You should read the following discussion and analysis in conjunction with our audited consolidated financial statements included in "Appendix I—Accountants' Report" to this Prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs, which may differ in material aspects from generally accepted accounting principles in the United States and other jurisdictions. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. For details, see "Forward-looking Statements" and "Risk Factors."

OVERVIEW

We are a leading clinical-stage biopharmaceutical company in China with a fully-integrated proprietary biologics platform in bispecifics and protein engineering. As of the Latest Practicable Date, we had a total of eight oncology drug candidates in our pipeline, four of which were in clinical stage. For more information, see "Business—Our Product Pipeline."

We currently have no products approved for commercial sale and have not generated any revenue from product sales. We have never been profitable and have incurred operating losses in each year since our inception. Our total comprehensive expenses were RMB64.8 million, RMB202.6 million and RMB58.8 million for the years ended December 31, 2017 and 2018 and the six months ended June 30, 2019, respectively.

We expect to incur significant expenses and operating losses for at least the next several years as we further our pre-clinical research and development efforts, continue the clinical development of, and seek regulatory approval for, our drug candidates, launch commercialization of our pipeline products, and add personnel necessary to operate our business. Subsequent to the Listing we expect to incur costs associated with operating as a public company. We expect that our financial performance will fluctuate from period to period due to the development status of our drug candidates, regulatory approval timeline and commercialization of our drug candidates after approval.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

As of the Latest Practicable Date, we had not generated any revenue from product sales, and we do not expect to generate revenue from product sales in the near future. We believe that key factors affecting our results of operations, financial position and cash flows include the following:

Clinical Trial Progress and Commercialization of Our Drug Candidates

Our business and results of operations depend on our ability to commercialize our drug candidates, if they are approved, for marketing. As of the Latest Practicable Date, our pipeline comprised eight drug candidates ranging from pre-clinical to clinical programs, including four drug candidates at clinical stage. As of the Latest Practicable Date, we had initiated a number of clinical trials for our clinical-stage drug candidates, and we expect to initiate additional clinical trials in the future. See "Business" for details. We hold global commercialization rights of all of our pipeline candidates except for KN035. 3DMed, our collaboration partner, is responsible for clinical trials and commercialization of KN035, while we own the right to manufacture and supply KN035 to 3DMed and, if it is approved and commercialized, are entitled to share the profits of KN035. See "—Our Present and Future Collaborations" below. We received an upfront payment of RMB10 million from 3DMed for KN035, and expect to recognize this as revenue once KN035 is approved and commercialized. Our KN035 is currently undergoing a phase II pivotal trial for dMMR/MSI-H solid tumors and a phase III pivotal trial for BTC in China.

For KN046, our Core Product, we have completed phase Ia dose escalation studies and are currently conducting phase Ib dose expansion studies in Australia and China. We have completed subject enrollment for the phase I clinical trial in Australia. We are also conducting a number of clinical trials for KN046, including a phase Ib/II clinical trial for locally advanced or metastatic TNBC, a phase II clinical trial for locally advanced/recurrent or metastatic ESCC, and two phase II clinical trials for locally advanced unresectable or metastatic NSCLC. We may make a BLA submission to the NMPA in 2021 for our KN046 if clinical trial results are positive, and will also consider making BLA submissions for our other drug candidates based on clinical trial results in the coming years. To date, we do not have any products approved for commercial sale and have not generated any revenue from product sales. We expect to begin generating revenue from product sales as we gradually commercialize our drug candidates over the coming years.

Cost Structure

Our operating costs during the Track Record Period primarily consisted of the following:

- *Research and development expenses.* For details of our research and development expenses, see "—Research and Development Expenses" below.

- *Administrative expenses.* A major component of our administrative expenses is staff costs, which increased from 2017 to 2018 primarily due to an increase in our headcount as our business expanded. From the six months ended June 30, 2018 to the six months ended June 30, 2019, our staff costs significantly increased primarily because (i) we cancelled certain unvested share options under the pre-IPO share option plan I and, as a result, recognized the corresponding share-based payment expenses immediately under IFRS 2; and (ii) we further increased our headcount to support business expansion. For details of the share-based payment expenses, see Notes 4 and 29(a)(i) of "Appendix I—Accountants' Report" to this Prospectus.

We expect our cost structure to evolve as we develop and expand our business. As the clinical trials of our drug candidates continue to progress and as we gradually commercialize our product pipeline, we expect to incur additional costs in relation to our raw materials procurement, manufacturing and sales and marketing, among other things. Moreover, to support our business growth, we also expect to expand our headcount, particularly for our research and development and commercialization teams, and incur higher staff costs as a result.

Research and Development Expenses

Research and development is critical to the sustainable growth of our business and we have focused on the research and development of our drug candidates by devoting significant resources on research and development activities. Research and development expenses have been and are expected to continue to be a major component in our cost structure.

Our research and development expenses during the Track Record Period primarily consisted of:

- third-party contracting costs incurred under agreements with consultants, CROs, CMOs, clinical trial sites and other service providers that conduct research and development activities on our behalf;

- staff costs, including salaries, compensation and benefits, for research and development personnel;

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

- other expenses such as office rental costs, utilities and depreciation and amortization.

Our research and development expenses increased from RMB53.2 million in 2017 to RMB65.6 million in 2018, and was RMB55.8 million for the six months ended June 30, 2019. The increase in our research and development expenses during the Track Record Period primarily related to the advancement of our KN046 drug development program. As we moved the program from pre-clinical studies in 2017 to clinical trials in 2018 and 2019, we incurred more costs to engage CROs, consultants and other third-party service providers, which are a major cost component of our research and development expenses. Moreover, we incurred more staff costs for our research and development personnel as we increased the headcount to support our growing research and development activities. We expect our research and development expenses to continue to increase for the foreseeable future as we move these drug candidates into additional clinical trials, including potential registration trials, and as we continue to support the clinical trials of our drug candidates as treatments for additional indications.

Fair Value of Convertible Redeemable Preferred Shares

Our Company issued Series A Preferred Shares and Series B Preferred Shares to a group of investors during the Track Record Period. These Preferred Shares are convertible redeemable preferred shares designated as financial liabilities at FVTPL, the fair value of which as of December 31, 2018 and June 30, 2019 was RMB900.6 million and RMB1,288.6 million, respectively. For details, see "—Critical Accounting Judgment and Estimates and Significant Accounting Policies—Key Sources of Estimation Uncertainty." Our Preferred Shares will be converted into Shares upon the Listing, after which point we will no longer recognize any changes in fair value. The redemption right attached to our Preferred Shares has been terminated. See Note 27 of "Appendix I—Accountants' Report" to this Prospectus.

Our Present and Future Collaborations

We currently have three collaboration arrangements with third parties. We are co-developing KN035 with 3DMed, in which we expect to incur costs in manufacturing and supplying KN035, and are entitled to share the profits of KN035 if the drug candidate is approved and commercialized. We are jointly developing a combination therapy with KN046 with Sunshine Lake, in which we expect to share the revenue with Sunshine Lake based on our proportional contribution to research and development. We license out certain patents to Suzhou Dingfu to develop a tumor-targeting cytokine drug, and will receive royalties or other payments depending on how Suzhou Dingfu commercializes the products they develop. We may continue to enter into collaborations in the future. For any such future collaborations, we may incur expenses, pay or receive upfront or milestone payments or royalties, and recognize revenue from commercialized products, which will have an effect on our results of operations.

Funding of Our Operations

Our operations are capital intensive, and we expect to continue to require significant funding for researching and developing our product pipeline, build our manufacturing facilities and expand our business. During the Track Record Period and up to the Latest Practicable Date, we funded our operations primarily through proceeds from our Pre-IPO Investments and bank borrowings. Going forward, we expect to fund our product development in part with revenue generated from our sale of products, as well as net proceeds from the Global Offering, proceeds from our Pre-IPO Investments and bank borrowings. In the longer term, our ability to commercialize our products and generate revenue may have an impact on our cash flow plan.

BASIS OF PRESENTATION

Our historical financial statements was prepared in accordance with IFRSs issued by the IASB and the principle of merger accounting applicable to our Reorganization. Prior to the Reorganization, Jiangsu Alphamab was directly held by Suzhou Alphamab, a company controlled by Dr. Xu, our Controlling Shareholder. We underwent the Reorganization described in "History, Reorganization and Corporate Structure", which involved: (i) the transfer of the business of developing and manufacturing biologics drugs for oncology treatment (the "**Oncology Business**") from Suzhou Alphamab to Jiangsu Alphamab pursuant to the Asset Transfer and Patent Licensing Agreement; (ii) the acquisition of the 30% equity interest of Jiangsu Alphamab by Dr. Xu from Suzhou Alphamab; (iii) the establishment of the Company, Alphamab Oncology (BVI), Alphamab Oncology (HK); and (iv) the acquisition of Jiangsu Alphamab (together with Alphamab Australia) by Alphamab Oncology (HK).

Since Suzhou Alphamab and Jiangsu Alphamab were under common control by Dr. Xu, the transfer of the Oncology Business has been accounted for as a business combination involving entities under common control using the principles of merger accounting.

Our consolidated statement of financial position as of December 31, 2017 has been prepared to present the assets and liabilities of the entities comprising our Group and the Oncology Business as if the Oncology Business had been operated under the same group at the beginning of the Track Record Period taking into account the respective dates of incorporation, with consideration of the controlling interest held by Dr. Xu in these entities and the Oncology Business. Items that do not meet the criteria above are not included in our historical financial information.

Our consolidated statement of profit or loss and other comprehensive income, consolidated statement of change in equity and consolidated statement of cash flows for the years ended December 31, 2017 and 2018 include the results, changes in equity and cash flows of the entities comprising our Group and the Oncology Business as if the Oncology Business had been operated under our Group since the beginning of the Track Record Period or since the respective dates of incorporation, which is a shorter period, with consideration of the controlling interest held by Dr. Xu in these entities and the Oncology Business.

