identify, consider and recommend to the Board appropriate candidates to serve as Directors and to make recommendations to the Shareholders. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

Corporate Governance Report

The Director Nomination Policy sets out the non-exhaustive factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- reputation for integrity;
- professional qualifications and skills;
- accomplishment and experience in the pharmaceutical and biologics markets;
- commitment in respect of available time and relevant interest;
- independence of proposed independent non-executive Directors; and
- diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge, and length of service.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

In terms of succession planning, the following considerations will be used by the Nomination Committee in making recommendations:

- required knowledge, skills and experience at a full Board composite level to effectively fulfill the Board's legal role and responsibilities;
- an appropriate balance of diversity across the Board;
- personal qualities of each candidates;
- continuity through a smooth succession of Directors; and
- compliance with the relevant legal and regulatory requirements.

The Nomination Committee will review the Director Nomination Policy, as appropriate, and recommend revision to the Board for consideration and approval.

Corporate Governance Function

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

The Board would review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the CG Code and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The joint company secretaries of the Company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

Corporate Governance Report

Dividend Policy

On 6 December 2018, the Company adopted a dividend policy (the "Dividend Policy") in accordance with the CG Code. The Company does not have any pre-determined dividend payout ratio and intends to retain most, if not all, of available funds and any future earnings to operate and expand the business of the Company. Dividends may only be declared and paid out of the profits and reserves of the Company lawfully available for distribution (including share premium), and in no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business. The Dividend Policy also outlines the factors that the Board should take into account in determining any dividend for distribution to the Shareholders, including future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Board considers relevant. Any future dividend payments to the Shareholders will also depend upon the availability of dividends received from the Group's subsidiaries.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Continuous Professional Development of Directors

Directors keep abreast of the responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The Company acknowledges the importance of directors participating in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors have been arranged and reading material on relevant topics would be issued to directors where appropriate. They are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2018 and prior to the Listing, all of the Directors, namely, Mr. De-Chao Michael Yu, Mr. Ronald Hao Xi Ede, Mr. Shuyun Chen, Dr. Charles Leland Cooney, Ms. Joyce I-Yin Hsu, and Dr. Kaixian Chen participated in a training session conducted by Skadden, Arps, Slate, Meagher & Flom, our legal adviser as to Hong Kong law, on directors' duties, responsibilities and obligations under the Listing Rules and the SFO.

The Company arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. During the year ended 31 December 2018, two training sessions were attended by the Directors.

Corporate Governance Report

Auditors' Responsibility and Remuneration

The Company appointed Deloitte Touche Tohmatsu, Certified Public Accountants ("Deloitte") as the external auditor for the year ended 31 December 2018. A statement by Deloitte about their reporting responsibilities for the financial statements is included in the Independent Auditors' Report on pages 55 to 58.

Details of the fees paid/payable in respect of the audit and non-audit services provided by Deloitte for the year ended 31 December 2018 are set out in the table below:

Services rendered for the Company	Fees paid and payable RMB'000	Total fees paid and payable RMB'000
Audit service		**9,000**
IPO services	**6,700**	
Annual audit services	**2,300**	
Non-audit service		**1,613**
Tax advising services	**1,033**	
Internal control review for the listing	**380**	
Training and consulting services related to ESOP	**200**	
Total		**10,613**

Risk Management and Internal Controls

The Board acknowledges that it is responsible for the Company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board had conducted a review of the effectiveness of the risk management internal control system of the Company in respect of the year ended 31 December 2018 and considered the system effective and adequate.

The Group has established an internal audit department and has designated the relevant personnel who will be responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to the Board of any findings and follow-up actions. Each member of the Group is required to adhere strictly to the Group's internal control procedures and report to the internal audit team of any risks or internal control measures.

The Group has also adopted an information disclosure policy which sets out comprehensive guidelines in respect of handling and dissemination of inside information. The Board is responsible for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be overseen by the Board. Unless authorised by the Board, staff members of the Group are not permitted to disseminate inside information relating to the Group to any external parties and are not permitted to respond to media or market speculation which may materially affect the trading price or volume of the Shares on the market.

In the ordinary course of the Group's business, sensitive data is collected and stored, including, among other things, identity information about our employees, intellectual property, and proprietary business information. The Group manages and maintains our applications and data utilising on-site systems. These applications and data encompass a wide variety of business critical information including commercial information, and business and financial information. The Group has implemented relevant internal procedures and controls to ensure that such sensitive data is protected and that leakage and loss of such data is avoided.

Corporate Governance Report

The Company's Audit Committee and management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient. The risk management and internal control systems of the Company are reviewed on an annual basis. Arrangements are in place to identify, evaluate and manage significant risks including facilitating employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. Our management, under the supervision of our Board or a committee of our Board takes reasonable steps to (i) monitor compliance with the Code, and (ii) when appropriate, impose and enforce appropriate disciplinary measures for violations of the Code.

Joint Company Secretaries

Ms. Yanju Wang, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company has also engaged Ms. Lok Yee Chan, a manager of the corporate services department of Vistra Hong Kong, as the joint company secretary to assist Ms. Yanju Wang in discharging the duties of a company secretary of the Company. Her primary contact person at the Company is Ms. Yanju Wang, the joint company secretary of the Company.

During the year ended 31 December 2018, Ms. Yanju Wang and Ms. Lok Yee Chan have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Shareholders' Rights

Convening of Extraordinary General Meetings ("EGM") by Shareholders

Pursuant to article 12.3 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. General meetings shall also be convened on the written requisition of any two or more Shareholders deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

General meetings may also be convened on the written requisition of a Shareholder which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Corporate Governance Report

Putting Forward Proposals at General Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) or the Articles of Association. However, shareholders who wish to put forward proposals at general meetings may achieve so by means of convening an extraordinary general meeting following the procedures set out in paragraph above.

As regards the procedures for shareholders to propose a person for election as a Director, they are available on the Company's website at www.innoventbio.com.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	168 Dongping Street Suzhou Industrial Park China 215123
Telephone:	(86) 0512-69566088
Fax:	(86) 0512-69566088-8348
Email:	ir@innoventbio.com

Communication with Shareholders and Investors Relations

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

To promote effective communication, the Company maintains a website at www.innoventbio.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Changes in Constitutional Documents

During the period from 31 October 2018 to 31 December 2018, the Company did not made any significant changes to its constitutional documents. A latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF INNOVENT BIOLOGICS, INC.
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Innovent Biologics, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 132 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

Key audit matters	How our audit addressed the key audit matters
Cut-off of research and development expenses	
The Group incurred significant research and development ("R&D") expenses of RMB 1,222 million as disclosed in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018. In addition, R&D expenses of RMB 396 million were accrued as at 31 December 2018 as set out in note 23 to the consolidated financial statements. A large portion of the R&D expenses were service fees paid to outsourced service providers including contract research organisations and clinical trial sites (collectively referred to as the "Outsourced Service Providers"). We identified the cut-off of R&D expenses as a key audit matter due to its significant amount and risk of not accruing R&D costs incurred for services provided by the Outsourced Service Providers in the appropriate reporting period.	Our procedures in relation to the cut-off of R&D expenses included: • Obtaining an understanding of key controls of the management's basis and assessment in relation to the accrual process of the R&D expenses including service fees paid to the Outsourced Service Providers; • For the service fees paid to contract research organisations, reading the key terms set out in research agreements and evaluating the completion status with reference to the progress reported by the representatives of the relevant contract research organisations, on a sample basis, to determine whether the service fees were recorded based on respective contract sums, progress and/or milestones achieved; and • For the service fees paid to clinical trial centres, testing the accrual of the clinical trial related costs, on a sample basis, with reference to the clinical trial data and terms of services.

