You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this document.

Unless the context otherwise requires, references to 2017 and 2018 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

Driven by our innovations across the industry value chain, our mission is to become a leading global pharmaceutical company targeting high-mortality diseases with significant unmet medical needs.

We are a leading China-based pharmaceutical company with global businesses in pharmaceutical, innovative biotech and CDMO sectors. We ranked the first by both export value and export volume of injectable finished doses in 2018 among China-based pharmaceutical companies, with major sales into the EU market.

Founded by a group of seasoned polysaccharide-chemists with scientific insights and profound understanding of immunology, we have built up a portfolio of both leading drugs in the anticoagulant and antithrombotic therapeutic areas and innovative drug candidates focusing on diseases with an immune system disorder axis, including oncology, autoimmune, metabolic and other areas. These diseases are among the largest unmet medical needs globally and represent the leading causes of morbidity and mortality.

Our leading drugs, Inhixa, Neoparin and Prolongin are three different brands of enoxaparin sodium injection which in total have been approved in 34 countries and sold in 17 countries. We have also supplied enoxaparin sodium injection to our customers in 14 other countries. We are the only China-based pharmaceutical company with cumulative sales of enoxaparin sodium injections in the EU exceeding 100 million doses. Enoxaparin is the "gold standard" anticoagulant and antithrombotic drug for various indications, such as venous thromboembolism (VTE) and pulmonary embolism (PE), with huge market demands and significant growth potential. According to Frost & Sullivan, the global usage of enoxaparin reached 781.9 million syringes/vials in 2019, and is expected to reach 1,068.4 million syringes/vials in 2025. Its usage in China was 52.0 million syringes/vials in 2019, which is expected to increase at a CAGR of 23.6% to 185.5 million syringes/vials in 2025.

Based on our profound understanding of immune response mechanisms, we have strategically constructed a robust portfolio of both exclusive development and commercial rights in Greater China for first-in-class clinical stage drug candidates and self-developed first-in-class drug candidate. These pipeline drugs are being developed to address the significant unmet medical demands in oncology, cardiovascular, inflammation and autoimmune areas. We place great importance in nurturing our partners and provide strong support to them in various areas including clinical development through our CDMO platform and equity investment. For example, Oregovamab, an immune-oncology antibody candidate being developed for first-line treatment of ovarian cancer in combination with chemotherapy, has shown a significant prolongation of median progression-free survival (median PFS 41.8 months vs. 12.2 months in patients treated by chemotherapy-alone, p=0.0027) in a phase II trial. It also showed a significant improvement in overall survival (OS) (p=0.0043). We own 38.74% equity interest in the developer company of Oregovamab as well as its exclusive development and commercial rights in Greater China.

We operate a fast-growing CDMO business through two platforms, Cytovance, a CDMO platform enabling the development and manufacture of recombinant pharmaceutical products and critical non-viral vectors and intermediates for gene therapy, and SPL, a CDMO platform enabling the development and manufacture of pharmaceutical products from natural sources, to capture the growth opportunities in the global biopharmaceutical sector. Our CDMO business ranks among the top three China-owned biologics CDMO operators based on 2018 revenue according to Frost & Sullivan. Our CDMO revenue grew by 69.1% from RMB324.3 million in 2017 to RMB548.5 million in 2018 and grew by 43.4% to RMB786.4 million in 2019. Our customer base ranges from multinational pharmaceutical giants to midsize, small and virtual biotech companies. With continuous investments in capabilities, capacity and innovation, the dual CDMO platform addresses diverse customer needs while leveraging over 45 years of combined experience of Cytovance and SPL in the development and manufacture of large molecule pharmaceutical products for innovative biologically based therapeutics. In addition to supporting a multitude of customer drug pipelines, our own product pipeline is aptly enabled and enhanced by the dual CDMO platform strategy. By addressing the capacity shortage and technological challenge in the CMC process, our CDMO platform empowers our customers to develop drugs from concept to commercial manufacturing stage and ensures CDMO capacities for the development of our own pipeline drugs. Benefiting from the global growth in the biopharmaceutical sector, our CDMO business has contributed to our rapid growth and diversified our revenue source. As of the Latest Practicable Date, we had 49 on-going projects and a backlog of US$64.4 million, which represents the total amount of contracted fees for services yet to be delivered.