To the extent that the assets, liabilities, income and expenses are specifically identified to the Oncology Business, these items are included in our historical financial statements throughout the Track Record Period. Expenses which are practicably difficult to identify specifically for the Oncology Business are allocated to the Oncology Business on the following basis:

- *Research and development expenses.* Included in research and development expenses are other material costs, depreciation of property, plant and equipment, depreciation of right-of-use assets and repair and maintenance fee of property, plant and equipment, which were allocated based on the percentage of direct materials consumed specifically by the Oncology Business over the total consumption in Suzhou Alphamab; and

- *Administrative expenses.* Administrative expenses as a whole were allocated based on the percentage of research and development expense ratio of the Oncology Business to Suzhou Alphamab's total research and development expenses.

Our Directors believe and confirm that the methods of allocation of the above expense items present the best and reasonable basis of estimating what the Oncology Business's operating results would have been on a stand-alone basis for the Track Record Period. Other than those items mentioned above, all other items of assets and liabilities, income and expenses of the Oncology Business are specifically identified.

CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES AND SIGNIFICANT ACCOUNTING POLICIES

Our critical accounting judgments and estimates and significant accounting policies which are important for an understanding of our financial condition and results of operations are set forth in details in Notes 4 and 5 to the Accountants' Report set out in Appendix I of this Prospectus.

Critical accounting judgments and estimates are those that are most important to the portrayal of our financial conditions and results of operations and require our management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures and the disclosure of contingent liabilities during the Track Record Period, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and our best assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations. Some of our accounting policies require a higher degree of judgment than others in their application. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Critical Judgement in Applying Accounting Policies

Research and Development Expenses

Expenditure on research and development activities is recognized as expenses in the period in which it is incurred. Development costs incurred on our drug candidates will be capitalized and deferred only when the Group can demonstrate:

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

Our Directors will assess the progress of each of our research and development projects and determine whether the criteria for capitalization are met. During the years ended December 31, 2017 and 2018 and the six months ended June 30, 2019, all research and development costs were expensed when incurred.

Key Sources of Estimation Uncertainty

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

Equity-settled Pre-IPO Share Option Plans Conditional Upon Completion of the Listing

Our pre-IPO share options are exercisable only upon completion of the Listing, which requires the estimation by our Directors on the probability of the Listing. When the Listing becomes highly probable, the fair value of the share options will start to be charged to profit or loss in the remainder of the vesting period. The estimates by our Directors are reference to the most likely outcome of the Listing. During the Track Record Period, we cancelled certain unvested share options under the pre-IPO share options plan I and, as a result, recognized RMB12.3 million as share-based payment expenses. As our Directors considered the Listing was not probable at the end of each period during the Track Record Period, no other share-based payment expenses in relation to the pre-IPO share option plans I and II were recognized.

Useful Lives of Property, Plant, and Equipment

Our Directors determine the estimated useful lives and the depreciation method in determining the related depreciation charges for our property, plant and equipment. This estimate references the useful lives of property, plant and equipment of a similar nature and with similar functions in the industry. Our Directors 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 of December 31, 2017 and 2018 and June 30, 2019, the carrying amounts of property, plant and equipment were approximately RMB11.1 million, RMB104.9 million and RMB182.6 million, respectively, as disclosed in Note 16 to the Accountants' Report set out in Appendix I to this Prospectus.

Fair Value of Convertible Redeemable Preferred Shares

Our Company issued Series A Preferred Shares and Series B Preferred Shares to a group of investors during the Track Record Period as set out in Note 27 to the Accountants' Report set out in Appendix I to this Prospectus. The Series A Preferred Shares and Series B Preferred Shares are convertible redeemable preferred shares measured at fair value for financial reporting purposes. These financial liabilities were valued by our Directors with reference to valuations carried out by an independent qualified professional valuer not connected to us, which has appropriate qualifications and experience in valuation of similar financial instruments. The fair value of these financial liabilities is established by using valuation techniques as disclosed in Note 27 to the Accountants' Report set out in Appendix I to this Prospectus. Valuation techniques are certified by the 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 our specific data. However, it should be noted that some inputs, such as fair value of the ordinary shares as assessed by the Directors of our Company, possibilities under different scenarios such as initial public offerings, liquidation and redemption, and discount for lack of marketability, require management estimates. Our Directors' estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it might lead to a change in the fair values of the financial liabilities at FVTPL. The fair values of the convertible redeemable preferred shares classified as financial liabilities at FVTPL as of December 31, 2018 and June 30, 2019 were RMB900.6 million and RMB1,288.6 million, respectively.

In relation to the fair value assessment of other financial liabilities, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of Preferred Shares agreements; (ii) engaged an independent valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, such as fair value of the ordinary shares of our Company, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of the level 3 financial liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Notes 27 and 31c to the Historical Financial Information of the Group for the Track Record Period as set out in the accountants report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in "Appendix I—Accountants' Report" in this Prospectus. The Reporting Accountants' opinion on the Historical Financial Information of the Group during the Track Record Period as a whole is set out on page I-2 of "Appendix I—Accountants' Report" in this Prospectus.

The Joint Sponsors have conducted, among others, the following due diligence work in respect of the valuation analysis on level 3 financial instruments performed by the valuer: (1) discussed with the Company to understand the nature and details of the financial instruments; (2) obtained and reviewed the relevant subscription agreements regarding the financial instruments; (3) discussed with the Company and the Reporting Accountants about the key basis and assumptions for the valuation of the financial instruments; (4) discussed with the valuer about the assumptions and methodology used in the valuation report; and (5) reviewed the relevant notes in the Accountants' Report as contained in Appendix I to this Prospectus and relevant documents provided by valuer, including the valuation report. Having considered the work done by the Company and the Reporting Accountants, and the relevant due diligence work conducted as stated above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis performed by the valuer on the level 3 financial instruments.

Significant Accounting Policies

Share-based Payment Transactions with Cash Alternatives

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognized in profit or loss for the year. For cash-settled share-based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share based payments.

At the date of settlement, the Group re-measures the liability to its fair value. If the Group issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued. If the Group pays in cash on settlement rather than issuing equity instruments, that payment shall be applied to settle the liability in full. Any equity component previously recognized shall remain within equity. See Note 4 of the Accountants' Report set out in Appendix I to this Prospectus.

Adoption of IFRS 9, IFRS 15 and IFRS 16

For the purposes of preparing our historical financial information for the Track Record Period, we have consistently applied applicable new and revised IFRSs, including IFRS 15 and IFRS 16, throughout the Track Record Period, except that we adopted IFRS 9 on January 1, 2018 and IAS 39 prior to January 1, 2018. We applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. Apart from certain additional disclosure requirements, the adoption of IFRS 9 and IFRS 15 did not have any material effect on our financial position or results of operations during the Track Record Period. Although IFRS 16 had an impact on the recognition of right-of-use assets and lease liabilities, it did not have a material impact on net assets (liabilities) and net loss. Moreover, the adoption of IFRS 16 did not have a material impact on our current ratio and quick ratio during the Track Record Period.

DESCRIPTION OF CERTAIN KEY ITEMS OF THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statement of profit or loss and other comprehensive income for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the year ended December 31,		**For the six months ended June 30,**	
	2017	**2018**	**2018**	**2019**
	(RMB in thousands)			
			(unaudited)	
Other income	1,428	783	403	11,025
Other gains (losses), net	–	(9,833)	(2)	1,280
Fair value change of convertible redeemable preferred shares	–	(26,284)	–	22,436
Research and development expenses	(53,221)	(65,608)	(26,577)	(55,752)
Administrative expenses	(13,025)	(25,857)	(9,240)	(24,661)
Reorganization related expenses	–	(69,416)	(64,453)	–
Finance costs	(8)	(1,507)	(173)	(235)
Listing expenses	–	(4,911)	–	(12,878)
Loss before taxation	**(64,826)**	**(202,633)**	**(100,042)**	**(58,785)**
Income taxation	–	–	–	–
Loss for the year/period	**(64,826)**	**(202,633)**	**(100,042)**	**(58,785)**

	For the year ended December 31,		For the six months ended June 30,	
	2017	2018	2018	2019
	(RMB in thousands)			
			(unaudited)	
Other comprehensive income for the year/period				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of a foreign operation	–	40	2	(9)
Total comprehensive expense for the year/period	(64,826)	(202,593)	(100,040)	(58,794)
Loss for the year/period attributable to:				
Owners of the Company	(33,061)	(149,843)	(51,951)	(58,785)
Non-controlling interests	(31,765)	(52,790)	(48,091)	–
	(64,826)	(202,633)	(100,042)	(58,785)
Total comprehensive expense for the year/period attributable to:				
Owners of the Company	(33,061)	(149,803)	(51,949)	(58,794)
Non-controlling interests	(31,765)	(52,790)	(48,091)	–
	(64,826)	(202,593)	(100,040)	(58,794)

Other Income

Other income primarily consists of interest income, government grants and other miscellaneous income including income generated from one-off sales of protein components to an Independent Third Party. Our interest income during the Track Record Period refers to the interest we generated from bank balances, which primarily consisted of bank deposits of proceeds from our Pre-IPO Investments. We recorded government grants for our oncology drug development programs during the Track Record Period. In 2017, government grants of RMB1.2 million from local government authorities in Suzhou and Jiangsu were primarily for KN026 and KN035, as well as in support of oncology research and development activities. In 2018, government grants of RMB0.4 million were primarily from local government authorities in support of the research and development of KN035. For the six months ended June 30, 2019, we recorded government grants of RMB2.7 million primarily for our clinical trial in Australia. The following table sets forth the breakdown of our other income for the periods indicated.