Other Information

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

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

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

Independent Auditor’s Report

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Independent Auditor's Report

- Conclude on the appropriateness of the directors of the Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Fung Hin Chiu.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**9,477**	18,538
Other income	6	**93,795**	64,406
Other gains and losses	7	**(4,272,090)**	(42,079)
Research and development expenses		**(1,221,687)**	(611,922)
Administrative expenses		**(220,315)**	(79,490)
Selling, marketing and business development expenses		**(136,006)**	(8,278)
Listing expenses		**(57,187)**	–
Finance costs	8	**(68,969)**	(57,225)
Loss and total comprehensive expenses for the year	9	**(5,872,982)**	(716,050)
Loss and total comprehensive expenses for the year attributable to:			
Owners of the Company		**(5,771,492)**	(562,318)
Non-controlling interests		**(101,490)**	(153,732)
		(5,872,982)	(716,050)
Loss per share	13		
– Basic (RMB Yuan)		**(17.24)**	(5.96)
– Diluted (RMB Yuan)		**(17.24)**	(5.96)

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,078,053**	761,818
Prepaid lease payments	15	**52,842**	54,090
Deposits for acquisition of property, plant and equipment		**45,114**	60,020
Other receivables and tax recoverables	18	**250,307**	135,533
		1,426,316	1,011,461
Current assets			
Inventories	17	**66,121**	57,722
Deposits, prepayments and other receivables	18	**72,309**	53,762
Contract assets	19	**7,505**	–
Income tax recoverables		**13,726**	13,068
Other financial assets	20	**–**	809,484
Prepaid lease payments	15	**1,248**	1,248
Bank balances and cash	21	**4,525,352**	510,471
		4,686,261	1,445,755
Current liabilities			
Trade payables	22	**42,821**	34,836
Other payables and accrued expenses	23	**600,498**	122,540
Contract liabilities	24	**17,002**	900
Borrowings	25	**10,000**	5,000
		670,321	163,276
Net current assets		**4,015,940**	1,282,479
Total assets less current liabilities		**5,442,256**	2,293,940

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Contract liabilities	24	**449,887**	348,765
Borrowings	25	**782,000**	505,000
Government grants	26	**15,955**	11,211
Other financial liabilities	27	**–**	3,051,092
		1,247,842	3,916,068
Net assets (liabilities)		**4,194,414**	(1,622,128)
Capital and reserves			
Share capital	28	**79**	8
Reserves		**4,194,335**	(1,942,556)
Equity attributable to owners of the Company		**4,194,414**	(1,942,548)
Non-controlling interests		**–**	320,420
Total equity (deficiency of total equity)		**4,194,414**	(1,622,128)

The consolidated financial statements on pages 59 to 132 were approved and authorised for issue by the board of directors on 13 March 2019 and are signed on its behalf by:

De-Chao Michael Yu
DIRECTOR

Ronald Hao Xi Ede
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note)	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
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 year	–	–	–	–	(562,318)	(562,318)	(153,732)	(716,050)
Issuance of restricted shares (note 28c)	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 shareholders	–	–	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 redeemable convertible preferred shares ("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)**
Loss and total comprehensive expenses for the year	**–**	**–**	**–**	**–**	**(5,771,492)**	**(5,771,492)**	**(101,490)**	**(5,872,982)**
Issuance of ordinary shares (note 28e)	**–**	**190**	**–**	**–**	**–**	**190**	**–**	**190**
Recognition of equity-settled share based payment	**–**	**–**	**(8,192)**	**53,244**	**–**	**45,052**	**8,192**	**53,244**
Vesting of restricted shares	**–**	**647**	**–**	**(647)**	**–**	**–**	**–**	**–**
Exercise of share options (note 28d)	**6**	**124,046**	**–**	**(60,178)**	**–**	**63,874**	**–**	**63,874**
Effect of put option granted to non-controlling shareholders to convert their equity interests in a subsidiary to the Company's Preferred Shares	**–**	**–**	**227,122**	**–**	**–**	**227,122**	**(227,122)**	**–**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note)	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
Automatic conversion of Preferred Shares upon initial public offering ("IPO") (note 28)	**47**	**8,336,910**	**-**	**-**	**-**	**8,336,957**	**-**	**8,336,957**
Issue of shares pursuant to IPO (note 28)	**18**	**3,371,345**	**-**	**-**	**-**	**3,371,363**	**-**	**3,371,363**
Transaction costs attributable to issuance of new shares	**-**	**(136,104)**	**-**	**-**	**-**	**(136,104)**	**-**	**(136,104)**
At 31 December 2018	**79**	**11,751,242**	**(313,652)**	**20,363**	**(7,263,618)**	**4,194,414**	**-**	**4,194,414**

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 interests; and

4) effect of exercise of put option granted to non-controlling shareholders.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Loss for the year	**(5,872,982)**	(716,050)
Adjustments for:		
Loss on disposal of property, plant and equipment	**3,316**	–
Depreciation of property, plant and equipment	**62,814**	59,853
Amortisation of prepaid lease payments	**1,248**	1,248
Net foreign exchange (gains) losses	**(64,129)**	29,270
Gain from changes in fair value changes of wealth management plans (financial assets mandatorily measured at fair value through profit or loss ("FVTPL")	**(5,141)**	(38,204)
Loss from changes in fair value changes of other financial liabilities measured at FVTPL	**4,338,044**	51,013
Share-based payment expenses	**53,434**	29,295
Government grants income	**(1,505)**	(1,089)
Bank interest income	**(20,678)**	(7,982)
Interest on bank borrowings	**25,037**	24,908
Interest arising from a contract which contains significant financing component	**43,932**	32,317
Operating cash flows before movements in working capital	**(1,436,610)**	(535,421)
Increase in contract assets	**(7,505)**	–
Increase in inventories	**(8,399)**	(21,091)
Increase in deposits, prepayments and other receivables	**(73,914)**	(40,146)
Increase in trade payables	**7,985**	13,638
Increase in other payables and accrued expenses	**429,132**	77,965
Increase in contract liabilities	**73,292**	25,160
Decrease in government grants	**–**	(12,375)
NET CASH USED IN OPERATING ACTIVITIES	**(1,016,019)**	(492,270)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Interest received	**24,784**	4,755
Placement of term deposits with maturity dates over three months	**(376,476)**	(326,710)
Placement of pledged term deposits	**(498)**	–
Purchase of property, plant and equipment	**(312,739)**	(90,971)
Purchase of other financial assets	**(410,000)**	(790,000)
Release of term deposits with maturity dates over three months	**703,186**	50,000
Proceeds on release of other financial assets	**1,224,625**	800,970
Proceeds from disposal of property plant and equipment	**285**	–
Receipt of government grants related to property, plant and equipment	**6,250**	2,500
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 FROM (USED IN) INVESTING ACTIVITIES	**859,417**	(349,456)
FINANCING ACTIVITIES		
Interest paid	**(32,847)**	(24,841)
Proceeds from the issue of subsidiary's ordinary shares and written put options over a subsidiary	**–**	104,247
Proceeds from the issue of the Company's Preferred Shares	**947,821**	–
New borrowings raised	**287,000**	10,000
Repayment of borrowings	**(5,000)**	–
Payment of transaction costs attributable to issuance of new shares	**(134,474)**	–
Issuance of ordinary shares	**3,371,363**	–
NET CASH FROM FINANCING ACTIVITIES	**4,433,863**	89,406
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,277,261**	(752,320)
Effects of exchange rate changes	**63,832**	(26,910)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**183,761**	962,991
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (note 21)	**4,524,854**	183,761

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. General

Innovent Biologics, Inc. (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited with effect from 31 October 2018.

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 and distribution of pharmaceutical products, and provision of consultation and research and development services.

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

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs")

The Company and its subsidiaries (the "Group") have consistently applied all the new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB"), that are effective for the Group's accounting period beginning on 1 January 2018 for the years ended 31 December 2017 and 2018.

The Group has also applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, 1 January 2019, for the years ended 31 December 2017 and 2018.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to 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
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") (Continued)

Except for the new IFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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 by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under IAS 17, the Group has already recognised an asset and 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.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB26,835,000 as disclosed in note 30. 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 RMB2,791,000 (note 18) as at 31 December 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") (Continued)

IFRS 16 *Leases* (Continued)

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

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC- Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC – Int 4. Therefore, the Group did not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. The Group elected the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

3. Significant Accounting Policies

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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

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

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

Revenue from contracts with customers

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

3. Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue Recognition

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Variable consideration

For research and development service fee income that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of the reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

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 are recognised as an expenses on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Foreign currencies

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

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

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.

