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HUA MEDICINE

華領醫藥

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2552)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Hua Medicine (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”, “**we**” or “**us**”) for the year ended December 31, 2019, together with comparative figures for the year ended December 31, 2018. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meaning as those defined in the prospectus of the Company dated August 31, 2018 (the “**Prospectus**”).

BUSINESS HIGHLIGHTS

Clinical trials:

- Achieved primary efficacy endpoint in a 24-week double blinded placebo controlled Phase III trial in drug naïve Type 2 Diabetes (T2D) patients in China (HMM0301), with very low hypoglycemia incidents and good safety profiles
- Completed enrollment in a metformin add on Phase III registration trial (HMM0302)
- Completed HMM0110, which demonstrated desirable pharmacokinetics profile in patients with end stage chronic kidney disease, indicating the potential use of dorzagliatin among T2D patients with moderate, severe and end stage chronic kidney disease (i.e. stages 3-5 of CKD)
- Completed HMM0111, investigating the pharmacokinetic (PK) and pharmacodynamic (PD) parameters of dorzagliatin either alone or in combination with sitagliptin (a DPP-4 inhibitor) in T2D patients, and demonstrated combination potential between the two drugs

IP AND OTHERS:

- Granted a formulation patent for dorzagliatin in China
- Filed six patent applications covering the IPR of fixed dose combination of dorzagliatin with six classes of oral anti-diabetic drugs
- Initiated a formal collaboration relating to the central role of glucokinase in controlling glucose homeostasis with Dr. Franz Matschinsky, Professor of Biochemistry and Biophysics, Institute for Diabetes, Obesity and Metabolism Perelman School of Medicine, Philadelphia and recipient of the 1995 Banting Medal for Scientific achievement and the 2020 Rolf Luft Award
- Presented AI-based machine learning results at the American Diabetes Association's 79th Scientific Sessions, providing a non-biased methodology to sub-classify T2D patients
- Announced that global operation headquarters and research and development center were established in Shanghai's ZhangJiang Science City
- Fully validated cGMP (current Good Manufacturing Practice) commercial manufacturing processes for active pharmaceutical ingredient (API) and drug product to support the launch of dorzagliatin in China
- Former U.S. FDA Officer Dr. Fuxing Tang joined Hua Medicine as Chief Technology Officer, VP of Formulation R&D and Product Development

FINANCIAL HIGHLIGHTS

- Cash position was approximately RMB1,105.6 million as of December 31, 2019.
- Total expenditures incurred by the Company for the year ended December 31, 2019 was approximately RMB468.5 million, of which approximately RMB321.9 million was research and development expenses.
- Research and development expenses increased by approximately RMB52.8 million or approximately 19.6% to approximately RMB321.9 million.
- Loss before tax decreased by approximately RMB3,178.7 million or approximately 88.2% to approximately RMB425.3 million.
- Loss and total comprehensive expense for the year decreased by approximately RMB3,178.7 million or approximately 88.2% to approximately RMB425.3 million.
- Adjusted net loss* increased by approximately RMB71.6 million or approximately 25.6% to approximately RMB350.9 million.

* Adjusted net loss is not a financial measure defined under IFRS. It is calculated by taking loss before tax for the year and adding back (a) share-based payments; and (b) loss on changes in fair value of financial liabilities at FVTPL.

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a pre-revenue China-based drug development company currently focusing on the development of dorzagliatin, a first-in-class oral drug for the treatment of Type 2 Diabetes (“**T2D**”). We filed an Investigational New Drug (“**IND**”) application with the National Medical Products Administration of the People’s Republic of China (the “**NMPA**”) for dorzagliatin under Category 1.1 (New Drug) in 2012 and initiated a Phase Ia clinical study of our novel glucokinase activator dorzagliatin in September 2013. We also filed an IND application with the U.S. Food and Drug Administration (“**FDA**”) for dorzagliatin in March 2015. Since then, we have completed six Phase I trials in China, three Phase I trials in the United States, and one Phase II trial in China. During the year ended December 31, 2019 (the “**Reporting Period**”), we released positive 24-week results from one of our pivotal Phase III registration trial in China (HMM0301). We also presented our AI-based, machine learning results at the American Diabetes Association’s 79th Scientific Sessions (the “**2019 ADA**”), which provide a non-biased methodology to sub-classify T2D patients. To further elucidate the mechanism of action for dorzagliatin, we also presented the results of an enzyme kinetics study comparing dorzagliatin and other earlier generation glucokinase activators at the 2019 ADA. We are currently conducting two Phase III trials in China and two Phase I trials in China and the United States. Our Phase III registration trials began in July 2017, with dorzagliatin both as a monotherapy (HMM0301) and in combination with metformin (HMM0302). One of our Phase I trials, HMM0109, is to study the pharmacokinetics profile of dorzagliatin in hepatic impaired patients. The other Phase I trial, HMM0112, is a drug-drug interaction trial studying the pharmacokinetics and pharmacodynamics interaction between dorzagliatin and empagliflozin (a SGLT-2 inhibitor) to investigate their combination potential.