	For the year ended December 31,				For the six months ended June 30,			
	2017		2018		2018		2019	
	(RMB in thousands, except percentages)							
					(unaudited)			
Interest income	205	14.4%	423	54.0%	57	14.1%	8,362	75.8%
Government grants income	1,183	82.8	353	45.1	340	84.4	2,663	24.2
Others	40	2.8	7	0.9	6	1.5	–	–
Total	**1,428**	**100.0%**	**783**	**100.0%**	**403**	**100.0%**	**11,025**	**100.0%**

Other Gains (Losses), Net

Other net gains or losses mainly consist of net exchange gains or losses in relation to the impact of foreign currency translation, in particular, the exchange rates of the U.S. dollar against the Renminbi, as most of our funds from the Series A Financing and Series B Financing were denominated in the U.S. dollar. The following table sets forth the breakdown of our other net gains or losses for the periods indicated.

	For the year ended December 31,				For the six months ended June 30,			
	2017		2018		2018		2019	
	(RMB in thousands, except percentages)							
					(unaudited)			
Exchange gains (losses), net	–	–	(8,736)	88.9%	(2)	100%	1,385	108.2%
Loss on disposal of plant and equipment	–	–	(2)	–	–	–	–	–
Others	–	–	(1,095)	11.1	–	–	(105)	(8.2)
Total	**–**	**–**	**(9,833)**	**100.0%**	**(2)**	**100.0%**	**1,280**	**100.0%**

Fair Value Change of Convertible Redeemable Preferred Shares

Fair value change of convertible redeemable preferred shares refers to the fair value gains or losses of the Series A Preferred Shares we issued in October 2018 and Series B Preferred Shares we issued in May 2019, which takes into account exchange rate changes. We recorded fair value losses of RMB26.3 million in 2018 and fair value gains of RMB22.4 million for the six months ended June 30, 2019.

We expect to continue to recognize fair value changes of the Preferred Shares after June 30, 2019 to the Listing Date. After the automatic conversion of all Preferred Shares into Shares upon the Listing, we do not expect to recognize any further loss or gain on fair value changes from Preferred Shares in the future.

Research and Development Expenses

Our research and development expenses consist of (i) third-party contracting costs related to services provided by CROs, CMOs, clinical trial sites, consultants and other service providers during the research and development of our pipeline products; (ii) staff costs for our research and development staff, including salary, compensation and benefits; (iii) raw materials costs in relation to the research and development of our drug candidates; (iv) office rental costs, utilities and depreciation and amortization; and (v) other miscellaneous expenses, which primarily include expenses for patent application registration services and transportation expenses of drug samples for clinical trials.

Our third-party contracting costs increased along with the clinical trial advancement of our drug candidates, and were the primary reason for the increase in our research and development expenses during the Track Record Period. For details of the changes to our research and development expenses, see "—Results of Operations" below. The following table sets forth the breakdown of our research and development expenses by nature for the periods indicated.

	For the year ended December 31,				For the six months ended June 30,			
	2017		2018		2018		2019	
	(RMB in thousands, except percentages)							
					(unaudited)			
Third-party contracting costs	16,618	31.2%	34,096	52.0%	16,007	60.2%	27,655	49.6%
Staff costs	10,103	19.0	10,713	16.3	2,227	8.4	11,416	20.5
Raw material costs	11,351	21.3	7,673	11.7	2,273	8.6	8,098	14.5
Office rental costs, utilities, and depreciation and amortization	13,988	26.3	9,988	15.2	4,848	18.2	6,604	11.8
Others	1,161	2.2	3,137	4.8	1,222	4.6	1,979	3.6
Total	**53,221**	**100.0%**	**65,608**	**100.0%**	**26,577**	**100.0%**	**55,752**	**100.0%**

During the Track Record Period, CRO expenses were a major component of our third-party contracting costs, and substantially all of our CRO expenses were attributable to KN046, our Core Product, KN026, KN019 and KN035.

Administrative Expenses

Our administrative expenses primarily comprise staff costs for our administrative staff, including salary, compensation and benefits. For the six months ended June 30, 2019, our staff costs significantly increased because (i) we cancelled certain unvested share options under the pre-IPO share option plan I and, as a result, recognized the corresponding share-based payment expenses immediately under IFRS 2; and (ii) we further increased our headcount to support business expansion. For details of the share-based payment expenses, see Notes 4 and 29(a)(i) of "Appendix I—Accountants' Report" to this Prospectus.

Our administrative expenses also include (i) consulting service fees paid to agents, legal counsel and other professional service providers; (ii) office rental costs, utilities, depreciation and amortization; (iii) office and travel expenses; and (iv) other miscellaneous expenses, which primarily include general administrative expenses and business taxes. The following table sets forth the breakdown of our administrative expenses for the periods indicated.

	For the year ended December 31,				For the six months ended June 30,			
	2017		2018		2018		2019	
	(RMB in thousands, except percentages)							
					(unaudited)			
Staff costs	6,394	49.1%	17,453	67.5%	4,769	51.6%	20,873	84.6%
Consulting service fees	2,125	16.3	3,647	14.1	2,160	23.4	1,757	7.1
Office and travel expense	1,589	12.2	1,906	7.4	1,037	11.2	914	3.7
Office rental costs, utilities, and depreciation and amortization	2,058	15.8	1,320	5.1	616	6.7	443	1.8
Others	859	6.6	1,531	5.9	658	7.1	674	2.8
Total	**13,025**	**100.0%**	**25,857**	**100.0%**	**9,240**	**100.0%**	**24,661**	**100.0%**

Reorganization Related Expenses

In 2018, we recorded a non-recurring expense in the amount of RMB69.4 million, out of which RMB64.5 million reflected Dr. Xu's additional interest value acquired as part of our Reorganization, which is recognized as a share-based payment expense in accordance with IFRS 2 for Dr. Xu's service as a key management personnel of the Group. For details of the Reorganization, see "History, Reorganization and Corporate Structure."

Finance Costs

Our finance costs consist of interest expenses on (i) bank borrowings; (ii) lease liabilities related to our leases of office premises and research and development facilities; and (iii) shareholder's loans that Jiangsu Alphamab obtained from Suzhou Alphamab to fund operations, which were repaid in January 2018. We capitalized the interest expenses on bank borrowings incurred for the construction of our new manufacturing, research and development facilities. The following table sets forth the breakdown of our finance costs for the periods indicated.

	For the year ended December 31,		For the six months ended June 30,	
	2017	**2018**	**2018**	**2019**
	(RMB in thousands)			
Interest expenses on:				
Bank borrowings	–	3,039	70	2,944
Lease liabilities	–	379	118	235
Amount due to a related company	8	54	54	–
Subtotal	*8*	*3,472*	*242*	*3,179*
Less: Interest capitalized	–	(1,965)	(69)	(2,944)
Total	**8**	**1,507**	**173**	**235**

Listing Expenses

We recorded listing expenses of RMB4.9 million and RMB12.9 million for the year ended December 31, 2018 and six months ended June 30, 2019, respectively, reflecting the fees paid to professional parties engaged in preparation for our Listing.

Income Taxation

The Company is exempted from taxation under the laws of the Cayman Islands. Alphamab Oncology (BVI) is exempted from taxation under the laws of the BVI.

Our PRC subsidiaries are subject to a standard EIT rate of 25% under the EIT Law. We have made all the required tax filings with the relevant tax authorities in the PRC and we are not aware of any outstanding or potential disputes with such tax authorities. Jiangsu Alphamab was entitled to a deduction of 175% on qualifying research and development expenses since January 2018.

Alphamab Oncology (HK) is subject to Hong Kong profits tax at a rate of 16.5% on estimated assessable profit. We made no provision for taxation in Hong Kong as we had no assessable profit in Hong Kong during the Track Record Period.

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

We had unused tax losses of RMB4.6 million, RMB245.0 million and RMB326.6 million available for set off against future profits as of December 31, 2017 and 2018 and June 30, 2019, respectively. No deferred tax asset was recognized in respect of the unused tax losses as of December 31, 2017 and 2018 and June 30, 2019 due to the unpredictability of future profit streams.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Other Income

Our other income increased significantly to RMB11.0 million for the six months ended June 30, 2019 from RMB0.4 million for the same period in 2018, primarily due to (i) an increase of RMB8.3 million in interest income from bank deposits of proceeds from our Pre-IPO Investments; and (ii) the receipt of RMB2.7 million in government grants primarily for our clinical trial in Australia.

Other Gains (Losses), Net

We recorded other net gains of RMB1.3 million for the six months ended June 30, 2019, which primarily consisted of net exchange gains of RMB1.4 million as a result of the appreciation of the U.S. dollar against the Renminbi on our U.S. dollar–denominated funds.

Fair Value Change of Convertible Redeemable Preferred Shares

For the six months ended June 30, 2019, we recorded fair value gains of RMB22.4 million in relation to our Preferred Shares, which was primarily due to a decrease in the fair value of Series A Preferred Shares as a result of the issuance of Series B Preferred Shares in May 2019. Series B Preferred Shares have liquidation priority over Series A Preferred Shares, which caused the decrease in fair value of Series A Preferred Shares as of June 30, 2019. Our Series A Preferred Shares and Series B Preferred Shares were issued in October 2018 and May 2019, respectively, and as such we did not record any fair value change of convertible redeemable preferred shares for the six months ended June 30, 2018.

Research and Development Expenses

Our research and development expenses increased significantly from RMB26.6 million for the six months ended June 30, 2018 to RMB55.8 million for the six months ended June 30, 2019, primarily due to the clinical trial advancement of our drug candidates. As a result, our third-party contracting costs increased by RMB11.6 million with the engagement of additional CROs, consultants, clinical trial sites and other service providers to support our increased clinical trials. In addition, our staff costs increased by RMB9.2 million as we increased the headcount of our research and development personnel to support our business growth. We also incurred more raw material costs of RMB5.8 million for our research and development of drug candidates.

Administrative Expenses

Our administrative expenses significantly increased from RMB9.2 million for the six months ended June 30, 2018 to RMB24.7 million for the six months ended June 30, 2019, primarily due to an increase of RMB16.1 million in staff costs as (i) we cancelled certain unvested share options under the pre-IPO share option plan I and, as a result, recognized the corresponding share-based payment expenses immediately under IFRS 2; and (ii) we further increased our headcount to support business expansion.