All other 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 statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefits costs

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

Short-term employee benefits

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

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 payment reserve). At the end of the 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" 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 consolidated financial statements 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of the 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.

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

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

Property, plant and equipment

Property, plant and equipment including buildings held for use 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 statement 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. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Research and development expenditure

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Impairment on tangible and intangible assets

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

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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 charged to research and development expenses when they are produced.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

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.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

Financial assets that meet the following conditions are subsequently measured at 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; and

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

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

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

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

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

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

Notes to the Consolidated Financial Statements

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

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

The Group always recognises lifetime ECL for contract assets without signification financing component. The ECL on these assets are assessed individually for debtors with significant balances.

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

(i) Significant increase in credit risk

In assessing whether the credit risk 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk 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; 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.

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

(ii) Definition of default

The Group considers the following as constituting an event of default occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

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

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

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

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of contract assets where the corresponding adjustment is recognised through a loss allowance account.

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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 (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

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.

Upon application of IFRS 9, 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. 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 accumulated losses upon derecognition of the financial liability.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

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

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 the 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.

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 27 are accounted for as derivatives and are recognised at fair value upon initial recognition. Any changes of their fair values in subsequent reporting dates are recognised in the profit or loss.

The gross financial liability arising from the put options is recognised 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 recognised 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" at initial recognition. 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 recognised in the profit or loss.

Derecognition/substantial modification of financial liabilities

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

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Derecognition/substantial modification of financial liabilities (Continued)

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

4. Critical Accounting Judgement and Key Sources of Estimation Uncertainty

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

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

Critical judgement in applying accounting policies

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

Research and development expenses

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. Critical Accounting Judgement and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 2018, the carrying amount of property, plant and equipment is RMB1,078 million (2017: RMB762 million) as disclosed in note 14.

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 reporting period as set out in note 27. 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 recognised international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as fair value of the ordinary shares of the Company, possibilities under different scenarios such as initial public offering, 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 2017 amounting to RMB3,051 million (2018: nil).

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For the year ended 31 December 2018

5. 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 commercialisation 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 (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 commercialise 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 commercialisation of the China Products in the PRC. Eli Lilly will grant non-exclusive license to the Group to use Eli Lilly trademarks on 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 commercialisation 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 commercialisation 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 commercialisation 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 commercialisation stage. During the year ended 31 December 2018, the Group received collaboration fee on development cost sharing of RMB74.2 million (2017: RMB24.3 million). 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% (2017: 11%) was used in adjusting for the effect of time value of money over the promised amount of consideration and interest expenses recognised during the year ended 31 December 2018 was RMB43.9 million (2017: RMB32.3 million) (note 8). Both consideration received and interest expenses recognised are recorded under contract liabilities (note 24) at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. Revenue and Segment Information (Continued)

License and research and development agreements with customers

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

In 2018, the Group further entered into research and development agreements with customers. During the year ended 31 December 2018, the Group received non-refundable upfront and milestone payments of RMB1.1 million (2017: RMB9.4 million) and recognised revenues of RMB9.5 million (2017: RMB8.5 million) in accordance with completion of relevant research and development services. The remaining RMB7.5 million (2017: nil) was recognised as contract assets.

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:

	2018 RMB'000	2017 RMB'000
Timing of revenue recognition		
A point in time		
License fee income	**–**	10,000
Overtime		
Research and development service fee income	**9,477**	8,538
	9,477	18,538

For the purposes 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 3. 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

	2018 RMB'000	2017 RMB'000
The PRC	**9,477**	18,538

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. Revenue and Segment Information (Continued)

Information about major customers

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

	2018 RMB'000	2017 RMB'000
Customer A	**9,177**	18,538

6. Other Income

	2018 RMB'000	2017 RMB'000
Bank interest income	**20,678**	7,982
Government grants income (note)	**73,117**	56,424
	93,795	64,406

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 IPO, research and development activities and interest subsidies, which are recognised upon compliance with the attached conditions.

7. Other Gains and Losses

	2018 RMB'000	2017 RMB'000
Loss on disposal of property, plant and equipment	**(3,316)**	–
Gain from changes in fair value of wealth management plans (financial assets mandatorily measured at FVTPL) (note 20)	**5,141**	38,204
Loss from changes in fair value of other financial liabilities measured as at FVTPL (note 27)	**(4,338,044)**	(51,013)
Net foreign exchange gains (losses)	**64,129**	(29,270)
	(4,272,090)	(42,079)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

8. Finance Costs

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	**33,284**	24,908
Interest arising from a contract which contains significant financing component (note 5)	**43,932**	32,317
Total borrowing costs on financial liabilities that are not at FVTPL	**77,216**	57,225
Less: amounts capitalised in the cost of qualifying assets	**(8,247)**	–
	68,969	57,225

9. Loss for the Year

	2018 RMB'000	2017 RMB'000
Loss for the year has been arrived at after charging:		
Directors' emoluments (note 10)	**112,865**	7,666
Other staffs costs:		
Salaries and other allowances	**171,552**	76,008
Performance related bonus	**31,509**	11,345
Retirement benefit scheme contributions	**19,045**	15,127
Share-based payment expenses	**36,248**	25,653
Total staff costs	**371,219**	135,799
Auditors' remuneration	**2,451**	417
Amortisation of prepaid lease payments	**1,248**	1,248
Depreciation of property, plant and equipment	**62,814**	59,853
Minimum lease payments under operating leases in respect of office premises and staff quarters	**7,928**	2,383

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For the year ended 31 December 2018

10. 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 reporting period are as follows:

Year ended 31 December 2018

	Fee RMB'000	Salaries and other allowances RMB'000	Performance related bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
Executive directors:						
De-Chao Michael Yu ("Dr. Yu")	–	2,816	87,264	80	16,996	107,156
Ronald Hao Xi Ede (note a)	–	1,385	3,501	62	–	4,948
	–	4,201	90,765	142	16,996	112,104
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)	90	–	–	–	–	90
Wang, Junfeng (note f)	–	–	–	–	–	–
	90	–	–	–	–	90
Independent non-executive directors:						
Charles Leland Cooney	491	–	–	–	–	491
Joyce I-Yin Hsu (note g)	90	–	–	–	–	90
Kaixian Chen (note g)	90	–	–	–	–	90
	671	–	–	–	–	671
	761	4,201	90,765	142	16,996	112,865

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10. Directors', Chief Executive's and Employees' Emoluments (Continued)

Directors (Continued)

Year ended 31 December 2017

	Fee RMB'000	Salaries and other allowances RMB'000	Performance related bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment expenses RMB'000	Total 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 Leland Cooney	674	–	–	–	–	674
	674	2,348	960	42	3,642	7,666

Notes:

a. Ronald Hao Xi Ede 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 and Zhang, Leidi resigned as non-executive directors of the Company on 16 October 2018.

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

e. Chen, Shuyun was appointed as a non-executive director of the Company on 31 January 2018.

f. Wang, Junfeng was appointed as a non-executive director of the Company on 4 April 2018 and resigned on 16 October 2018.

g. Joyce I-Yin Hsu and Kaixian Chen were appointed as independent non-executive directors on 16 October 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

10. Directors', Chief Executive's and Employees' Emoluments (Continued)

Directors (Continued)

The executive directors' emoluments shown above were for their services as directors of the Company in connection with the management of the affairs of the Company and Group.

The independent non-executive directors' emoluments shown above were for their services as directors 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 during the year included two directors (2017: one director) of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2017: four) highest paid individuals who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and other allowances	**8,768**	8,628
Performance related bonus	**1,518**	1,291
Share-based payment expenses	**6,984**	1,433
Retirement benefits scheme	**172**	44
	17,442	11,396

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10. Directors', Chief Executive's and Employees' Emoluments (Continued)

Employees (Continued)

The emoluments of these employees included two directors of the Company (2017: one director) during the reporting period were fell within the following bands:

	Number of individuals Year ended 31 December	
	2018	2017
HK$2,000,001 to HK$2,500,000	**–**	2
HK$4,000,001 to HK$4,500,000	**1**	1
HK$4,500,001 to HK$5,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$7,500,001 to HK$8,000,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–
HK$19,000,001 to HK$19,500,000	**1**	–
HK$127,500,001 to HK$128,000,000	**1**	–
	5	5

During the year ended 31 December 2018, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals (including two directors of the Company) and employees as an inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Company nor the five highest paid individuals has waived or agreed to waive any emoluments during the year ended 31 December 2018.