We have initiated multiple studies on dorzagliatin plus existing anti-diabetes therapies at preclinical development and clinical settings. Six patents were filed, which cover the fixed-dose combination of dorzagliatin with six classes of oral anti-diabetic drugs. Some of these classes have already demonstrated complementary or synergistic effects to expand the clinical application across a full range of T2D patients, and those with metabolic syndrome or other diabetes complications.

In preparation for our NDA submission for dorzagliatin with the NMPA, we have fully validated cGMP commercial manufacturing processes for API and drug product to support our launch in China.

We also continue to develop mGLUR5, a potential novel drug candidate for the treatment of Parkinson’s disease levodopa-induced dyskinesia, or PD-LID.

Product pipeline

Set out below are the key stages of our product candidates under development:

Trial #	Drugs	Disease indication	Study type	Pre-clinical	Phase I	Phase II	Phase III	NDA
HMM0301	Dorzagliatin	Drug naïve T2D	Registration trial					
HMM0302	Dorzagliatin & metformin	Metformin tolerated T2D	Registration trial					
HMM0311	Dorzagliatin +/-vs OAD	Metformin tolerated T2D	Label expansion					
HMM0312	Dorzagliatin +/-vs OAD	Metformin tolerated T2D	Label expansion					
HMM0109	Dorzagliatin	Hepatic impaired T2D	Label expansion					
HMM0110	Dorzagliatin	Renal impaired T2D	Label expansion					
HMM0111	Dorzagliatin + DPP-4	Obese T2D	PK/PD & DDI					
HMM0112	Dorzagliatin + SGLT-2	Metabolic syndrome	PK/PD & DDI					
HMM0113	Dorzagliatin + atorvastatin	Label expansion	PK/PD & DDI					
HMM0114	Dorzagliatin + valsartan	Label expansion	PK/PD & DDI					
HMM0115	Dorzagliatin + sulfonylurea	SU-tolerated T2D	PK/PD & DDI					
HMM0116	Dorzagliatin + acarbose	Acarbose tolerated T2D	PK/PD & DDI					
HMM0117	Dorzagliatin + liraglutide	GLP-1 tolerated T2D	PK/PD & DDI					
HMM0119	Dorzagliatin + pioglitazone	NASH T2D	PK/PD & DDI					
HMM1201	Dorzagliatin + insulin	Basal insulin tolerated T2D	Insulin sparing					
HMM1202	Dorzagliatin + insulin	Drug naïve severe T2D	Pre-clinical					
	mGLUR5	PD-L1D	Pre-clinical					

Currently Ongoing

Planned

HMM0301 is a dorzagliatin monotherapy Phase III trial in drug-naïve T2D patients in China. We completed enrollment with over 450 patients as of February 28, 2019, and we announced positive 24-week top-line results on November 12, 2019. The trial achieved its primary efficacy endpoint by demonstrating a statistically significant reduction in HbA1c levels over placebo. Patients treated with dorzagliatin achieved 1.07 percent HbA1c reduction from baseline of 8.35 percent at 24 weeks compared to a reduction of 0.50 percent from a baseline of 8.37 percent in patients who received placebo (least square mean, p-value less than 0.0001). The American Diabetes Association (ADA) treatment target of HbA1c below 7.0 percent was achieved by 45.4 percent of subjects on dorzagliatin (PPS data, p-value less than 0.0001), compared to 21.5 percent of subjects who received placebo. The homeostatic control rate, measured by the percentage of Type 2 diabetes patients who achieved an HbA1c level of below 7.0 percent without hypoglycaemia, reached 45.0 percent in subjects on dorzagliatin (PPS data, p-value less than 0.0001), and 21.5 percent in subjects on placebo. We completed the 52-week trial (plus one-week follow-up) on March 2, 2020.

HMM0302 is a dorzagliatin combination with metformin Phase III trial in metformin tolerant T2D patients in China. We completed patient enrollment with over 750 patients as of August 30, 2019, and we completed the double blinded placebo controlled 24-week portion of the trial in February 2020, and expect to complete the full 52-week trial (plus one-week follow-up) in the second half of 2020.

As part of our strategy to establish dorzagliatin as a cornerstone therapy for the treatment of T2D globally, we are also investigating the combination of dorzagliatin with various approved classes of oral anti-diabetic medicines as well as other popular medicines commonly taken by diabetes patients to address patients' personal needs.

HMM0109 is a Phase I trial studying the impact on pharmacokinetics for patients with hepatic impairment in China.

HMM0112 is a dorzagliatin combination with empagliflozin (SGLT-2 inhibitor) Phase I trial in T2D patients in the United States. We announced the first patient was dosed in April 2019 and expect to complete and announce results by first half 2020.

We continue to work closely with and supervise our contract research organizations (CROs), clinical site management operators (SMOs), and contract manufacturing organizations (CMOs), who provide us with a range of services at a consistently high level of quality.

To date, we have not yet generated any revenue from the sale of goods or from the rendering of services, recognizing only limited income in the form of government grants and investment income. As of December 31, 2019, we expect to incur significant losses for the foreseeable future with no product revenues prior to obtaining marketing approval for dorzagliatin from the NMPA and commercializing dorzagliatin.