Reorganization Related Expenses

For the six months ended June 30, 2018, we incurred non-recurring expenses in relation to our Reorganization of RMB64.5 million. For details of the Reorganization, see "History, Reorganization and Corporate Structure."

Finance Costs

Our finance costs increased by 35.8% from RMB173,000 for the six months ended June 30, 2018 to RMB235,000 for the six months ended June 30, 2019, primarily due to the increase in lease liabilities as a result of the expansion of our office premises and research and development facilities. Such an increase was partially offset by the decrease in interest expenses on a shareholder's loans that Jiangsu Alphamab obtained from Suzhou Alphamab, which was repaid in January 2018. We capitalized interest expenses of RMB69,000 and RMB2.9 million for bank borrowings for construction of our new facilities for the six months ended June 30, 2018 and 2019, respectively.

Listing Expenses

We did not incur any listing expenses for the six months ended June 30, 2018. We recorded RMB12.9 million of listing expenses for the six months ended June 30, 2019 in relation to the engagement of professional parties in preparation for our Listing.

Income Taxation

We did not incur income taxation for the six months ended June 30, 2018 and 2019.

Loss for the Period

As a result of the foregoing, our losses for the six months ended June 30, 2019 decreased to RMB58.8 million from RMB100.0 million for the same period in 2018.

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

Other Income

Our other income decreased from RMB1.4 million for the year ended December 31, 2017 to RMB0.8 million for the year ended December 31, 2018, primarily because we recorded various government grants, including ones for KN026 and KN035, in 2017. In 2018, the government grants we recorded, which were primarily related to KN035, decreased.

Other Gains (Losses), Net

We recorded net other losses of RMB9.8 million for the year ended December 31, 2018, primarily because we recorded net exchange losses of RMB8.7 million, representing the effect of the depreciation of the U.S. dollar against the Renminbi on our U.S. dollar-denominated funds. We did not record any other net gains or losses in 2017.

Fair Value Change of Convertible Redeemable Preferred Shares

In 2018, we recorded fair value losses of RMB26.3 million in relation to our Series A Preferred Shares. Our Series A Preferred Shares were issued in October 2018, and as such we did not record any fair value change of convertible redeemable preferred shares in 2017.

Research and Development Expenses

Our research and development costs increased from RMB53.2 million for the year ended December 31, 2017 to RMB65.6 million for the year ended December 31, 2018, primarily due to an increase in clinical trials for our drug candidates in 2018, which resulted in an increase in our third-party contracting costs by RMB17.5 million as we engaged additional CROs, consultants, clinical trial sites and other service providers to support our increased clinical trials. The increase was partially offset by (i) a decrease of RMB4.0 million in office rental costs, utilities, depreciation and amortization as we no longer leased certain laboratories in 2018 for early-stage research as our product pipeline advanced to clinical trials and therefore did not incur the related rent costs that we incurred in 2017; and (ii) a decrease of RMB3.7 million in raw material expenses as we temporarily suspended the procurement of raw materials in the fourth quarter of 2018 due to renovations of our leased manufacturing facilities.

Administrative Expenses

Our administrative expenses increased significantly from RMB13.0 million for the year ended December 31, 2017 to RMB25.9 million for the year ended December 31, 2018 primarily due to an increase of RMB11.1 million in staff costs as we increased our headcount to support business expansion.

Reorganization Related Expenses

In 2018, we incurred non-recurring expenses in relation to our Reorganization of RMB69.4 million. For details of the Reorganization, see "History, Reorganization and Corporate Structure."

Finance Cost

Our finance cost increased significantly from RMB8,000 for the year ended December 31, 2017 to RMB1.5 million for the year ended December 31, 2018, primarily because we incurred RMB1.1 million in interest on short-term bank borrowings we obtained to finance our operations, which we repaid in December 2018. We capitalized interest expenses of RMB2.0 million for bank borrowings for construction of our new facilities in 2018.

Listing Expenses

We did not have listing expenses in 2017. We recorded listing expenses of RMB4.9 million in 2018 in relation to the engagement of professional parties in preparation for our Listing.

Income Taxation

Our income taxation in 2017 and 2018 was nil.

Loss for the Period

As a result of the foregoing, our loss for the period increased from RMB64.8 million in 2017 to RMB202.6 million in 2018.

DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

The following table sets forth a summary of our consolidated statement of financial position for the periods indicated.

	As of December 31,		As of June 30,
	2017	2018	2019
	(RMB in thousands)		
Non-current assets			
Property, plant and equipment	11,085	104,944	182,642
Right-of-use assets	23,659	27,912	47,808
Deposits paid for acquisition of property, plant and equipment	568	26,965	29,581
Other receivables and deposits	50	10,969	27,019
Total non-current assets	**35,362**	**170,790**	**287,050**
Current assets			
Inventories	3,486	7,068	20,506
Other receivables, deposits and prepayments	7,072	15,323	33,492
Financial assets at fair value through profit or loss ("FVTPL")	600	–	1,680
Time deposits with original maturity over three months	–	–	653,751
Cash and cash equivalents	57	633,712	253,562
Total current assets	**11,215**	**656,103**	**962,991**
Current liabilities			
Trade and other payables	8,258	67,208	87,977
Amount due to a related company	2,008	5,090	378
Lease liabilities – current portion	–	10,502	10,718
Total current liabilities	**10,266**	**82,800**	**99,073**
Net current assets	**949**	**573,303**	**863,918**
Non-current liabilities			
Bank borrowings	–	100,000	150,000
Convertible redeemable preferred shares	–	900,603	1,288,581
Lease liabilities – non-current portion	–	518	15,659
Contract liabilities	10,000	10,000	10,000
Total non-current liabilities	**10,000**	**1,011,121**	**1,464,240**
Net assets/(liabilities)	**26,311**	**(267,028)**	**(313,272)**

Property, Plant and Equipment

Property, plant and equipment primarily consists of construction in progress for our new manufacturing, research and development facilities and office premises. We commenced the construction of our new facilities in 2017. As a result, our property, plant and equipment increased significantly from RMB11.1 million as of December 31, 2017 to RMB104.9 million as of December 31, 2018, and further to RMB182.6 million as of June 30, 2019.

Right-of-use Assets

Under IFRS 16, we recognize right-of-use assets with respect to our property leases. Our right-of-use assets are depreciated over the lease term or the useful life of the underlying asset, whichever is shorter. Our right-of-use assets increased from RMB23.7 million as of December 31, 2017 to RMB27.9 million as of December 31, 2018 and further to RMB47.8 million as of June 30, 2019, primarily due to increases in right-of-use assets for the lease of our office premises in Suzhou and Beijing we entered into in 2018 and 2019.

Deposits for Acquisition of Property, Plant and Equipment

Deposits for acquisition of property, plant and equipment increased from RMB0.6 million as of December 31, 2017 to RMB27.0 million as of December 31, 2018 and further to RMB29.6 million as of June 30, 2019, due to an increase in deposits for the procurement of equipment and machinery in preparation for the completion of phase I of our new facilities in late 2019.

Inventories

Our inventories consist of raw materials and other consumables used in the research and development of our drug candidates. Our inventories increased from RMB3.5 million as of December 31, 2017 to RMB7.1 million as of December 31, 2018, and further to RMB20.5 million as of June 30, 2019, primarily due to the increased raw materials and other consumables in our inventory for our research and development activities. The increase in our inventory from December 31, 2018 to June 30, 2019 was also due to the procurement of additional raw materials and other consumables in anticipation of the completion of phase I of our new facilities in late 2019. As of October 31, 2019, RMB5.0 million, or 24.6% of our inventories as of June 30, 2019, were subsequently consumed.

Other Receivables, Deposits and Prepayments

Our other receivables, deposits and prepayments primarily consist of (i) other receivables, deposits and prepayments mainly related to prepayments made in connection with our purchase of raw materials and payments to CROs and other third parties for services relating to our clinical trials; (ii) VAT recoverable in connection with the procurement of raw materials, third-party services, machinery and equipment for our new facilities, which can offset the VAT to be incurred upon commercialization; and (iii) deferred issue costs, which represent capitalized listing expenses to be deducted from our equity upon the Listing. The following table sets forth the breakdown of our other receivables, deposits and prepayments as of the dates indicated.

	As of December 31,		As of June 30,
	2017	2018	2019
	(RMB in thousands)		
Other receivables, deposits and prepayments	6,444	13,827	27,732
VAT recoverable	678	10,828	26,955
Deferred issue costs	–	1,637	5,824
Total	**7,122**	**26,292**	**60,511**
Presented as current assets	7,072	15,323	33,492
Presented as non-current assets	50	10,969	27,019
Total	**7,122**	**26,292**	**60,511**

Our other receivables, deposits and prepayments increased from RMB7.1 million as of December 31, 2017 to RMB26.3 million as of December 31, 2018 primarily due to (i) an increase of RMB10.2 million in VAT recoverables due to increased procurement of machinery and equipment for our new facilities, as well as raw materials and third-party services for our research and development activities; and (ii) an increase of RMB7.4 million in other receivables, deposits and prepayments related to increased purchases of raw materials and third-party services for clinical trials.

Our other receivables, deposits and prepayments increased further to RMB60.5 million as of June 30, 2019, primarily due to (i) a significant increase of RMB16.1 million in VAT recoverables due to the procurement of machinery and equipment for our new facilities, as well as raw materials and third-party services for our research and development activities; and (ii) a significant increase of RMB13.9 million in other receivables, deposits and prepayments as a result of the increased prepayments to CROs with the advancement of clinical trials of our drug candidates.