11. Dividends

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

12. 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 on profits earned in Hong Kong. On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. No provision for taxation has been made as Innovent HK's income neither arises in, nor is derived from, Hong Kong.

Under the US Tax Cuts and Jobs Act ("Act"), the US corporate income tax rate has charged at flat rate of 21%.

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 reporting period. 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 reporting period can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 **RMB'000**	2017 RMB'000
Loss before tax	**(5,872,982)**	(716,050)
Tax charge at the PRC EIT rate of 25%	**(1,468,246)**	(179,013)
Tax effect of expenses not deductible for tax purpose	**1,191,944**	24,197
Effect of research and development expenses that are additionally deducted (note)	**(150,279)**	(67,457)
Tax effect of tax losses not recognised	**408,272**	190,618
Tax effect of deductible temporary differences not recognised	**18,309**	31,655
Tax charge for the year	**–**	–

Note: Pursuant to Caishui [2018] circular No. 99 (2017: [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 175% (2017: 150%) on qualifying research and development expenditures for the year ended 31 December 2018.

* English name for identification only.

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12. Income Tax Expense (Continued)

As at 31 December 2018, the Group has unused tax losses of RMB3,023 million (2017: RMB1,391 million), available for offset against future profits. Among the unused tax losses, RMB713 million (2017: RMB552 million) will be expired between 2019 to 2026 while RMB727 million (2017: RMB762 million) and RMB1,583 million (2017: nil) will be expired in 2027 and 2028, respectively. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

As at 31 December 2018, the Group has deductible temporary differences mainly related to government grants income and contract liabilities of RMB361 million (2017: RMB288 million). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

13. Loss Per Share

(a) Basic

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

Loss figures are calculated as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(5,771,492)**	(562,318)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**334,683,802**	94,310,080

The computation of basic loss per share for the year ended 31 December 2018 excluded the unvested restricted shares of the Company. Details of these restricted shares are set out in note 29.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share has been retrospectively adjusted for the share subdivision as disclosed in note 28.

Notes to the Consolidated Financial Statements

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13. Loss Per Share (Continued)

(b) Diluted

Diluted loss 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 four categories of potential ordinary shares, unvested restricted shares of the Company (note 29), over-allotment options, Preferred Shares issued by the Company (note 27) and the shares options awarded under the share incentive plan (the "Plan") (note 29). As the Group incurred losses for the year ended 31 December 2018, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the year ended 31 December 2018 are the same as basic loss per share.

14. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2017	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	**–**	**8,623**	**–**	**–**	**–**	**374,027**	**382,650**
Transfer	**–**	**3,998**	**18,183**	**11,768**	**1,484**	**(35,433)**	**–**
Disposals	**–**	**–**	**(5,241)**	**–**	**(161)**	**–**	**(5,402)**
At 31 December 2018	**389,725**	**45,553**	**439,873**	**28,440**	**4,949**	**347,772**	**1,256,312**
DEPRECIATION							
At 1 January 2017	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 year	**8,396**	**4,998**	**43,676**	**5,088**	**656**	**–**	**62,814**
Disposals	**–**	**–**	**(1,711)**	**–**	**(90)**	**–**	**(1,801)**
At 31 December 2018	**25,188**	**17,884**	**122,124**	**10,293**	**2,770**	**–**	**178,259**
CARRYING VALUE							
At 31 December 2018	**364,537**	**27,669**	**317,749**	**18,147**	**2,179**	**347,772**	**1,078,053**
At 31 December 2017	372,933	20,046	346,772	11,467	1,422	9,178	761,818

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14. Property, Plant and Equipment (Continued)

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 5%
Plant and machinery	7% – 20%
Furniture, fixtures and equipment	10 – 33%
Motor vehicles	25%

As at 31 December 2018, the Group has pledged property, plant and equipment with a net book value of RMB612 million (2017: RMB658 million), to secure borrowings as disclosed in the note 25.

15. Prepaid Lease Payments

	2018 RMB'000	2017 RMB'000
The Group's prepaid lease payments comprise:		
Land use rights in PRC	**54,090**	55,338
Analysed for reporting purposes as:		
Current asset	**1,248**	1,248
Non-current asset	**52,842**	54,090
	54,090	55,338

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16. Particulars of Subsidiaries

Details of the Company's principal operating subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Shareholding/equity interests attributable to the Company as at 31 December 2018	31 December 2017	Principal activities
Directly held:					
Innovent HK	Hong Kong 17 May 2011	Issued capital of HK$10,000 and paid-up capital of HK$10,000	**100%**	100%	Investing Holding
Innovent Biologics (USA), Inc	United States of America 8 June 2018	Issued capital of US$nil and paid-up capital of US$nil	**100%**	N/A	Investing Company
Indirectly held:					
Innovent Suzhou	PRC 24 August 2011 (Note)	Registered capital of USD52,464,750 (equivalent to RMB337,611,640) and paid-up capital of USD52,464,750 (equivalent to RMB337,611,640)	**100%**	76.47%	Research development and sales of drugs
Innovent Technology	PRC 8 July 2013 (Note)	Registered capital of RMB40,000,000 and paid-up capital of RMB40,000,000	**100%**	76.47%	Research development and sales of drugs
Oriza Xinda	Hong Kong 20 March 2018	Issued capital of USD50,000 and paid-up capital of nil	**100%**	N/A	Investing Company

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

Note: Innovent Suzhou is a foreign invested limited liability company and Innovent Technology is a domestic limited liability company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

16. Particulars of Subsidiaries (Continued)

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-controlling interests:

Name of subsidiary	Place of establishment and place of business	Proportion of ownership interests and voting rights held by non-controlling interests as at 31 December		Loss allocated to non-controlling interests for the year ended 31 December		Accumulated non-controlling interests as at 31 December	
		2018	2017	**2018**	2017	**2018**	2017
				RMB'000	RMB'000	**RMB'000**	RMB'000
Innovent Suzhou	PRC	**–** (note)	23.53%	**(101,490)**	(153,732)	**–**	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 27).

Innovent Suzhou and its subsidiary

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets	**N/A**	1,434,205
Non-current assets	**N/A**	952,688
Current liabilities	**N/A**	159,018
Non-current liabilities	**N/A**	865,875
Equity attributable to		
– Owners of the Company	**N/A**	1,041,580
– Non-controlling interests of Innovent Suzhou	**N/A**	320,420

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

16. Particulars of Subsidiaries (Continued)

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

Innovent Suzhou and its subsidiary (Continued)

	1 January to 1 June 2018 RMB'000	2017 RMB'000
Revenue	**3,697**	18,538
Expenses	**(435,097)**	(672,005)
Loss for the year	**(431,400)**	(653,467)
Loss attributable to owners of the Company	**(329,910)**	(499,735)
Loss attributable to non-controlling interests of Innovent Suzhou	**(101,490)**	(153,732)
Loss for the year	**(431,400)**	(653,467)
Net cash outflow from operating activities	**(266,606)**	(487,407)
Net cash inflow (outflow) from investing activities	**549,274**	(349,455)
Net cash inflow from financing activities	**172,225**	103,112
Effect of exchange rate changes	**(1,994)**	(25,004)
Net cash inflow (outflow)	**452,899**	(758,754)

17. Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	**66,121**	57,722

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

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For the year ended 31 December 2018

18. Deposits, Prepayments and Other Receivables

	2018 RMB'000	2017 RMB'000
Rental deposits	**2,791**	2,123
Prepayments	**37,102**	15,276
Other receivables	**12,637**	7,270
Prepaid bonus (note a)	**111,882**	–
Subscription receivables for restricted shares (note b)	**99**	28,684
Receivables due from directors of the Company and employees (note c)	**8,805**	409
Other loans (note d)	**21,999**	–
Other tax recoverables	**127,301**	135,533
	322,616	189,295
Analysed as:		
Non-current	**250,307**	135,533
Current	**72,309**	53,762
	322,616	189,295

Notes:

(a) On 26 August 2018, in consideration of future performance of their duties as directors of the Company, the Company granted bonuses in the total amount of RMB198.5 million to two directors of the Company (including Dr. Yu), which is equal to the sum of 1) subscription receivables from these directors of the Company in the amount of RMB76.4 million (comprising subscription receivables for restricted shares in the amount of RMB29.2 million and subscription receivables for share options due from two directors of the Company in the amount of RMB47.2 million); 2) an amount of RMB32.9 million due from these two directors of the Company in respect of the withholding tax resulting from the restricted shares and share options subscriptions; and 3) an amount of RMB89.2 million due from these two directors of the Company in respect of the withholding tax resulting from the grant of the prepaid bonuses as at 26 August 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 of the Company in respect of the withholding tax resulting from the share subscriptions and the grant of these bonuses as at 26 August 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. This arrangement is considered as a non-cash transaction.