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

Business outlook

We plan to announce top-line 52-week Phase III trial results for our monotherapy trial (HMM0301) by no later than third quarter 2020, announce top-line 24-week Phase III results for our combination with metformin trial (HMM0302) by no later than third quarter 2020, and top-line 52 week results by year end 2020. We plan to file for NDA approval with the NMPA after the completion of both 52-week trials. Our plan is to partner with either China-based or international pharmaceutical companies to make dorzagliatin available to patients, in both China and regions outside of China. In order to continue expansion of dorzagliatin's indications for the treatment of T2D, we plan to initiate trials with several other available medicines to expand our dorzagliatin-driven portfolio. As part of the strategy to establish dorzagliatin as a cornerstone therapy for the treatment of T2D globally, we would expect to collaborate with global experts in T2D to further understand the potential of dorzagliatin.

Key events after the Reporting Period

On January 6, 2020, we announced positive results for our HMM0110 and HMM0111 trials.

HMM0110 was conducted in China to evaluate whether dorzagliatin can be readily used in Type 2 diabetes (T2D) patients with impaired renal function. In subjects with end stage renal disease (ESRD, eGFR<15mL/min/1.73 m²) and are not on dialysis, as compared to healthy subjects whose renal function is normal, the ratio of dorzagliatin C_{max} and AUC_{inf} were 0.81 (90% CI: 0.64, 1.01) and 1.10 (90% CI: 0.94, 1.28) respectively, indicating no significant impact of renal impairment on subjects exposed to dorzagliatin. This result supports dorzagliatin as a promising solution and potential supplementary option for T2D patients with moderate, severe and end stage chronic kidney disease (i.e., stages 3-5 of CKD) which can provide satisfactory blood glucose control safely and without dose adjustment. Most of current oral antidiabetic drugs are not readily suitable for patients with renal impairment, especially at moderate, severe and end stages, as current oral treatments either require dose adjustment (e.g., metformin and the top-selling DPP-4 inhibitors) or are contraindicated (e.g., SGLT-2 inhibitors).

HMM0111 was a pharmacokinetic (PK) and pharmacodynamic (PD) study conducted in the United States in T2D patients with insufficiently controlled blood glucose levels with metformin, DPP-4 inhibitors or SGLT-2 inhibitors, alone or in combination therapy. Patients received dorzagliatin (75mg BID) and sitagliptin (100mg QD), alone or in combination. Co-administration orally of dorzagliatin and sitagliptin at steady state demonstrated no impact on their PK properties but, following OGTT, based on glucose AUEC, the combined effect (AUEC: 253h*mg/dL) is superior to sitagliptin alone (AUEC: 378h*mg/dL) and dorzagliatin alone (AUEC: 339h*mg/dL) with p-value<0.05. It is also demonstrated that dorzagliatin add-on to sitagliptin increases C-peptide secretion over dorzagliatin and sitagliptin alone, suggesting a synergistic effect of improved beta cell function. This result supports the development of a combination therapy of dorzagliatin with sitagliptin in the treatment of T2D patients.

As of the date of this annual results announcement, business operations in China have been impacted by the outbreak of the novel coronavirus (COVID-19) since the latter half of January 2020. Due to the extenuating circumstances of the COVID-19 outbreak, many businesses in China halted operations as a result of the quarantine measures imposed by the government. Following guidelines issued by the Chinese government, our Company requested all employees work remotely beginning February 3, 2020. On March 2, 2020, our employees started returning to our offices in China in accordance with government guidelines, and as of the date of this annual results announcement, most of our employees, as well as those of our partners (e.g., CROs, SMOs and CMOs), have resumed normal operations. Despite these challenging circumstances, we have been able to achieve our major clinical trial milestones during this period without any delay. As of February 16, 2020, we completed the last patient out, 24-week patient visit for HMM0302. As of March 2, 2020, we completed the last patient out, 52-week (plus one-week follow-up) visit for HMM0301. Throughout this period, we have operated in strict adherence with national guidelines in conducting clinical trials, and also enforced additional trial management guidelines in pharmacovigilance and quality control to ensure our clinical trials remain on track and conducted in high quality. However, we do expect potential delays in the release of top-line results and also potential delays with some NDA-enabling work due to the COVID-19 outbreak, which could lead to a delay in the filing of the NDA with the NMPA.

Financial review

Other income

Our other income consisted primarily of bank interest income and government grants. Our other income increased by RMB19.2 million to RMB29.6 million for the year ended December 31, 2019 from RMB10.4 million for the year ended December 31, 2018, which was mainly attributable to an increase of RMB13.1 million in government grants for the year ended December 31, 2019, and an increase of RMB6.1 million in bank interest income from short-term time deposits. We received RMB27.7 million government grants from the local governments for research and development activities for the year ended December 31, 2019, among which we recorded RMB20.7 million in other income and RMB7.0 in deferred income.

Other gains and losses

Our other gains and losses consisted primarily of gains or losses due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between the Renminbi and the HK dollar. Our other gains and losses decreased by RMB47.5 million to a gain of RMB16.3 million in the year ended December 31, 2019 from a gain of RMB63.8 million in the year ended December 31, 2018, which was mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in U.S. dollars and HK dollars and the smaller appreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2019, compared to the larger appreciation of the U.S. dollar against the Renminbi in the year ended December 31, 2018.