Cash and Cash Equivalents and Time Deposits with Original Maturity Over Three Months

We had cash at bank and on hand of RMB57,000, RMB95.5 million and RMB35.3 million as of December 31, 2017 and 2018 and June 30, 2019, respectively. To enjoy higher interest rates on the proceeds from our Series A Financing and Series B Financing, we also placed our cash in time deposits with licensed commercial banks in China and Hong Kong. Time deposits of RMB538.3 million and RMB218.3 million as of December 31, 2018 and June 30, 2019, respectively, had maturities of less than three months and were recorded as cash and cash equivalents. We also had time deposits of RMB653.8 million as of June 30, 2019 which had maturities of over three months. Our bank balances carried interest at prevailing market interest rates ranging from 0.05% to 0.35% per annum during the Track Record Period. The time deposits carried interest at fixed rates ranging from 1.80% to 4.00% per annum, with the actual interest to be received determined at maturity. All of our time deposits may be redeemed on demand at an amortized cost before the maturity date. The following table sets out a breakdown of our cash and cash equivalents and time deposits with original maturity over three months as of the dates indicated.

	As of December 31,		As of June 30,
	2017	**2018**	**2019**
	(RMB in thousands)		
Cash and cash equivalents			
Cash at bank and on hand	57	95,462	35,258
Time deposits with original maturity less than three months	–	538,250	218,304
Subtotal	*57*	*633,712*	*253,562*
Time deposits with original maturity over three months	–	–	653,751
	57	**633,712**	**907,313**

RMB571.9 million and RMB321.1 million of our cash and cash equivalents and time deposits with original maturity over three months as of December 31, 2018 and June 30, 2019 were denominated in U.S. dollars, representing funds raised from our Series A Financing and Series B Financing.

Financial Assets Measured at Fair Value through Profit or Loss ("FVTPL")

Our financial assets measured at FVTPL mainly represent RMB-denominated structured deposits we purchased from a commercial bank in the PRC. The structured deposits have a maturity date within one year and an expected interest rate of 3.00% per annum.

The financial assets measured at FVTPL are initially measured at fair value, and transaction costs that are directly attributable to the acquisition of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. The fair values of these financial assets at FVTPL are determined based on the redemption valuation quoted by banks with reference to the expected return of the underlying assets. Our financial assets measured at FVTPL decreased from RMB0.6 million as of December 31, 2017 to nil as of December 31, 2018, primarily because the structured deposits we purchased reached maturity and we redeemed such products to fund our operations. Our financial assets measured at FVTPL increased from nil as of December 31, 2018 to RMB1.7 million as of June 30, 2019, primarily due to the purchase of new structured deposits.

We believe that we can make better use of our cash by utilizing wealth management products, such as structured deposits, to enhance our income without interfering with our business operations or capital expenditures. We make investment decisions based on our estimated capital requirements for the next three months and our annual budget, taking into account the duration, expected returns and risks of the wealth management product. We generally limit our purchases to low-risk, short-term products from reputable commercial banks. Our finance department is responsible for the purchase of wealth management products, which is reviewed by our senior management team. In the future, we intend to continue to purchase low-risk wealth management products with a short maturity period based on our operational needs.

Trade and Other Payables

Our trade and other payables primarily consist of payables for the construction of our new facilities and the procurement of equipment and machinery for our new facilities. Our trade and other payables also include accrued research and development expenses and staff costs, which largely relate to staff costs payable to research and development personnel. We also recorded (i) accrued listing expenses and new share issuance costs for the professional parties engaged for the Global Offering, (ii) trade payables to suppliers of raw materials and third-party services, and (iii) interest payables. Accrued listing expenses represent amounts that will be charged to our consolidated statement of profit or loss, while new share issuance costs represent amounts that will be deducted from our equity upon Listing.

The following table sets forth the breakdown of our trade and other payables as of the dates indicated.

	As of December 31,		As of June 30,
	2017	2018	2019
	(RMB in thousands)		
Trade payables	1,728	766	9,364
Accrued expenses			
Listing expenses	–	3,641	11,479
Research and development expenses	2,441	5,891	7,652
New share issuance costs	–	1,213	3,826
Staff costs	956	7,049	3,447
Interest expenses	–	152	208
Others	31	186	9
	3,428	18,132	26,621
Payables for acquisition of property, plant and equipment	1,009	45,964	49,799
Other payables	2,093	2,346	2,193
Total	**8,258**	**67,208**	**87,977**

Our trade and other payables increased significantly from RMB8.3 million as of December 31, 2017 to RMB67.2 million as of December 31, 2018, primarily due to (i) an increase of RMB45.0 million in payables in connection with the construction of our new facilities and the procurement of equipment and machinery for our new facilities; (ii) an increase of RMB6.1 million in accrued staff costs as we provisioned more salaries and benefits in line with our increased headcount in 2018; and (iii) the RMB4.9 million accrued listing expenses and new share issuance costs we recorded.

Our trade and other payables further increased to RMB88.0 million as of June 30, 2019, primarily due to (i) an increase of RMB8.6 million in trade payables in connection with our clinical trials; and (ii) an increase of RMB7.8 million in accrued listing expenses, partially offset by a decrease of RMB3.6 million in accrued staff costs, as we paid the year-end benefits provisioned at 2018 year-end in early 2019.

As of October 31, 2019, RMB9.1 million, or 97.4%, of our trade payables as of June 30, 2019 were subsequently settled.

The following is the aging analysis of trade payables presented based on the invoice dates/issuance dates of bills as of the dates indicated.

	As of December 31,		As of June 30,
	2017	2018	2019
	(RMB in thousands)		
0-30 days	738	580	2,635
31-60 days	990	–	346
61-90 days	–	–	6,259
Over 90 days	–	186	124
Total	**1,728**	**766**	**9,364**

Amount Due to a Related Company

We had amount due to Suzhou Alphamab of RMB2.0 million, RMB5.1 million and RMB0.4 million as of December 31, 2017 and 2018 and June 30, 2019, respectively. Our amounts due to Suzhou Alphamab as of December 31, 2017 represented shareholder's loans that Jiangsu Alphamab obtained from Suzhou Alphamab to fund operations, which were repaid in January 2018. Our amounts due to Suzhou Alphamab as of December 31, 2018 and June 30, 2019 were primarily rent and utilities payable to Suzhou Alphamab. See "—Related Party Transactions."

Lease Liabilities

Under IFRS16, we recorded lease liabilities of nil, RMB11.0 million and RMB26.4 million as of December 31, 2017 and 2018 and June 30, 2019, respectively. Our lease liabilities are in relation to properties we leased for our manufacturing and research and development activities and our office premises. We recognize a lease liability with respect to all lease agreements in which we are the lessee, except for short term leases and leases of low value assets. For these leases, we generally recognize the lease payments as an operating expense on a straight-line basis over the term of the lease. The lease liability is initially measured at present value that are not paid at the commencement date of the lease and subsequently adjusted by interest accretion and lease payments. For details of the accounting treatment, see Note 24 of "Appendix I–Accountants' Report" to this Prospectus.

Convertible Redeemable Preferred Shares

We recorded convertible redeemable preferred shares of RMB900.6 million as of December 31, 2018, representing the fair value of the Series A Preferred Shares that we issued in October 2018. Our convertible redeemable preferred shares increased to RMB1,288.6 million as of June 30, 2019 primarily due to the issuance of Series B Preferred Shares in May 2019. For details on our Preferred Shares, see "History, Reorganization and Corporate Structure—The Pre-IPO Investments." For details on the fair value determination of our Preferred Shares, see "—Critical Accounting Judgment and Estimates and Significant Accounting Policies—Key Sources of Estimation Uncertainty—Fair Value of Convertible Redeemable Preferred Shares" and Note 27 of the Accountant's Report set out in Appendix I to this Prospectus.

Contract Liabilities

We recorded contract liabilities of RMB10.0 million as of December 31, 2017 and 2018 and June 30, 2019, respectively. Our contract liabilities represented the RMB10.0 million upfront payment we received from 3DMed. See "Business—Our Collaboration Arrangements—Co-development Agreements with 3DMed." We own the right to manufacture and supply KN035 to 3DMed. Upon the approval and commercialization of KN035, we will recognize revenue on the upfront payment received. None of the contract liabilities were recognized as revenue during the Track Record Period.

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

	As of December 31,		As of June 30,	As of October 31,
	2017	2018	2019	2019
	(RMB in thousands)			
				(unaudited)
Current assets				
Inventories	3,486	7,068	20,506	24,623
Other receivables, deposits and prepayments	7,072	15,323	33,492	55,857
Financial assets at fair value through profit or loss (“FVTPL”)	600	–	1,680	1,680
Time deposits with original maturity over three months	–	–	653,751	648,560
Cash and cash equivalents	57	633,712	253,562	198,788
Total current assets	**11,215**	**656,103**	**962,991**	**929,508**
Current liabilities				
Trade and other payables	8,258	67,208	87,977	50,818
Amount due to a related company	2,008	5,090	378	393
Lease liabilities	–	10,502	10,718	11,161
Bank borrowings with maturity within one year	–	–	–	35,938
Total current liabilities	**10,266**	**82,800**	**99,073**	**98,310**
Net current assets	**949**	**573,303**	**863,918**	**831,198**

The increase in our net current assets from RMB0.9 million as of December 31, 2017 to RMB573.3 million as of December 31, 2018 and further to RMB863.9 million as of June 30, 2019 was primarily in relation to the completion of our Series A Financing in December 2018 and Series B Financing in May 2019. For details, see “History, Reorganization and Corporate Structure—The Pre-IPO Investments.” Our net current assets decreased to RMB831.2 million as of October 31, 2019 primarily because we used a portion of cash and cash equivalents to fund our operations, and we had bank borrowings with maturity within one year as of October 31, 2019 consisting of short-term bank borrowings and long-term bank borrowings payable within one year. Such decrease were partially offset by settlement of certain payables in connection with the construction of our new facilities.

Working Capital

Our primary uses of cash are to fund our research and development, clinical trials, purchase of equipment and raw materials and other recurring expenses. During the Track Record Period and up to the Latest Practicable Date, we primarily funded our working capital requirements through proceeds from Pre-IPO Investments and bank borrowings. We closely monitor uses of cash and cash balances and strive to maintain a healthy liquidity for our operations.