During the year ended 31 December 2018, RMB86.7 million was recognised as bonus expense based on the underlying terms of bonus plan and recorded under administrative expenses in accordance with the relevant terms of services agreements and RMB12.4 million is expected to be recognised in the next twelve months and therefore, it is classified as current assets.

Notes to the Consolidated Financial Statements

18. Deposits, Prepayments and Other Receivables (Continued)

Notes: (Continued)

(b) The balances represents subscription receivables due from various holders of the issuance of restricted shares in which RMB28.6 million is due from Dr. Yu as at 31 December 2017, a director of the Company. Based on the bonus arrangement as disclosed in note 18(a), the subscription receivables due from the director of the Company as at 31 December 2017 were converted to bonuses paid in advance to him on 26 August 2018. For the remaining receivables, it is repayable on demand in nature and is therefore classified as current assets.

The maximum amount outstanding in respect of the subscription receivables for restricted shares from Dr. Yu during the reporting period is RMB57.9 million (2017: RMB0.4 million).

(c) As at 31 December 2017, the balances amounting to RMB409,000 represent the subscription receivables for share options due from Dr. Yu. During the year ended 31 December 2018, the directors of the Company approved the acceleration of the share options for the directors of the Company and employees and therefore, receivables of the unsettled exercise price and other costs paid on behalf of them recognised. Based on the bonus arrangement as disclosed in note 18(a), the receivables due from the directors of the Company has been converted to bonuses paid in advance to them. As at 31 December 2018, the balances of RMB8.8 million represents due from a consultant and employees for their share options related cost. The amounts are unsecured, non-interest bearing and repayable on demand. The directors of the Company expected the Company will not request settlement in the next twelve months and is therefore classified as non-current receivables.

The maximum amount outstanding in respect of the receivables due from Dr. Yu and Ronald Hao Xi Ede is RMB38.8 million (2017: RMB0.4 million) and RMB12.6 million (2017: nil), respectively.

(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 foreign individuals. Along with the acceleration of share options as details disclosed in note 29(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 3.5% per annum. The loan will be repaid according to the various repayment schedule before May 2024, in which RMB7.3 million will be repaid within a year and classified as current receivables while the remaining RMB14.7 million 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 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 12m ECL allowance is insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

19. Contract Assets

	2018 RMB'000	2017 RMB'000
Research and development contract	**7,505**	–

A contract asset is recognised over the period of research and development services performed and represents the entity's right to collect considerations for the services transferred to date. Contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. The Group classifies these contract assets as current asset because the Group expects to collect upon the agreed payment terms, which is expected to be within one year.

There were no impairment losses recognised on any contract asset during the year ended 31 December 2018.

20. 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 2.30% to 5.10% per annum as at 31 December 2017. All investments had maturity date within one year and classified as financial assets mandatorily measured at FVTPL. No wealth management plan was held by the Group as at 31 December 2018.

21. Bank Balances and Cash

	2018 RMB'000	2017 RMB'000
Cash at bank	**4,525,286**	164,075
Term deposits	**–**	346,313
Cash on hand	**66**	83
	4,525,352	510,471
Analysed as:		
Cash and cash equivalents	**4,524,854**	183,761
Term deposits with maturity date between three months to one year	**–**	326,710
Pledged bank deposits (note) (note 25)	**498**	–
	4,525,352	510,471

Note: Pledged bank deposits represent deposits pledged to a 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 asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

21. Bank Balances and Cash (Continued)

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

	2018	2017
Term deposits	1.35% – 4.65%	2.16% – 2.49%
Cash at bank	0.01% – 0.385%	0.05% – 0.30%

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 the reporting period are as follows:

	2018 RMB'000	2017 RMB'000
USD	4,228,536	431,647
HKD	1,692	–

22. Trade Payables

	2018 RMB'000	2017 RMB'000
Trade payables	42,821	34,836

The average 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 the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
0 – 30 days	36,950	33,853
31 – 60 days	889	556
Over 60 days	4,982	427
	42,821	34,836

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

23. Other Payables and Accrued Expenses

	2018 RMB'000	2017 RMB'000
Accrued expenses		
– Research and development (Note)	**396,345**	77,115
– Selling and marketing	**50,155**	–
– Legal and professional fee	**7,410**	1,485
– Issue costs and listing expenses	**10,068**	–
– Others	**9,827**	5,955
	473,805	84,555
Interest payables	**1,185**	748
Other payables	**11,765**	7,192
Other tax payable	**1,082**	1,082
Payables in respect of acquisition of property, plant and equipment	**55,612**	8,854
Staff payroll payables	**57,049**	20,109
	600,498	122,540

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

24. Contract Liabilities

	2018 RMB'000	2017 RMB'000
Amounts received in advance of delivery for research and development services (note a)	**–**	900
Amounts received in advance for license to commercialise (note b)	**466,889**	348,765
	466,889	349,665
Analysed by		
Current	**17,002**	900
Non-current	**449,887**	348,765
	466,889	349,665

Notes:

(a) 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 year ended 31 December 2018.

(b) Revenue relating to license to commercialise is recognised over the commercialisation period, which the commercialisation is expected to commence in early 2019 (note 5). As a result, part of the license fee received is expected to be recognised as revenue in 2019 and classified under current liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

25. Borrowings

	2018 RMB'000	2017 RMB'000
Variable-rate borrowings – at amortised cost	**792,000**	510,000
Analysed as:		
Secured	**495,000**	500,000
Unsecured	**297,000**	10,000
	792,000	510,000
The carrying amounts of the above borrowings are repayable*:		
Within one year	**10,000**	5,000
Within a period of more than one year but not exceeding two years	**17,000**	10,000
Within a period of more than two years but not exceeding five years	**230,000**	110,000
Within a period of more than five years	**535,000**	385,000
	792,000	510,000
Less: Amounts due within one year shown under current liabilities	**(10,000)**	(5,000)
Amounts shown under non-current liabilities	**782,000**	505,000

* 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:

	2018	2017
Effective interest rate:		
Variable-rate borrowings	**4.9%**	4.9%

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

	2018 RMB'000	2017 RMB'000
Property, plant and equipment (note 14)	**611,667**	658,282
Land use rights (note 15)	**54,090**	55,338
Pledged bank deposits (note 21)	**498**	–
	666,255	713,620

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

26. Government Grants

	2018 RMB'000	2017 RMB'000
Subsidies related to property, plant and equipment (note)	**15,955**	11,211

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

27. 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 US'000	Equivalent to RMB RMB'000
Series A	11 October 2011	2	5,000,000	US$1	5,000	31,821
Series B						
– Tranche 1	21 June 2012	3	9,090,912	US$2.2	20,000	126,270
– Tranche 2	14 November 2012	1	2,272,727	US$2.2	5,000	31,500
– Tranche 3	20 May 2013*	1	2,272,727	US$2.2	5,000	31,095
			13,636,366			
Series C						
– Tranche 1A	26 December 2014	10	13,617,946	US$7.2375	98,560	604,168
– Tranche 1B	26 December 2014*	1	198,963	US$7.2375	1,440	9,032
– Tranche 2	17 December 2015	1	2,072,539	US$7.2375	15,000	95,367
			15,889,448			
Series D						
– Tranche 1	26 September 2016	9	15,081,805	US$12.2	184,000	1,228,374
– Tranche 2	23 December 2016*	4	6,393,373	US$12.2	78,002	542,078
			21,475,178			
Series E						
– Tranche 1	31 January 2018	2	6,706,409	US$13.42	90,000	570,051
– Tranche 2	4 April 2018	11	4,470,939	US$13.42	60,000	377,770
			11,177,348			

* Subscribed by onshore PRC investors

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

27. Other Financial Liabilities (Continued)

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 The Stock Exchange of Hong Kong Limited 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 recognised 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. Recognised Exchange means any nationally recognised 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 recognised 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.