Our business mainly operates in the PRC, and most of our transactions are settled in Renminbi. Since inception, we have financed our business solely through equity financings, with related proceeds denominated in U.S. dollars, HK dollars and Renminbi. We converted a portion of those U.S. dollar proceeds to Renminbi and HK dollar proceeds to U.S. dollar, with the remaining amounts reserved for additional conversions to Renminbi as needed. Translation for financial statement presentation purposes of our assets and liabilities exposes us to currency-related gains or losses and the actual conversion of our U.S. dollar and HK dollar denominated cash balances (including the HK dollar proceeds received from the Global Offering (comprising the Hong Kong public offering of 10,476,000 Shares and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company) into Renminbi) will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses increased by RMB46.2 million to RMB146.6 million in the year ended December 31, 2019 from RMB100.4 million in the year ended December 31, 2018, which was mainly attributable to i) increase of RMB15.6 million in cash compensation due to increased headcounts of new employees for the establishment of our finance and corporate development team and commercial strategy and marketing team in 2019, ii) increase of ongoing public listing costs, and meeting fee and activities associated with market research for the year ended December 31, 2019, and iii) increase of overhead costs including but not limited to leasehold expense, information technology service fee, and travelling expenses.

Other expenses

Our other expenses consist of expense associated with a donation of RMB1.7 million (equivalent to USD250,000) for the year ended December 31, 2019 to establish the Type 2 Diabetes research fund at the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania.

Finance cost

Our finance cost consisted of expenses associated with the issue of redeemable convertible preferred shares and interest on lease liabilities. Our finance cost was RMB0.9 million for the year ended December 31, 2019 as compared to RMB3.5 million for the year ended December 31, 2018, which was attributable to no new preferred shares issued for the year ended December 31, 2019.

Listing expenses

Our listing expenses mainly include sponsor fee, underwriting fees and commissions, and professional fees paid to legal advisers and the reporting accountants for their services rendered in relation to the Global Offering. We incurred listing expenses of approximately RMB38.9 million for the year ended December 31, 2018. No such expense was incurred for the year ended December 31, 2019.

Research and development expenses

The following table sets forth the components of our research and development expenses for the year indicated.

	For the year ended December 31,			
	2019		2018	
	RMB'000	%	RMB'000	%
Dorzagliatin Clinical Trials	158,900	49.4%	133,619	49.7%
Dorzagliatin Non-clinical Studies	3,124	1.0%	2,295	0.9%
Chemical, Manufacturing and Control	33,061	10.3%	44,733	16.5%
Labor Cost	109,458	34.0%	76,854	28.6%
Dorzagliatin Licensing and Patent Fee	2,018	0.6%	137	0.1%
Others	15,343	4.7%	11,427	4.2%
Total	<u>321,904</u>	<u>100.0%</u>	<u>269,065</u>	<u>100.0%</u>

Research and development expenses increased by RMB52.8 million to RMB321.9 million for the year ended December 31, 2019 from RMB269.1 million for the year ended December 31, 2018. The increase in research and development expenses included:

- an increase of RMB25.3 million for dorzagliatin clinical trials, which was primarily attributable to increased costs associated with the progress of our Phase III clinical trials and additional Phase I clinical trials conducted in the year ended December 31, 2019;
- an increase of RMB0.8 million in dorzagliatin non-clinical studies, which was primarily attributable to new efficacy evaluation studies conducted in the year ended December 31, 2019;
- a decrease of RMB11.7 million in chemical, manufacturing, and control (CMC) expenses, which was primarily attributable to higher expenditures on process validation of API manufacturing completed in 2018 compared with that on process validation for spray dried powder (SDP) manufacturing and drug product manufacturing completed in 2019;
- an increase of RMB32.6 million for increased labor costs, which was primarily attributable to an increase of RMB21.5 million in cash compensation mainly associated with headcount increase and milestone bonus payments and an increase of RMB11.1 million in share option expenses;
- an increase of RMB1.9 million for increased dorzagliatin licensing and patent fee, which was primarily attributable to a Patent Cooperation Treaty (PCT) application for dorzagliatin; and
- an increase of RMB3.9 million for others, which was primarily attributable to increased travelling, consulting and meeting costs, and increased rental cost.

Income tax expense

We recognized no income tax expenses for the year ended December 31, 2019 and the year ended December 31, 2018.

Adjusted net loss

Adjusted net loss was calculated by taking loss before tax for the year and adding back (a) share option expenses; and (b) loss on changes in fair value of financial liabilities at FVTPL.