Going forward, we believe our liquidity requirements will be satisfied by a combination of net proceeds from the Global Offering, our proceeds from Pre-IPO Investments and bank borrowings. As of October 31, 2019, our cash and cash equivalents and time deposits with original maturity over three months amounted to RMB847.3 million and we had bank facilities of RMB550.0 million, of which RMB312.8 million were unrestricted and unutilized. Other than the bank borrowings that we may obtain, we do not have any plans for material external debt financing. Taking these into account, our Directors believe that we have sufficient working capital to cover at least 125% of our costs, including general, administrative and operating costs as well as research and development costs, for at least the next 12 months from the date of this Prospectus.

Cash Flows

The following summary of our consolidated statement of cash flows comprises the cash inflow and outflow of (i) our Group; and (ii) the Oncology Business that are received or paid by Suzhou Alphamab, prior to and during the transition period after the Reorganization. See "—Basis of Presentation" and "—Net Contribution for the Oncology Business by Suzhou Alphamab."

	For the year ended December 31,		For the six months ended June 30,	
	2017	2018	2018	2019
	(RMB in thousands)			
			(unaudited)	
Operating cash flows before movements in working capital	(64,509)	(90,549)	(33,397)	(73,454)
Net cash used in operating activities	(65,161)	(93,874)	(26,483)	(110,014)
Net cash from/(used in) investing activities	2,305	(72,110)	(30,775)	(716,636)
Net cash from financing activities	2,000	798,800	70,814	445,898
Net contribution for the Oncology Business by Suzhou Alphamab	60,868	9,537	9,537	300
Net increase (decrease) in cash and cash equivalents	12	642,353	23,093	(380,452)
Cash and cash equivalent at the beginning of the year or period	45	57	57	633,712
Effect of foreign exchange rate changes	–	(8,698)	–	302
Cash and cash equivalents at the end of the year or period	57	633,712	23,150	253,562

Operating Activities

For the six months ended June 30, 2019, we had net cash used in operating activities of RMB110.0 million, primarily as a result of RMB73.5 million of operating cash outflows before changes in working capital and the negative effect of changes in working capital. The negative changes in working capital were primarily attributable to (i) an increase of RMB24.1 million in other receivables, deposits and prepayments due to a significant increase in VAT recoverables from increased VAT paid for the procurement of machinery and equipment, raw materials and third-party services, and increased prepayments to CROs in connection with clinical trial advancement of our drug candidates; and (ii) an increase of RMB13.4 million in inventories with additional purchases of raw materials to support the clinical trials for our drug candidates and raw materials to be used in phase I of our new facilities, which is expected to be completed in late 2019. The negative working capital change was partially offset by an increase of RMB5.7 million in trade and other payables to suppliers of raw materials and third-party services for our clinical trials.

For the year ended December 31, 2018, we had net cash used in operating activities of RMB93.9 million, primarily as a result of RMB90.5 million of operating cash outflows before changes in working capital and the negative effect of the changes in working capital. The negative changes in working capital were primarily attributable to (i) an increase of RMB17.0 million in other receivables, deposits and prepayments; and (ii) an increase of RMB3.6 million in inventories due to the procurement of additional raw materials to support our clinical trials; and partially offset by an increase of RMB12.2 million in trade and other payables to suppliers of raw materials and third-party services for our clinical trials. The increase in other receivables, deposits and prepayments was mainly due to (a) a significant increase in VAT recoverables from increased VAT paid for the procurement of machinery and equipment, raw materials and third-party services, and (b) an increase in prepayments, other receivables and deposits related to increased purchases of raw materials for our research and development activities.

For the year ended December 31, 2017, we had net cash used in operating activities of RMB65.2 million, primarily as a result of RMB64.5 million of operating cash outflows before changes in working capital and the negative effect of the changes in working capital. The negative changes in working capital were primarily attributable to (i) an increase of RMB3.6 million in other receivables, deposits and prepayments primarily due to increased prepayments to CROs and other third parties for services relating to our clinical trials; and (ii) an increase of RMB3.1 million in inventories with additional raw materials procured to support the clinical trials for our drug candidates; and partially offset by an increase of RMB6.1 million in trade and other payables primarily due to an increase in payables in connection with our purchase of raw materials and third-party services.

Investing Activities

For the six months ended June 30, 2019, our net cash used in investing activities was RMB716.6 million, primarily attributable to (i) an increase in the placement of time deposits with original maturity over three months that we purchased of RMB882.6 million; (ii) the payment of RMB52.8 million in connection with the construction of our new facilities; and (iii) the payment for deposits paid for acquisition of property, plant and equipment of RMB20.8 million in connection with the equipment and machinery procured for our new facilities; and partially offset by proceeds from redemption of time deposits with original maturity over three months of RMB237.2 million.

For the year ended December 31, 2018, our net cash used in investing activities was RMB72.1 million, primarily attributable to (i) the purchase of property, plant and equipment of RMB46.8 million in connection with the construction of our new facilities; (ii) the payment for deposits paid for acquisition of property, plant and equipment of RMB26.3 million in connection with the equipment and machinery procured for our new facilities; and (iii) the purchase of structured deposits of RMB48.9 million; and partially offset by RMB49.5 million of proceeds we received from the redemption of structured deposits.

For the year ended December 31, 2017, our net cash from investing activities was RMB2.3 million, primarily attributable to cash inflows of RMB44.5 million from the proceeds we received from the redemption of structured deposits; and partially offset by (i) the investment of RMB34.0 million in structured deposits; and (ii) the purchase of plant equipment of RMB7.8 million in relation to the construction of our new facilities.

Financing Activities

For the six months ended June 30, 2019, our net cash used in financing activities was RMB445.9 million, primarily due to funds raised from issuance of Series B Preferred Shares in May 2019. For details of our Series B Preferred Shares, see "History, Reorganization and Corporate Structure—The Pre-IPO Investments."

For the year ended December 31, 2018, our net cash from financing activities was RMB798.8 million, primarily attributable to (i) proceeds from the issuance of Series A Preferred Shares of RMB826.6 million; (ii) RMB167.5 million in bank borrowings; and (iii) proceeds from the convertible notes of RMB47.7 million we issued to certain Series A Investors; partially offset by (i) RMB132.2 million relating to the transfer of assets and licensing of patents pursuant to the Asset Transfer and Patent Licensing Agreements as part of the Reorganization; (ii) the repayment of bank borrowings of RMB67.5 million; and (iii) RMB52.6 million relating to the acquisition of Jiangsu Alphamab by Alphamab Oncology (HK) as part of the Reorganization. For details of our Series A Preferred Shares and the convertible notes, see "History, Reorganization and Corporate Structure—The Pre-IPO Investments."

For the year ended December 31, 2017, our net cash from financing activities was RMB2.0 million, primarily from the shareholder's loan that Jiangsu Alphamab obtained from Suzhou Alphamab to fund operations.

Net Contribution for the Oncology Business by Suzhou Alphamab

Before the Reorganization, the Oncology Business (as defined in "—Basis of Presentation") was operated by Suzhou Alphamab and Jiangsu Alphamab, its then-subsidiary. The treasury and cash disbursement functions of the Oncology Business were centrally managed by Suzhou Alphamab, with no separate bank account for the Oncology Business. After the transfer of the Oncology Business from Suzhou Alphamab to Jiangsu Alphamab on April 18, 2018, Jiangsu Alphamab began to maintain separate bank accounts to manage the Oncology Business. However, there was a transition period after the Reorganization where certain funds relating to the Oncology Business were still maintained in the bank accounts of Suzhou Alphamab. The net cash flows relating to the Oncology Business kept in Suzhou Alphamab's bank account are set out in this line item in our consolidated statement of cash flows, and were presented as movements in equity.

Cash Operating Costs

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

	For the year ended December 31,		For the six months ended June 30,	
	2017	**2018**	**2018**	**2019**
	(RMB in thousands)			
Costs relating to research and development of our Core Product:				
Third-party contracting costs	4,352	9,996	1,099	28,219
Raw materials	1,373	9,797	3,105	4,562
Staff costs	2,696	1,827	326	4,169
Others	226	576	255	1,674
Subtotal	*8,647*	*22,196*	*4,785*	*38,624*
Costs relating to research and development of our other drug candidates				
Third-party contracting costs	13,653	21,903	7,809	17,879
Raw materials	12,757	7,759	6,457	7,859
Staff costs	7,283	5,716	1,711	8,388
Others	2,504	2,594	965	2,074
Subtotal	*36,197*	*37,972*	*16,942*	*36,200*
Total	**44,844**	**60,168**	**21,727**	**74,824**
Workforce employment(1)	16,497	28,167	5,825	32,290
Direct production(2)	–	–	–	–
Commercialization(2)	–	–	–	–
Contingency allowance(3)	–	–	–	–

(1) Workforce employment costs represent total staff costs, primarily including salaries, compensation and benefits, of our research and development and other employees.

(2) Direct production costs represent costs directly attributable to commercial manufacturing. Commercialization costs represent costs relating to product sales and marketing. We had not commenced commercial manufacturing or product sales as of the Latest Practicable Date.

(3) Contingency allowance represents provisions accrued for contingent liabilities. We had no contingent liabilities during the Track Record Period.

Our research and development cash costs for KN046, our Core Product, for each period reflects the stage and progress of our KN046 drug development program. In 2017, our research and development of KN046 was in an early stage and, as a result, the related research and development cash costs were relatively low. In 2018, as we ramped up our research and development for KN046 and commenced our phase Ia clinical trial in Australia, the related research and development cash costs increased significantly. In the first half of 2019, we further expanded clinical trials for KN046 by commencing a phase Ia clinical trial and two phase Ib/II clinical trials in China and a phase Ib clinical trial in Australia, and therefore the related research and development costs experienced a significant increase compared to the first half of 2018. As we advance our clinical development plan for KN046, we expect our research and development cash costs for KN046 to continue to increase.