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27. Other Financial Liabilities (Continued)

(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 receive, 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 held 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.

Notes to the Consolidated Financial Statements

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27. Other Financial Liabilities (Continued)

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 reorganisation or similar arrangement, as well as merger, consolidation or redemption in accordance with the then applicable Amended and Restated Memorandum and Articles of Association of the Company and (b) any change or adjustment of the equity interest held by such investor pursuant to the investment agreement. The Share Purchase 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 Options upon the Company's IPO 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 Options 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 investors' Share Purchase Options 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 Purchases Options 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 have been exercised during the year ended 31 December 2017.

Notes to the Consolidated Financial Statements

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27. Other Financial Liabilities (Continued)

Investment Arrangement – Onshore PRC Investors (Continued)

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 reorganise 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.

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.

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 during the year ended 31 December 2018 and Innovent Suzhou, Innovent Technology and Oriza Xinda have become 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 Options 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.

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27. Other Financial Liabilities (Continued)

Presentation and Classification (Continued)

The movement of the fair value of the Preferred Shares and gross obligation from Share Purchase Options written during the years ended 31 December 2017 and 2018 is as follows:

	Preferred Shares USD'000	Gross obligation from Share Purchase Options written USD'000	Total USD'000	Shown in consolidated financial statements as RMB'000
At 1 January, 2017	224,914	192,534	417,448	2,895,832
Issuance of Series D gross obligations from Share Purchase Options written (note a)	–	15,000	15,000	104,247
Change in fair value (note b)	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 b)	**639,680**	**(59,576)**	**580,104**	**4,338,044**
Automatic conversion of Preferred Share upon IPO	**(1,197,047)**	**–**	**(1,197,047)**	**(8,336,957)**
At 31 December, 2018	**–**	**–**	**–**	**–**

Notes:

(a) Part of the subscription consideration of Tranche 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.

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

Prior to the conversion into ordinary shares of the Company, the Preferred Shares and gross obligations from Share Purchase Options written 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.

27. Other Financial Liabilities (Continued)

Presentation and Classification (Continued)

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 as at 31 December 2017.

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 as at 31 December 2017 are as follows:

	2017
Time to liquidity	2 years
Risk-free interest rate	1.89%
Volatility	63.5%
Dividend Yield	0%
Possibilities under liquidation scenario	100%
Possibilities under IPO scenario	0%

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.

As at 31 October 2018, all Preferred Shares were automatically converted into ordinary shares and the fair value of the Preferred Shares were measured at the IPO issue price of HK$13.98.

Changes in fair value of the other financial liabilities were recorded in "loss from changes in fair value of other financial liabilities measured at FVTPL". Management considered that fair value change in the other financial liabilities that are attributable to changes of credit risk of this liability is not significant.

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28. Share Capital

	Number of ordinary shares	Amount USD'000
Ordinary shares		
Ordinary shares of USD0.0001 each (before share subdivision) and USD0.00001 each (after share subdivision)		
Authorised		
At 1 January 2017 and 31 December 2017 (before share subdivision)	443,999,007	44
Reclassification and re-designation on issuance of Series E Preferred Shares (note a)	(11,177,348)	(1)
Share subdivision (note b)	3,895,394,941	–
Automatic conversion of Preferred Shares upon IPO	671,783,400	7
At 31 December 2018	**5,000,000,000**	**50**

	Number of shares	Equivalent amount of ordinary shares USD'000	Amount RMB'000
Issues and fully paid			
At 1 January 2017	8,968,795	1	6
Issuance of restricted shares (note c)	3,020,697	–	2
At 31 December 2017	**11,989,492**	**1**	**8**
Exercise of share options (note d)	**9,010,004**	**1**	**6**
Issuance of ordinary shares (note e)	**2,235**	**–**	**–**
Share subdivision (note b)	**189,015,579**	**–**	**–**
Issuance of shares on initial public offering (note f)	**236,350,000**	**2**	**16**
Issuance of shares on exercise of over-allotment option (note f)	**35,452,000**	**–**	**2**
Automatic conversion of Preferred Shares upon IPO	**671,783,400**	**7**	**47**
At 31 December 2018	**1,153,602,710**	**11**	**79**

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28. Share Capital (Continued)

Notes:

(a) On 31 January 2018, the Company redesignated and reclassified 11,177,348 ordinary shares into Series E Preferred shares with details set out in note 27.

(b) 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 been 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.

(c) During the year ended 31 December 2017, 3,020,697 restricted shares with subscription price of US$1.1 per share were issued and vested with details set out in note 29(a).

(d) On 1 May 2018, the Company issued 9,010,004 ordinary shares of US$0.0001 par value each to Great Biono Fortune LP pursuit to an acceleration of options granted under the Plan, with a total exercise price of US$10,076,000 (equivalent to RMB63,874,000). The exercise price of the share options was settled through current accounts with directors of the Company and other loans to employees of the Group.

(e) During the year ended 31 December 2018, the Company issued 2,235 ordinary shares of US$0.0001 par value each to one of the independent directors of the Company to settle parts of his remuneration payable to him of USD30,000 (equivalent to RMB190,000).

(f) In connection with the Company's IPO, 236,350,000 and 35,452,000 ordinary shares of US$0.00001 par value each were issued at HK$13.98 per share for a total gross cash consideration of HK$3,304,173,000 and HK$495,619,000 (equivalent to RMB2,933,147,000 and RMB438,216,000), on 31 October 2018 and 22 November 2018, respectively.

29. 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.

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 a 36-months vesting period and released from the Repurchase Option, except for vesting due to specific clause and reasons.

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29. Share-Based Payment Transactions (Continued)

(a) Share award program (Continued)

Employees (Continued)

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$3,323,000 equivalent to RMB22,845,000 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 statement of profit or loss and other comprehensive income for restricted shares granted to employees and directors of the Company are RMB331,000 (2017: RMB19,868,000) for the year ended 31 December 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.

	Numbers of vested restricted shares	Weighted average grant date fair value (RMB)
Unvested as at 1 January 2017	950,000	10.37
Granted	3,020,697	13.91
Vested	(3,475,905)	(13.45)
Unvested as at 31 December 2017	**494,792**	**10.37**
Vested	**(1,306,250)**	**(10.37)**
Share subdivision	**3,384,378**	**–**
Unvested as at 31 December 2018	**2,572,920**	**1.04**

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29. Share-Based Payment Transactions (Continued)

(b) Option and share appreciation rights grant program

Except as provided otherwise in the grant letter or offer in any other form by the directors of the Company, 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 was outstanding nor issued during the reporting period.

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

	Number of share options			
	Directors of the Company		Employees	
	2018	2017	**2018**	2017
At the beginning of the year	**5,551,100**	4,101,459	**4,194,000**	3,201,500
Granted	**400,000**	1,449,641	**35,210,904**	1,049,000
Forfeited	**–**	–	**(1,619,500)**	(56,500)
Exercised (note a)	**(5,951,100)**	–	**(3,058,904)**	–
Share subdivision (note b)	**–**	–	**37,183,500**	–
At the end of the year	**–**	5,551,100	**71,910,000**	4,194,000

Notes:

(a) On 1 May 2018, pursuant to the board resolution of the compensation committee, the directors 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).