We present this financial measure because it helps us to identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in net loss and it provides useful information about our operating results, enhances the overall understanding of our past performance and future prospects, and allows for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

The term adjusted net loss is not a financial measure defined under IFRS. The use of adjusted net loss has material limitations as an analytical tool, as it does not include all items that impact net loss for the year. Items excluded from adjusted net loss are significant components in understanding and assessing the Group's operating and financial performance. The following table reconciles the adjusted net loss for the period presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the year:

	For the year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Loss before tax for the period	(425,270)	(3,603,998)
Adjust for:		
Loss on changes in fair value of financial liabilities at FVTPL	–	3,266,216
Share option expenses	<u>74,384</u>	<u>58,500</u>
Adjusted net loss	<u>(350,886)</u>	<u>(279,282)</u>

Liquidity and capital resources

Since our inception, we have been in a net loss position with and net cash outflows from operations. Our primary use of cash is to fund our research and development activities. Our operating activities utilized RMB342.1 million for the year ended December 31, 2019. As of December 31, 2019, we had cash and cash equivalents of RMB1,105.6 million.

As of December 31, 2019, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Cash Operating Cost

The following table sets out the components of our cash operating cost for the years indicated:

	For the year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Research and development costs	238,337	169,938
Administrative costs		
– Workforce employment	46,267	40,262
– Others	<u>57,463</u>	<u>59,223</u>
	<u>103,730</u>	<u>99,485</u>
	<u>342,067</u>	<u>269,423</u>

Cash Flows

The following table provides information regarding our cash flows for the years ended December 31, 2018 and 2019:

	For the year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net cash used in operating activities	(342,067)	(269,423)
Net cash (used in) from investing activities	(9,515)	12,492
Net cash (used in) from financing activities	(1,236)	1,464,856
Effect of exchange rate changes	15,108	62,652
Net (decrease) increases in cash and cash equivalents	<u>(337,710)</u>	<u>1,270,577</u>

Net Cash Used in Operating Activities

The primary use of our cash was to fund the development of our research and development activities, regulatory, and other clinical trial costs, and related supporting administration. Our prepayments and other current assets, accounts payable and other payables balances were affected by the timing of vendor invoicing and payments.

During the year ended December 31, 2019, our operating activities used RMB342.1 million of cash, which resulted principally from our loss before tax of RMB425.3 million, adjusted for non-cash charges and non-operating cash charges of RMB61.7 million, and by cash used in our operating assets and liabilities of RMB21.5 million. Our net non-cash charges during the year ended December 31, 2019 primarily consisted of RMB3.4 million of depreciation of equipment, RMB6.9 million of amortization for right-of-use assets, RMB74.4 million share option expenses, RMB7.3 million of bank interest income, RMB1.6 million of government subsidy income and RMB15.1 million net foreign exchange gain.

During the year ended December 31, 2018, our operating activities used RMB269.4 million of cash, which resulted principally from our loss before tax of RMB3,604.0 million, adjusted for non-cash charges and non-operating cash charges of RM3,255.9 million, and by cash used in our operating assets and liabilities of RMB78.7 million. Our net non-cash charges during the year ended December 31, 2018 primarily consisted of RMB3,266.2 million of loss on changes in fair value of financial liabilities at FVTPL, depreciation of equipment, amortization for intangible assets, share-based payments expenses, and net foreign exchange gain.

Net Cash (used in) from Investing Activities

Net cash used in investing activities was RMB9.5 million for the year ended December 31, 2019, which resulted primarily from the interest received from bank, payments for rental deposits and the purchase of equipment. Net cash provided by investing activities was RMB12.5 million for the year ended December 31, 2018, which resulted primarily from the disposals of other financial assets and purchases of equipment.

Net Cash (used in) from Financing Activities

Net cash used in financing activities was RMB1.2 million for the year ended December 31, 2019, which resulted from exercise of share options and payments relating to lease liabilities. Net cash from financing activities was RMB1,464.9 million for the year ended December 31, 2018, which resulted primarily from proceeds from the issue of our Series D and E preferred shares and net proceeds from the Global Offering.

Financial position

Our net current assets decreased from RMB1,396.9 million as of December 31, 2018 to RMB1,011.7 million as of December 31, 2019. Current assets decreased from RMB1,474.5 million as of December 31, 2018 to RMB1,120.5 million as of December 31, 2019, primarily due to a decrease in bank balances and cash from RMB1,443.3 million as of December 31, 2018 to RMB1,105.6 million as of December 31, 2019, which was due primarily to the payments for our research and development activities and daily operation.

Significant change in accounting policy

We have applied IFRS 16 for the first time using the modified retrospective approach under IFRS 16 at transition since January 1, 2019 and IFRS 16 superseded IAS 17 Leases (“**IAS 17**”), and the related interpretations. As of January 1, 2019, the Group recognized additional lease liabilities and right-of-use assets equal to the related lease liabilities, adjusted by any prepaid lease payments by applying IFRS 16 in our consolidated statement of financial position as of December 31, 2019.

Indebtedness

As of December 31, 2019, our lease liabilities amounted to RMB90.0 million. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31, 2019 RMB'000
Current portion	12,019
Non-current portion	77,959
Total	89,978

Our lease liabilities as of December 31, 2019 were from leased properties and vehicle lease contracts with lease terms of two to six years. As of December 31, 2019, we did not have any other indebtedness.

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to a variety of market risks, including currency risk, interest rate risk, credit risk, and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We currently do not hedge or consider it necessary to hedge any of these risks.