Our research and development cash costs for our other drug candidates include costs for KN026, KN019, KN035, pre-clinical programs and general discovery and research work. The overall increase in these research and development cash costs reflects the advancement of these drug candidate development programs, and we expect to incur more cash costs as we commence more clinical trials and pre-clinical studies and enrich our pipeline. The decrease in cash costs of raw materials for other drugs from 2017 to 2018 primarily reflected our inventory level for relevant raw materials in these two years.

Our research and development staff cash costs were relatively low in 2018 compared to 2017 because a number of our drug development programs advanced to clinical trials, which were then supported by CROs and other consultants. We gradually increased our research and development headcount in anticipation of the advancement of our drug development programs in the second half of 2018, and such costs were reflected in our research and development staff cash costs for the six months ended June 30, 2019. The staff cash costs for other drugs were higher than that for KN046 during the Track Record Period because the seven other pipeline products and general research work we conducted required more research and development staff as compared to KN046.

INDEBTEDNESS

The following table sets forth the breakdown of our indebtedness as of December 31, 2017 and 2018, June 30, 2019 and October 31, 2019, being the latest practicable date for determining our indebtedness.

	As of December 31,		As of June 30,	As of October 31,
	2017	2018	2019	2019
	(RMB in thousands)			
				(unaudited)
Consideration of convertible redeemable preferred shares – unsecured and unguaranteed[1]	–	874,319	1,284,733	1,284,733
Bank borrowings – secured and unguaranteed	–	100,000	150,000	230,000
Bank borrowings – unsecured and unguaranteed	–	–	–	7,188
Amount due to a related company – unsecured and unguaranteed	2,008	–	–	–
Lease liabilities – secured and unguaranteed[2]	–	1,244	1,426	1,154
Lease liabilities – unsecured and unguaranteed	–	9,776	24,951	22,126
Total	**2,008**	**985,339**	**1,461,110**	**1,545,201**

(1) Translated at exchange rates at dates of consideration received.

(2) Secured by the rental deposits of the relevant leases.

Consideration of Convertible Redeemable Preferred Shares

The convertible redeemable preferred shares were accounted for as financial liabilities at fair value through profit or loss. As at December 31, 2017 and 2018 and June 30, 2019, the carrying amounts of the convertible redeemable preferred shares were nil, RMB900.6 million and RMB1,288.6 million, respectively, which included the initial proceeds received on issuance of the convertible redeemable preferred shares and their subsequent fair value changes. See "—Description of Certain Consolidated Statement of Financial Position Items—Convertible Redeemable Preferred Shares."

Bank Borrowings

As of December 31, 2018 and June 30, 2019, the outstanding balance of our bank borrowings amounted to RMB100.0 million and RMB150.0 million, respectively, which were borrowings for the construction of our new facilities. The carrying amount of our bank borrowings were repayable based on the schedules set forth as below.

	As of December 31,		As of June 30,	As of October 31,
	2017	2018	2019	2019
	(RMB in thousands)			
Within one year	–	–	–	35,938
More than one year, but not exceeding two years	–	12,500	18,750	57,500
More than two years, but not exceeding five years	–	87,500	131,250	143,750
Total	**–**	**100,000**	**150,000**	**237,188**

As of December 31, 2018 and June 30, 2019, our bank borrowings of RMB100.0 million and RMB150.0 million, respectively, had effective interest rates of 4.99%. As of December 31, 2018, our bank borrowings were secured by the land use rights in our right-of-use assets of RMB23.2 million. As of June 30, 2019, our bank borrowings were secured by construction in progress of RMB137.6 million and land use rights in our right-of-use assets of RMB22.9 million. Our bank borrowings increased to RMB237.2 million as of October 31, 2019, out of which RMB230.0 million were secured by RMB162.3 million in construction in progress, RMB51.4 million in machinery, and RMB22.8 million in land use rights included in right-of-use assets.

Our bank borrowing agreements contain standard terms, conditions and covenants that are customary for commercial bank loans. Our Directors confirm that we did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Amount Due to a Related Company

As of December 31, 2017, we recorded RMB2.0 million in loans obtained by Jiangsu Alphamab with a fixed interest rate of 6% per annum from Suzhou Alphamab to fund operations, which were repaid in January 2018. See "—Related Party Transactions."

Lease liabilities

As of December 31, 2017 and 2018, June 30, 2019 and October 31, 2019, we recorded lease liabilities of nil, RMB11.0 million, RMB26.4 million and RMB23.3 million, respectively, in relation to properties we leased for our manufacturing and research and development activities and our office premises. The lease terms range from six months to three years. See "—Description of Certain Consolidated Statement of Financial Position Items—Lease Liability."

Save as disclosed above and apart from intra-group liabilities, as of October 31, 2019, we did not have any other borrowing issued and outstanding or any borrowing agreed to be issued, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities for the purpose of the indebtedness statement.

CAPITAL EXPENDITURES

Our capital expenditures consist primarily of expenditures for construction in progress, purchases of furniture, fixtures and equipment and leasehold improvements. The increase in our capital expenditures for construction in progress in 2018 was because a significant amount of construction of our new facilities was conducted in 2018. The following table sets forth our capital expenditures for the periods indicated.

	For the year ended December 31,		For the six months ended June 30,
	2017	**2018**	**2019**
	(RMB in thousands)		
Construction in progress	8,849	93,075	77,608
Furniture, fixtures and equipment	26	973	326
Leasehold improvements	–	88	108
Total	**8,875**	**94,136**	**78,042**

We expect that our capital expenditures for the year ending December 31, 2019 will be RMB282.5 million, and these capital expenditures will primarily relate to the construction of our new facilities, which we intend to fund with proceeds from the Pre-IPO Investments and bank borrowings.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, we expected would materially adversely affect our business, financial position or results of operations. We did not have any outstanding loan issued or agreed to be issued, debt securities, debentures, bank overdrafts, liabilities under acceptances or acceptance credits or hire purchase commitments as of the Latest Practicable Date. As of the same date, we had not guaranteed the indebtedness of any Independent Third Parties. Our Directors confirm that there has been no material change in our contingent liabilities since June 30, 2019 to the date of this Prospectus.

CAPITAL COMMITMENTS

We had the following capital commitments in relation to the acquisition of property, plant and equipment for our construction of new facilities as of the dates indicated. Our capital commitments increased steadily as our construction plans progressed.

	As of December 31,		As of June 30,
	2017	2018	2019
	(RMB in thousands)		
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	119,881	130,352	127,578

RELATED PARTY TRANSACTIONS

Transactions

During the Track Record Period, we had the following transactions with Suzhou Alphamab.

	For the year ended December 31,		For the six months ended June 30,
	2017	2018	2019
	(RMB in thousands)		
Transfer of the Oncology Business(1)	–	132,180	–
Interest expenses	8	54	–
Utilities(2)	–	1,116	719
Lease payment(2)	–	–	9,162
Interest expenses – lease liability	–	358	90
Purchases of raw materials(3)	–	3,974	–

(1) Transfer of the Oncology Business represented the transfer of certain assets and license of patents to us by Suzhou Alphamab pursuant to the Asset Transfer and Patent Licensing Agreements as part of the Reorganization. See "History, Reorganization and Corporate Structure—Reorganization—Onshore Reorganization."

(2) Lease payment and utilities represented the depreciation of right-of-use assets in relation to property and equipment we leased from Suzhou Alphamab and utilities for the leased property.

(3) Purchases of raw materials represented the raw materials we purchased from Suzhou Alphamab for our research and development activities.

Balances

We had amounts due to Suzhou Alphamab of RMB2.0 million, RMB5.1 million and RMB0.4 million as of December 31, 2017 and 2018 and June 30, 2019, respectively. Our amounts due to Suzhou Alphamab as of December 31, 2017 represented a shareholder's loan that Jiangsu Alphamab obtained from Suzhou Alphamab to fund operations, which was repaid in January 2018. Our amounts due to Suzhou Alphamab of RMB5.1 million as of December 31, 2018 represented the rent due in relation to property and equipment we leased from Suzhou Alphamab, utilities for the leased property and raw materials costs payable to Suzhou Alphamab. Our amounts due to Suzhou Alphamab of RMB0.4 million as of June 30, 2019 represented utilities of leased property payable to Suzhou Alphamab.

Guarantees

We had certain banking facilities as of December 31, 2018 that were guaranteed by Suzhou Alphamab. These guarantees were released in the first quarter of 2019.

In 2018, we issued convertible notes to Advantech II and PAG Growth, which were secured by Dr. Xu's personal guarantee and 16,425,000 pledged shares of Rubymab as part of the Reorganization. See "History, Reorganization and Corporate Structure—The Pre-IPO Investments." These guarantees were released upon the completion of the Reorganization and the conversion of the notes into the Series A Preferred Shares.

Our Directors are of the view that each of the related party transactions set out in Note 35 to the Accountants' Report in Appendix I to this Prospectus was conducted in the ordinary course of business on an arm's-length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our historical results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The following table set forth our key financial ratios as of the dates or for the periods indicated.

	As of December 31,		As of June 30,
	2017	2018	2019
Current ratio[(1)]	1.09	7.92	9.72
Quick ratio[(2)]	0.75	7.84	9.51

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

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

Our current ratio increased from 1.09 as of December 31, 2017 to 7.92 as of December 31, 2018 and further to 9.72 as of June 30, 2019, and our quick ratio increased from 0.75 as of December 31, 2017 to 7.84 as of December 31, 2018 and further to 9.51 as of June 30, 2019, mainly due to an increase in our cash and cash equivalents and time deposits with original maturities over three months as a result of the Pre-IPO Investments, partially offset by an increase in our trade and other payables.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of market risks, including currency risk and interest rate risk as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For further details, including relevant sensitivity analysis, see Note 31b in the Accountant's Report set out in Appendix I to this Prospectus.

Currency Risk

Certain bank balances, trade and other payables and convertible redeemable preferred shares of our Group are denominated in currencies other than the functional currency, which exposes us to foreign currency risk. We currently do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

We are mainly exposed to the fluctuation of foreign exchange rate of the U.S. dollar. The following table details our sensitivity to a 10% increase and decrease in the U.S. dollar against the Renminbi. 10% is the sensitivity rate used when reporting foreign currency internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 10% change in U.S. dollars.