(b) 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 2018, 12,440,000 (after the effect of the share subdivision) (2017: 5,006,108 (before the effect of the share subdivision)) outstanding options were exercisable.

29. Share-Based Payment Transactions (Continued)

(b) Option and share appreciation rights grant program (Continued)

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

	Weighted average exercise price			
	Directors of the Company		Employees	
	2018*	2017	**2018***	2017
Granted	**US$0.20**	US$1.98	**US$0.25**	US$1.98
Forfeited	**N/A**	N/A	**US$0.13**	US$1.16
Cancelled	**N/A**	N/A	**N/A**	N/A
Exercised	**US$0.09**	N/A	**US$0.16**	N/A

* Adjusted by the effect of share subdivision

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 of the Company with best estimate.

The key inputs into the model were as follows:

	2013	2014	2015	2016	2017	**2018***
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$0.14 - US$1.65**
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$1.79**
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% - 80.48%**
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%	**2.72% - 3.28%**
Expected dividend yield	0%	0%	0%	0%	0%	**0%**

* Adjusted by the effect of share subdivision

The directors of the Company 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 recognised in the consolidated statement of profit or loss and other comprehensive income for share options granted to directors of the Company and employees are RMB52,913,000 (2017: RMB9,427,000) for the year ended 31 December 2018.

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30. Operating Leases Commitments

The Group as lessee

At the end of the 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:

	2018 **RMB'000**	2017 RMB'000
Within one year	**8,704**	4,542
In the second to fifth year inclusive	**18,131**	17,612
	26,835	22,154

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

31. Capital Commitment

	2018 **RMB'000**	2017 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**107,414**	131,270

32. 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 was RMB19,187,000 (2017: RMB15,169,000) for the year ended 31 December 2018.

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33A. Transactions and Balances with Related Parties of a Shareholder

Except as disclosed elsewhere in the consolidated financial statements, the Group also entered into the following significant transactions during the reporting period with certain related parties of a shareholder which has the authority to appoint a director in the Company's board.

(I) Transactions

Nature of transaction	2018 RMB'000	2017 RMB'000
Collaboration fee received	**74,192**	24,261
Consulting service expenses paid	**(3,742)**	(4,306)

(II) Balance

	2018 RMB'000	2017 RMB'000
Contract liabilities	**466,889**	348,765

33B. 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.

33C. Compensation of Key Management Personnel

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

	2018 RMB'000	2017 RMB'000
Short term benefits	**101,351**	8,001
Retirement benefit scheme contributions	**232**	104
Share based payment expenses	**29,540**	4,230
	131,123	12,335

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

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34. 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 shareholders and maintaining an adequate capital structure. The Group's overall strategy remain unchanged from prior year.

The capital structure of the Group consists of debts, which includes bank borrowings disclosed in note 25, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company 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.

35. Financial Instruments

35a. Categories of financial instruments

	2018 **RMB'000**	2017 RMB'000
Financial assets		
Amortised cost	**4,571,683**	548,957
Mandatorily measured at FVTPL	**–**	809,484
Financial liabilities		
Amortised cost	**902,198**	560,882
Designated as at FVTPL		
– Preferred Shares	**–**	1,607,998
– Gross obligation from Share Purchase Options written	**–**	1,443,094

Notes to the Consolidated Financial Statements

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35. Financial Instruments (Continued)

35b. Financial risk management objectives and policies

The Group's financial instruments include deposits, other receivables, subscription receivables for restricted shares, receivables due from directors of the Company and employees, other loans receivables, other financial assets, bank balances and cash, trade payables, other payables and borrowings. 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 and trade and other payables are denominated in foreign currencies of respective group entities which expose the Group 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 significant foreign exchange of the Group 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	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**4,244,681**	460,740	**(97)**	(3,068,904)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in RMB against USD. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (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.

	2018	2017
	RMB'000	RMB'000
Impact of USD on profit (loss) for the year	**212,229**	(130,408)

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

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35. Financial Instruments (Continued)

35b. Financial risk management objectives and policies (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to other loans (note 18) and cash flow interest rate risk in relation to variable-rate bank borrowings (note 25) and bank balances (note 21). 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 amount of the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease in the prevailing rate of relevant bank 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 year ended 31 December 2018 would increase/ decrease by RMB3,960,000 (2017: RMB2,550,000).

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.

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.

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35. Financial Instruments (Continued)

35b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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 18 details the Group's maximum exposure to credit risk for subscription receivables, 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.

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35. Financial Instruments (Continued)

35b. Financial risk management objectives and policies (Continued)

Liquidity risk

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

As at 31 December 2018, the Group has available unutilised short-term bank loan facilities of RMB128,000,000 (2017: RMB15,000,000).

The following table details the Group's remaining contractual maturity for the trade and other payables, the Preferred Shares designated as at FVTPL and gross obligation from Share Purchase Options written designated as at FVTPL of the Group which has been drawn up based on the undiscounted cash flows based on the earliest date on which the Group can be required to pay. 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 the reporting period.

Liquidity table

	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
At 31 December 2018								
Trade payables	**–**	**42,821**	**–**	**–**	**–**	**–**	**42,821**	**42,821**
Other payables	**–**	**67,377**	**–**	**–**	**–**	**–**	**67,377**	**67,377**
Bank borrowings – variable rate	**4.9%**	**14,420**	**33,843**	**54,863**	**329,148**	**586,622**	**1,018,896**	**792,000**
		124,618	**33,843**	**54,863**	**329,148**	**586,622**	**1,129,094**	**902,198**
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

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35. Financial Instruments (Continued)

35c. 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 the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

Financial assets/ financial liabilities	Fair value as at 2018 RMB'000	2017 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
The Group						
(1) Other financial assets	-	809,484	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	-	1,607,998	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 2018: N/A 2017: 2 years (note a)	The longer the time to liquidity, the higher the fair value
(3) Gross obligation from Share Purchase Options written	-	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 2018: N/A 2017: 2 years (note b)	The longer the time to liquidity, the higher the fair value

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35. Financial Instruments (Continued)

35c. Fair value measurements of financial instruments (Continued)

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

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 2017 by RMB130,756,000, decrease the carrying amount as at 31 December 2017 by RMB172,039,000 and Nil, 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 2017 by RMB8,496,000, or decrease the carrying amount as at 31 December 2017 by RMB45,798,000.

(ii) Reconciliation of Level 3 fair value measurements

Details of reconciliation of Level 3 fair value measurement for Preferred Shares and gross obligation from Share Purchase Options written over subsidiary for the year ended 31 December 2018 are set out in note 27.

Fair value gains or losses on financial liabilities at FVTPL are included in 'Loss from changes in fair value 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 financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

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36. Reconciliation Of Liabilities Or Assets Arising From Financing Activities

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

	Interest payables RMB'000 (note 23)	Borrowings RMB'000 (note 25)	Receivables due from directors of the Company and an employees and other loans RMB'000	Subscription receivables for restricted shares RMB'000	Gross obligation from Share Purchase Options written RMB'000	Preferred shares RMB'000	Accrued issue costs RMB'000	Total RMB'000
At 1 January 2017	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)	**(32,847)**	**282,000**	**-**	**-**	**-**	**947,821**	**(134,474)**	**1,062,500**
Exercise of share options	**-**	**-**	**(63,874)**	**-**	**-**	**-**	**-**	**(63,874)**
Exercise of Share Purchase Options	**-**	**-**	**-**	**-**	**(1,033,428)**	**1,033,428**	**-**	**-**
Net foreign exchange gain	**-**	**-**	**(4,274)**	**(623)**	**-**	**-**	**-**	**(4,897)**
Interest expenses	**33,284**	**-**	**-**	**-**	**-**	**-**	**-**	**33,284**
Prepaid individual income tax for directors of the Company and employees	**-**	**-**	**(32,728)**	**(9,636)**	**-**	**-**	**-**	**(42,364)**
Transaction costs attributable to issuance of new shares	**-**	**-**	**-**	**-**	**-**	**-**	**136,104**	**136,104**
(Gain)loss on fair value changes of other financial liabilities	**-**	**-**	**-**	**-**	**(409,666)**	**4,747,710**	**-**	**4,338,044**
Automatic conversion of Preferred Shares upon IPO	**-**	**-**	**-**	**-**	**-**	**(8,336,957)**	**-**	**(8,336,957)**
Settlement of subscription receivable upon IPO	**-**	**-**	**70,481**	**38,844**	**-**	**-**	**-**	**109,325**
At 31 December 2018	**1,185**	**792,000**	**(30,804)**	**(99)**	**-**	**-**	**1,630**	**763,912**