Currency Risk

Our business mainly operates in the PRC with most of our transactions settled in Renminbi, and our financial statements are presented in Renminbi. Renminbi is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of Renminbi is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Since our inception, we have raised funds through various rounds of offshore financings and received proceeds of such financings in U.S. dollars, HK dollars and Renminbi. We convert a portion of those funds to Renminbi immediately and place the remaining amount in time deposits. We convert additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. To the extent that we need to convert U.S. dollar or other currencies we have received in previous financings into Renminbi for our operations, or if any of our arrangements with other parties are denominated in U.S. dollars and need to be converted into Renminbi, appreciation of the Renminbi against the U.S. dollar or other currencies would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollar or other currencies for business purposes, appreciation of the U.S. or HK dollar against the Renminbi would have a negative effect on the U.S. dollar or other currencies amounts available to us. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency rate.

The following table details our sensitivity to a 5% increase and decrease in Renminbi against U.S. dollars and HK dollars, the foreign currencies with which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollars denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative/positive number below indicates an increase/decrease in loss where Renminbi strengthens 5% against U.S. dollars and HK dollars. For a 5% weakening of Renminbi against U.S. dollars and HK dollars there would be an equal and opposite impact or loss for the year.

	As of December 31,	
	2019	2018
	RMB'000	RMB'000

Impact on profit or loss

US\$	(42,433)	(50,411)
HK\$	(2,634)	(20,438)

Interest Rate Risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Liquidity Risk

As of December 31, 2019 and 2018, we recorded net current assets of RMB1,011.7 million and RMB1,396.9 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key Financial Ratios

The following table sets forth our key financial ratios as of the dates indicated:

	As of December 31,	
	2019	2018
Current ratio ⁽¹⁾	10.3	19.0
Quick ratio ⁽²⁾	10.3	19.0

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

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

The current ratio and quick ratio as of December 31, 2019 decreased by 8.7 compared with that as of December 31, 2018 was mainly due to the cost of research activities and daily operation.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>NOTES</i>	For the year ended December 31,	
		2019 <i>RMB'000</i> (audited)	2018 <i>RMB'000</i> (audited)
Other income	3	29,574	10,355
Other gains and losses	4	16,275	63,778
Administrative expenses		(146,584)	(100,398)
Finance cost	5	(907)	(3,534)
Other expenses		(1,724)	—
Listing expenses		—	(38,918)
Research and development expenses		(321,904)	(269,065)
Loss on changes in fair value of financial liabilities at fair value through profit or loss (“FVTPL”)		—	(3,266,216)
Loss before tax	6	(425,270)	(3,603,998)
Income tax expense	7	—	—
Loss and total comprehensive expense for the year		<u>(425,270)</u>	<u>(3,603,998)</u>
Loss and total comprehensive expense for the year attributable to:			
– Owners of the Company		(425,270)	(3,602,726)
– Non-controlling interests		—	(1,272)
		<u>(425,270)</u>	<u>(3,603,998)</u>
LOSS PER SHARE	9	<i>RMB</i>	<i>RMB</i>
Basic and diluted		<u>0.45</u>	<u>(10.07)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of December 31, 2019 <i>RMB'000</i> (audited)	As of December 31, 2018 <i>RMB'000</i> (audited)
	<i>NOTES</i>		
Non-current assets			
Equipment		10,988	5,328
Right-of-use assets	10	90,486	—
Intangible assets		1,980	859
Prepayments and other receivables	11	30,707	9,552
		<u>134,161</u>	<u>15,739</u>
Current assets			
Prepayments and other receivables	11	14,852	24,337
Prepayments to related parties		—	6,863
Bank balances and cash	12	1,105,600	1,443,310
		<u>1,120,452</u>	<u>1,474,510</u>
Current liabilities			
Trade and other payables	13	88,317	76,033
Lease liabilities		12,019	—
Deferred income		8,450	1,600
		<u>108,786</u>	<u>77,633</u>
Net Current Assets		<u>1,011,666</u>	<u>1,396,877</u>
Total Assets Less Current Liabilities		<u>1,145,827</u>	<u>1,412,616</u>
Non-current liabilities			
Lease liabilities		77,959	—
Deferred income		7,248	9,128
		<u>85,207</u>	<u>9,128</u>
Net Assets		<u><u>1,060,620</u></u>	<u><u>1,403,488</u></u>

	As of December 31, 2019 <i>NOTES</i> RMB'000 (audited)	As of December 31, 2018 <i>RMB'000</i> (audited)
Capital and reserves		
Share capital	7,209	7,209
Treasury shares held in trust	(729)	(797)
Reserves	<u>1,054,140</u>	<u>1,397,076</u>
Equity attributable to owners of the Company	<u>1,060,620</u>	<u>1,403,488</u>
Total Equity	<u>1,060,620</u>	<u>1,403,488</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

1. General information

The Company was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009. The address of the registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is 275 Ai Di Sheng Road, Shanghai 201203, PRC.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as “Group”) are principally engaged in developing a global first-in-class oral drug, dorzagliatin or HMS5552, for the treatment of Type 2 diabetes.

2. Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and complied with the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period.

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

The functional currency of the Company is Renminbi, which is the same as the presentation currency of the consolidated financial statements.