	For the year ended December 31,		For the six months ended June 30,
	2017	2018	2019
Impact of the U.S. dollar on loss for the year/period	–	(32,997)	(96,788)

In our management's opinion, the sensitivity analysis is not representative of the inherent foreign exchange risk as the year/period end exposure does not reflect the exposure during the Track Record Period. For further details, see Note 31b in the Accountant's Report set out in Appendix I to this Prospectus.

Interest Rate Risk

We are exposed to fair value interest rate risk in relation to fixed-rate convertible redeemable preferred shares and time deposits with original maturity over three months. We are also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, variable-rate cash and cash equivalents and variable-rate bank balances over three months. Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and time deposits and benchmark rate arising from borrowings. If interest rates had been 50 basis points higher/lower and all other variables were held constant, our loss for the years ended December 31, 2017 and 2018 and the six months ended June 30, 2019, would increase/decrease by nil, RMB23,000 and RMB574,000, respectively.

Other Price Risk

We are exposed to other price risk for our financial assets at FVTPL. The amount of financial assets at FVTPL is not material and no sensitivity analysis is presented as the exposure is considered to be immaterial. For further details, see Note 31b in the Accountant's Report set out in Appendix I to this Prospectus.

Credit and Counterparty Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to us. In order to minimize the credit risk, our management reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our management considers that our credit risk is significantly reduced.

For other receivables, we assessed the expected credit losses based on internal credit rating which, in the opinion of the Directors, have no significant increase in credit risk since initial recognition. We review the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that the credit risk is significantly reduced.

A significant portion of our bank balances and deposits are placed with a few state-owned banks in China and international banks in Hong Kong. The credit risks on bank balances and deposits are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Other than the credit risks mentioned above, we do not have any other significant concentration of credit risk. For further details, see Note 31b in the Accountant's Report set out in Appendix I to this Prospectus.

Liquidity Risk

As of June 30, 2019, we recorded net liabilities of RMB313.3 million. In the management of the liquidity risk, our Directors have reviewed our cash flow projections to ensure that we maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. We are dependent upon bank borrowings and convertible redeemable preferred shares as significant sources of liquidity. For further details, see Note 31b in the Accountant's Report set out in Appendix I to this Prospectus.

DIVIDENDS

We did not declare or pay any dividend during the Track Record Period. Any future declarations and payments of dividends will be at the absolute discretion of our Directors. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. Currently, we do not have any dividend policy or intention to declare or pay any dividends in the near future.

DISTRIBUTABLE RESERVES

As of June 30, 2019, our Company had retained nil profits under IFRSs as reserves available for distribution to our equity shareholders.

LISTING EXPENSES

Listing expenses to be borne by us are estimated to be approximately RMB105.0 million (including underwriting commission), assuming an Offer Price of HK$9.65 per Share, which is the mid-point of the indicative Offer Price range stated in this Prospectus, and assuming that the Over-allotment Option is not exercised. As of June 30, 2019, we incurred a total of RMB23.6 million in listing expenses, of which RMB17.8 million were recognized in our consolidated statement of profit or loss and other comprehensive income and RMB5.8 million were capitalized. After June 30, 2019, approximately RMB23.3 million is expected to be charged to our consolidated statement of profit or loss and other comprehensive income, and approximately RMB58.1 million is expected to be accounted for as a deduction from equity upon the Listing. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

PROPERTIES AND VALUATION

JLL, an independent property valuer, has valued our property interests as of October 31, 2019. Particulars of our property interests are set out in "Appendix III—Property Valuation Report" to this Prospectus.

The table below sets out the reconciliation between the net book value of our property as of June 30, 2019 as extracted from the Accountants' Report set out in Appendix I to this Prospectus and the market value of our property as of October 31, 2019 as extracted from the Property Valuation Report set out in Appendix III to this Prospectus.

	(RMB in thousands)
Net book value of our property as of June 30, 2019 as set out in Appendix I to this Prospectus	160,467
Additional capital expenditures	35,848
Valuation surplus	34,285
Market value of the property as of October 31, 2019 as set out in Appendix III to this Prospectus	230,600

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to owners of our Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the audited consolidated tangible assets less liabilities of our Group attributable to owners of our Company as of June 30, 2019 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2019 or at any future dates.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to owners of our Company is prepared based on the audited consolidated tangible assets less liabilities of our Group attributable to owners of our Company as of June 30, 2019 as shown in the Accountants' Report as set out in Appendix I to this Prospectus and adjusted as described below.

	Audited consolidated tangible assets less liabilities of our Group attributable to owners of our Company as of June 30, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2019	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2019 per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on Offer Price of HK$9.10 per Offer Share	(313,272)	1,383,615	1,070,343	1.54	1.71
Based on Offer Price of HK$10.20 per Offer Share	(313,272)	1,553,436	1,240,164	1.78	1.98

Notes:

(1) The audited consolidated tangible assets less liabilities of our Group attributable to owners of our Company as of June 30, 2019 is extracted from the consolidated statement of financial position as of June 30, 2019 set out in "Appendix I—Accountants' Report" to this Prospectus.

(2) The estimated net proceeds from the Global Offering are based on 179,403,000 new Shares to be issued by the Company and the Offer Price of HK$9.10 (equivalent to RMB8.18) and HK$10.20 (equivalent to RMB9.17) per Offer Share being the low end and high end of the indicative Offer Price range respectively, after deduction of the estimated underwriting fee and other related expenses (excluding listing expenses charged to the profit or loss up to June 30, 2019) in connection with the Global Offering and without taking into account any Shares (i) which may be allotted and issued upon the exercise of the Over-allotment Option; (ii) which may be issued under the Pre-IPO Share Option Plans; or (iii) which may be allotted and issued or repurchased by our Company under general mandates for the allotment and issue or repurchase of Shares granted to directors of our Company or (iv) the conversion of the Series A Preferred Shares and Series B Preferred Shares into ordinary shares.

For the purpose of the net proceeds from the Global Offering, the amount denominated in Hong Kong dollars has been converted into Renminbi at the rate of HK$1 to RMB0.89864, which was the exchange rate prevailing on November 22, 2019 with reference to the rate published by the People's Bank of China. No representation is made that the Hong Kong dollars amounts have been, could have been or may be converted into Renminbi, or vice versa, at that rate or any other rate or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2019 per Share is calculated based on 695,036,420 Shares were in issue (retrospectively adjusted for the Share Subdivision) assuming that Global Offering has been completed on June 30, 2019 and without taking into account any Shares (i) which may be allotted and issued upon the exercise of the Over-allotment Option; (ii) which may be issued under the Pre-IPO Share Option Plans; (iii) which may be allotted and issued or repurchased by our Company under general mandates for the allotment and issue or repurchase of Shares granted to the Directors of our Company; or (iv) the conversion of the Series A Preferred Shares and Series B Preferred Shares into ordinary shares.

(4) For the purpose of the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2019 per Share, the amount denominated in Renminbi has been converted into Hong Kong dollars at the rate of HK$1 to RMB0.89864, which was the exchange rate prevailing on November 22, 2019 with reference to the rate published by the People's Bank of China. No representation is made that the Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate or any other rate or at all.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as of June 30, 2019 to reflect any trade result or other transaction of our Group entered into subsequent to June 30, 2019. In particular, the unaudited pro forma adjusted net tangible assets of our Group attributable to the owners of our Company as shown above have not been adjusted to illustrate the effect of the following:–

  (I) Upon completion of the Global Offering, the conversion of the Series A Preferred Shares would have reclassified the carrying amount of Series A Preferred Shares of RMB877,430,000 to ordinary shares under equity. The conversion of Series A Preferred Shares in issue would have increased the total number of shares in issue assumption stated in Note 3 by 141,238,725 Shares (retrospectively adjusted for the Share Subdivision) and would have increased the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as of June 30, 2019 by RMB877,430,000.

  (II) Upon completion of the Global Offering, the conversion of the Series B Preferred Shares would have reclassified the carrying amount of Series B Preferred Shares of RMB411,151,000 to ordinary shares under equity. The conversion of the Series B Preferred Shares would have increased the total number of shares in issue assumption in Note 3 by 60,736,430 Shares (retrospectively adjusted for the Share Subdivision) and would have increased the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as of June 30, 2019 by RMB411,151,000.

The combined effect of above conversion of Series A Preferred Shares and Series B Preferred Shares would have increased the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2019 by RMB1,288,581,000 and would have increased the total shares in issue by 201,975,155 shares to a total of 897,011,575 Shares in issue.

	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company taking into account the Global Offering and the conversion of Series A Preferred Shares and Series B Preferred Shares as of June 30, 2019	**Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company taking into account the Global Offering and the conversion of Series A Preferred Shares and Series B Preferred Shares as of June 30, 2019 per Share**	
	RMB'000	*RMB*	*HK$*
		(Note a)	*(Note 4)*
Based on Offer Price of HK$9.10 per Offer Share	2,358,924	2.63	2.93
Based on Offer Price of HK$10.20 per Offer Share	2,528,745	2.82	3.14

(a) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company taking into account the Global Offering and conversion of the Series A Preferred Shares and Series B Preferred Shares as of June 30, 2019 per Share is calculated based on 897,011,575 Shares in issue (retrospectively adjusted for the Share Subdivision) assuming that the Global Offering and the conversion of the Series A Preferred Shares and Series B Preferred Shares have been completed on June 30, 2019 and without taking into account any Shares (i) which may be allotted and issued upon the exercise of the Over-allotment Option; (ii) which may be issued under the Pre-IPO Share Option Plans; or (iii) which may be allotted and issued or repurchased by our Company under general mandates for the allotment and issue or repurchase of shares granted to directors of our Company.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed, after performing all the due diligence work which our Directors consider appropriate, that, as of the date of this Prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2019 and up to the date of this Prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.