Note: The cash flows from interest payables, borrowings, share repurchase payable, subscription receivables, gross obligation from Share Purchase Options written and Preferred Shares make up the net amount of proceeds and repayments in the consolidated statement of cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37. Statement of Financial Position and Reserves of the Company

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investment in a subsidiary (note)	1,122,929	1,924,889
Other receivables	29,649	–
Amount due from a subsidiary	2,530,544	–
	3,683,122	1,924,889
Current assets		
Other receivables	11,156	29,093
Amount due from a subsidiary	555	646
Bank balances	3,237,852	41,238
	3,249,563	70,977
Current liabilities		
Trade payables	97	2,597
Other payables and accrued expenses	16,338	1,518
Amount due to a subsidiary	3,505	–
	19,940	4,115
Net current assets	3,229,623	66,862
Total assets less current liabilities	6,912,745	1,991,751
Non-current liability		
Other financial liabilities	–	2,288,836
Net assets (liabilities)	6,912,745	(297,085)
Capital and reserves		
Share capital	79	8
Reserves	6,912,666	(297,093)
Total equity (deficiency of total equity)	6,912,745	(297,085)

Note: During the year ended 31 December 2018, changes in interest in a subsidiary was attributed by the deemed return of investment pursuant to the execution of the Framework Agreement (as defined in note 27).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37. Statement of Financial Position and Reserves of the Company (Continued)

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

	Share premium RMB'000	Share-based payments reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	10,943	19,906	(314,334)	(283,485)
Loss and total comprehensive expenses 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 equity-settled share based payment	–	29,295	–	29,295
At 31 December 2017	**54,208**	**28,779**	**(380,080)**	**(297,093)**
Loss and total comprehensive expenses for the year	**–**	**–**	**(4,479,694)**	**(4,479,694)**
Issuance of ordinary shares	**190**	**–**	**–**	**190**
Exercise of share options	**124,046**	**(60,178)**	**–**	**63,868**
Issue of shares pursuant to IPO	**3,371,345**	**–**	**–**	**3,371,345**
Transaction costs attributable to issuance of new shares	**(136,104)**	**–**	**–**	**(136,104)**
Vesting of restricted shares	**647**	**(647)**	**–**	**–**
Recognition of equity-settled share based payment	**–**	**53,244**	**–**	**53,244**
Automatic conversion of Preferred Shares upon IPO	**8,336,910**	**–**	**–**	**8,336,910**
At 31 December 2018	**11,751,242**	**21,198**	**(4,859,774)**	**6,912,666**

38. Subsequent Events

Except as disclosed elsewhere of the consolidated financial statements, the Group repaid RMB5 millions for the existing bank loan facility subsequent to 31 December 2018.

Three Year Financial Summary

Condensed Consolidated Income Statements

	For the year ended 31 December		
	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
Revenue	–	18,538	**9,477**
Other income	33,307	64,406	**93,795**
Other gains and losses	(81,931)	(42,079)	**(4,272,090)**
Research and development expenses	(384,653)	(611,922)	**(1,221,687)**
Administrative expenses	(52,875)	(79,490)	**(220,315)**
Selling, marketing and business development expenses	(4,505)	(8,278)	**(136,006)**
Listing expense	–	–	**(57,187)**
Finance costs	(53,799)	(57,225)	**(68,969)**
Loss and total comprehensive expenses for the year	(544,456)	(716,050)	**(5,872,982)**

Condensed Consolidated Statements of Financial Position

	For the year ended 31 December		
	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
Current assets	1,870,750	1,445,755	**4,686,261**
Inventories	36,631	57,722	**66,121**
Deposits, prepayments and other receivables	23,756	53,762	**72,309**
Contract assets	–	–	**7,505**
Income tax recoverables	13,874	13,068	**13,726**
Other financial assets	782,250	809,484	**–**
Prepaid lease payments	1,248	1,248	**1,248**
Bank balances and cash	1,012,991	510,471	**4,525,352**
Current liabilities	76,199	163,276	**670,321**
Trade payables	21,198	34,836	**42,821**
Other payables and accrued expenses	55,001	122,540	**600,498**
Contract liabilities	–	900	**17,002**
Borrowings	–	5,000	**10,000**
Net current assets	1,794,551	1,282,479	**4,015,940**
Non-current assets	945,050	1,011,461	**1,426,316**
Non-current liabilities	3,697,819	3,916,068	**1,247,842**
Net assets (liabilities)	(958,218)	(1,622,128)	**4,194,414**
Total equity (deficiency of total equity)	(958,218)	(1,622,128)	**4,194,414**

Definitions

"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Articles of Association"	the thirteenth amended and restated articles of association of the Company adopted on 15 October 2018 with effect from Listing, as amended from time to time
"AGM"	the annual general meeting of the Company to be held on Friday, 14 June 2019
"Audit Committee	the audit committee of the Company
"Board" or "Board of Directors"	the board of directors of our Company
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China" or the "PRC"	the People's Republic of China, and for the purpose of this report only, except where the context requires otherwise, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company", "our Company" or "the Company"	Innovent Biologics, Inc. (信達生物製藥), an exempted company with limited liability incorporated under the laws of the Cayman Islands on 28 April 2011
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transactions"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of our Company
"Dr. Yu"	Dr. De-Chao Michael Yu, our Chief Executive Officer, Chairman of the Board and executive Director
"Eli Lilly"	Eli Lilly and Company, a U.S. company, organised and existing under the laws of the State of Indiana on 17 January 1901, having a place of business at Lilly Corporate Center, Indianapolis, Indiana 46285
"GLP"	good laboratory practice
"Group", "our Group", "the Group", "we", "us" or "our"	the Company and its subsidiaries from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

Definitions

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
"Incyte"	Incyte Biosciences International Sàrl, a subsidiary of Incyte Corporation (the shares of which are listed on the Nasdaq Global Select Market (Ticker Symbol: INCY))
"IND"	investigational new drug or investigational new drug application, also known as clinical trial application in China
"Innovent HK"	Innovent Biologics (HK) Limited, a company incorporated under the laws of Hong Kong on 17 May 2011 and one of the Company's principal subsidiaries
"Innovent Suzhou"	Innovent Biologics (Suzhou) Co., Ltd. (信達生物製藥(蘇州)有限公司), a company established under the laws of the PRC on 24 August 2011 and one of the Company's principal subsidiaries
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	31 October 2018, the date on which the Shares are listed on the Stock Exchange and on which dealings in the Shares are fist permitted to take place on the Stock Exchange
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"NDA"	new drug application

Definitions

"NMPA"	China National Medical Products Administration (國家藥品監督管理局), successor to the China Food and Drug Administration (國家食品藥品監督管理總局)
"Nomination Committee"	the nomination committee of the Company
"Post-IPO ESOP"	the post-IPO share option scheme adopted by the Company on 12 June 2018
"PRC Legal Adviser"	Han Kun Law Offices, our legal advisor on PRC law
"Pre-IPO Share Incentive Plan"	the pre-IPO share incentive plan adopted by the Company on 10 May 2012 as amended from time to time,
"Prospectus"	the prospectus of the Company dated 18 October 2018
"Remuneration Committee"	the remuneration committee of the Company
"RMB" or "Renminbi"	Renminbi, the lawful currency of PRC
"Reporting Period"	the year ended 31 December 2018
"RS Plan"	the Innovent Biologics, Inc. 2018 Restricted Share Plan adopted by the Company on 15 October 2018
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company, currently with a par value of US$0.00001 each
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed to it in the Listing Rules
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars", "U.S. dollars", "US$" or "USD"	United States dollars, the lawful currency of the United States
"%"	per cent

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