3. Other income

	For the year ended	
	December 31,	
	2019	2018
	RMB'000	RMB'000
	(audited)	(audited)
Bank interest income	7,317	1,226
Government grants (<i>note</i>)	22,257	9,129
	29,574	10,355

Note:

The government grants have been received to compensate for the expenses of Group's research and development. Some of the government grants intended to compensate future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These government grants were recognized when related costs are subsequently incurred and the Group received government acknowledge of compliance.

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

4. Other gains and losses

	For the year ended December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Loss on disposal of equipment	–	(7)
Net foreign exchange gain	16,198	63,479
Gain from changes in fair value of other financial assets		
– realized	–	259
Others	77	47
	<u>16,275</u>	<u>63,778</u>

5. Finance cost

	For the year ended December 31,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Interest on lease liabilities	907	–
Transaction cost for the issue of the Company's convertible redeemable preferred shares, subsidiary's ordinary shares and written put option over subsidiary	–	3,534
	<u>907</u>	<u>3,534</u>

6. Loss before tax

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

	For the year ended	
	December 31,	
	2019	2018
	RMB'000	RMB'000
	(audited)	(audited)
Depreciation for equipment	3,361	1,534
Depreciation of right-of-use assets	6,920	–
Amortization for intangible assets	151	7
Other expenses	1,724	–
Staff cost (including directors' emoluments):		
– Salaries and other benefits	116,846	78,348
– Retirement benefit scheme contributions	9,066	6,177
– Share option expenses	74,384	58,500
	200,296	143,025
Auditors' remuneration	2,480	2,000
Expenses relating to short-term leases	2,560	–
Minimum operating lease payment in respect of rented premises	–	4,677

7. Income tax expense

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

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax during the periods presented in the consolidated financial statements.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the estimated tax rate of the Group's PRC subsidiary is 25% during the period presented in the consolidated financial statements. No PRC Enterprise Income tax was provided for as there was no estimated assessable profit of the Group's PRC subsidiary during the periods presented in the consolidated financial statements.

Deferred taxation had not been recognized on the unused tax losses and deductible temporary differences due to the unpredictability of future profit streams.

8. License agreement

In December 2011, the Company entered into a research, development and commercialization agreement (“GKA Agreement”) with Hoffman-La Roche Inc., and F. Hoffman-La Roche AG (collectively referenced as “Roche”) under which Roche granted the Company an exclusive license of patent rights, know-how and regulatory filings with respect to a compound which is a glucokinase activator to research, develop and commercialize products (“Licensed Product”) in the field of diabetes in the licensed territory (“Licensed Territory”). Pursuant to the GKA Agreement, the Company made US\$2.0 million non-refundable upfront payment and US\$1.0 million milestone payment upon the commencement of clinical trial Phase III in the mainland China for the Licensed Product to Roche in 2012 and 2017, respectively, which were recorded as research and development expenses in the corresponding years.

The Company is obligated to make a US\$4.0 million milestone payment upon the approval of the Licensed Product in the mainland China and an aggregate of US\$33.0 million of milestone payments upon approval in the Licensed Territory other than mainland China. Upon commercialization, the Company is contingently obligated to make a US\$15.0 million milestone payment for the first time when the territory-wide calendar year net sales exceed US\$500.0 million and an additional US\$40.0 million of milestone payment for the first time when the territory-wide calendar year net sales exceed US\$1.0 billion. The Company is also obligated to make royalty payments at the applicable incremental royalty rate at the applicable incremental royalty rate based on sales of the Licensed Product.

9. Loss per share

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

Loss figures are calculated as follows:

	For the year ended December 31,	
	2019	2018
	RMB'000	RMB'000
	(audited)	(audited)
Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share	<u>(425,270)</u>	<u>(3,602,726)</u>

Number of shares:

	For the year ended December 31,	
	2019	2018
	(audited)	(audited)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>942,060,515</u>	<u>357,864,458</u>

The computation of basic and diluted loss per share for the years ended December 31, 2019 and 2018 respectively excluded the unvested restricted shares and unvested restricted stock units of the Company.

The computation of diluted loss per share for the year ended December 31, 2019 did not assume the exercise of share options since their assumed exercise would result in a decrease in loss per share.

The computation of diluted loss per share for the year ended December 31, 2018 did not assume the conversion of the convertible redeemable preferred shares, the exercise of share options or the overallotment options since their assumed conversion or exercise would result in a decrease in loss per share.

10. Right-of-use assets

The Group entered into several new lease or lease modifications agreements for the use of leased properties and vehicles for two to six years, and the net book value of right-of-use assets as of December 31, 2019 is RMB90,486,000.

11. Prepayments and other receivables

	As of December 31, 2019 <i>RMB'000</i> (audited)	As of December 31, 2018 <i>RMB'000</i> (audited)
Prepayments for research and development services	2,838	21,157
Utility and rental deposits- current	1,462	1,530
Utility and rental deposits- non-current	4,117	—
Value add tax recoverable – non-current	26,248	9,552
Interest receivables	2,779	—
Other receivables for considerations of options exercised	1,398	—
Others- current	6,375	1,650
Others- non-current	342	—
	<u>45,559</u>	<u>33,889</u>
Analysis as		
– current	14,852	24,337
– non-current	<u>30,707</u>	<u>9,552</u>
	<u>45,559</u>	<u>33,889</u>

12. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The short-term bank deposits carry interests at market rates which ranged from 0.05% to 2.80% per annum as of December 31, 2019 (December 31, 2018: from 0.01% to 0.30% per annum).

13. Trade and other payables

	As of December 31, 2019 <i>RMB'000</i> (audited)	As of December 31, 2018 <i>RMB'000</i> (audited)
Trade payables	51,601	55,676
Payroll and bonus payables	28,577	14,867
Others	8,139	5,490
	<u>88,317</u>	<u>76,033</u>

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

The aging analysis of the trade payables presented based on the goods/services relevant invoice or billing date at the end of each reporting period is as follows:

	As of December 31, 2019 <i>RMB'000</i> (audited)	As of December 31, 2018 <i>RMB'000</i> (audited)
Uninvoiced or within 30 days	51,552	35,118
31 to 60 days	–	6,411
61 to 180 days	–	14,147
181 to 365 days	49	–
	<u>51,601</u>	<u>55,676</u>

Other information

Purchase, sale or redemption of the company's listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2019.

Employees and remuneration policy

As of December 31, 2019, the Group employed a total of 158 employees, as compared to a total of 115 employees as of December 31, 2018. The majority of the employees are employed in mainland China. For the year ended December 31, 2019, staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB191.2 million as compared to RMB136.8 million for the year ended December 31, 2018.

The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and agreements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve their working efficiency. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the year ended December 31, 2019.

The Company has also adopted a Pre-IPO Share Incentive Scheme and a Post-IPO Share Option Scheme. Please refer to the section headed "Statutory and General Information – D. Share Incentive Schemes" in Appendix IV to the Prospectus for further details.

Use of net proceeds from the Global Offering

The Company's Shares were listed on the Stock Exchange on September 14, 2018. The net proceeds from the Company's issue of new Shares amounted to RMB747.2 million (including the issue of additional Shares pursuant to the partial exercise of the over-allotment option on October 5, 2018), which have been, and will continue to be, applied according to the intentions set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. We expect that majority of the net proceeds from the Global Offering will be utilized by December 31, 2020. We also expect that a portion of the net proceeds will be carried forward and utilized in financial year 2021 due to a slight adjustment to the timeline for the development of our manufacturing capabilities.

The following table sets forth the status of the Company's use of proceeds raised in the Global Offering as of December 31, 2019:

		Net proceeds from the Global Offering <i>RMB million</i>	Actual usage up to December 31, 2019 <i>RMB million</i>	Unutilized net proceeds as of December 31, 2019 <i>RMB million</i>
	% of use of proceeds			
(a) Dorzagliatin research and development	39%	291.4	185.0	106.4
(b) Dorzagliatin lifecycle management and additional indications	9%	67.2	19.0	48.2
(c) Dorzagliatin launch and commercialization	27%	201.8	21.9	179.9
(d) New product and diabetes care technology development	11%	82.2	8.1	74.1
(e) Product licensing and partnership	4%	29.9	–	29.9
(f) General working capital	10%	74.7	50.4	24.3
Total	100%	747.2	284.4	462.8

Final dividend

The Board has resolved not to declare any final dividend for the year ended December 31, 2019 (December 31, 2018: NIL).

Securities transactions by the Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as the guidelines for regulating the directors’ dealings in the securities of the Company. Specific enquiry has been made to each Director and all Directors have confirmed that they have complied with the applicable standards set out in the Model Code throughout the year ended December 31, 2019.

Corporate governance

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code throughout the year ended December 31, 2019. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Review of annual results

The consolidated financial results of the Group for the year ended December 31, 2019 has been audited by the Company’s auditor, Deloitte Touche Tohmatsu, and reviewed by the Audit Committee of the Company, which consists of Mr. Walter Teh-ming Kwauk, Mr. William Robert Keller and Dr. Lian Yong Chen.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

Annual general meeting and closure of register of shareholders

The annual general meeting (AGM) of the Company is scheduled to be held on June 25, 2020. A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

For determining the entitlement to attend and vote at the AGM, the register of shareholders of the Company will be closed from June 22, 2020 to June 25, 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on June 19, 2020.

Publication of the annual results and 2019 annual report on the websites of the Stock Exchange and the Company

This annual results announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huamedicine.com). The Company's annual report for the year ended December 31, 2019 containing all the information required under the Listing Rules will be published on the respective websites of the Stock Exchange and the Company and will be dispatched to the shareholders of the Company in due course.

By order of the Board
Dr. Li Chen
Chief Executive Officer
and
Executive Director

Hong Kong, March 16, 2020

As of the date of this announcement, the Board comprises Dr. Li Chen and Mr. George Chien Cheng Lin as executive Directors; Mr. Robert Taylor Nelsen and Dr. Lian Yong Chen as non-executive Directors; and Mr. Walter Teh-ming Kwauk, Mr. William Robert Keller, Mr. Junling Liu and Mr. Yiu Wa Alec Tsui as independent non-executive Directors.