Our revenue increased by 69.7%, from RMB2,828.2 million in 2017 to RMB4,799.8 million in 2018, and decreased by 3.9%, to RMB4,612.1 million in 2019. Our net profit increased by 156.1% from RMB240.9 million in 2017 to RMB617.0 million in 2018, and increased by 69.2% to RMB1,043.9 million in 2019.

BASIS OF PRESENTATION

The consolidated financial information of our Group has been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB) applicable to companies reporting under IFRS. The consolidated financial information has been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss which we have been measured at fair value. The consolidated financial

information of our Group is presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated. The preparation of consolidated financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Company's accounting policies.

The adoption of IFRS 9 has a significant impact on the Group's financial performance when compared to that of IAS 39. The adoption of IFRS 15 and IFRS 16 does not have a significant impact on the Group's financial position and performance when compared to that of IAS 18 and IAS 17. An internal assessment of the early adoption of IFRS 9, IFRS 15 and IFRS 16 has been performed, compared with IAS 39, IAS 18 and IAS 17. The major impacts to the Group are set forth below:

IFRS 9

IFRS 9 replaces IAS 39 for annual periods beginning on or after January 1, 2018, and earlier application is permitted. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. Our Group has elected to apply IFRS 9 in the preparation of its financial results throughout the Track Record Period.

IFRS 9 changes the determination of the classification and measurement of financial asset by assessing the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The accounting for financial liabilities remains largely the same as it was under IAS 39. Certain equity investments which were classified as available-for-sale investments under IAS 39 were designated as financial assets at fair value through profit or loss and fair value through other comprehensive income under IFRS 9. The total carrying value of equity investments designated as financial assets at fair value through profit or loss and fair value through other comprehensive income as of December 31, 2017, 2018 and 2019 were RMB1,512.2 million, RMB1,540.2 million and RMB1,855.6 million respectively, which should have been classified as available-for-sale investments should IAS 39 have been applied throughout the Track Record Period. As a result of the adoption of IFRS 9, our Group recognized fair value gains on financial assets at fair value through profit or loss of RMB46.6 million, RMB8.2 million and RMB199.7 million for the year ended December 31, 2017, 2018 and 2019, respectively.

The adoption of IFRS 9 has fundamentally changed our Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("**ECL**") approach. IFRS 9 requires our Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss. The allowance for ECLs recorded under IFRS 9 as of December 31, 2017, 2018 and 2019 was RMB10.9 million, RMB12.5 million and RMB0.7 million, respectively.

Based on the above assessment, we are of the view that the adoption of IFRS 9 has a significant impact on the Group's financial performance. However, such adoption does not have a significant impact on the Group's financial position, on the basis that (i) the extent of additional impairment made as ECL is not significant and (ii) the reclassification of available-for-sale investments to financial assets at fair value through profit or loss and fair value through other comprehensive income does not have a significant impact on net assets.

IFRS 15

IFRS 15 "Revenue from contracts with customers" replaces the previous revenue standard IAS 18 "Revenue" and related interpretation. The standard is effective for annual periods beginning on

or after January 1, 2018 and earlier application is permitted. Our Group has elected to apply IFRS 15 in the preparation of its financial results throughout the Track Record Period.

We have assessed the effects of early adoption of IFRS 15 on the financial statements and concluded that there is no significant impact on the our financial position and financial performance as compared to the application of IAS 18, except that under IFRS 15, contract assets are recognized for the right to consideration in exchange for goods or services transferred to the customer, and contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer). We reclassified contract assets from trade receivables of RMB11.4 million, RMB17.4 million and RMB31.2 million as of December 31, 2017, 2018 and 2019, respectively. We reclassified contract liabilities from other payables of RMB129.4 million, RMB254.8 million and RMB200.3 million as of December 31, 2017, 2018 and 2019, respectively.

IFRS 16

IFRS 16 Leases has replaced the previous standard IAS 17 Leases and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted. IFRS 16 has been consistently applied to the Historical Financial Information during the Track Record Period.

The effects of the early adoption of IFRS 16 have been assessed on our historical financial information as compared to the requirements of IAS 17, which is summarized as below:

(1) The operating lease commitments under IAS 17 were no longer disclosed as lease commitment, instead, all leases (except for short-term leases and leases of low-value assets) were recognized as a right-of-use asset and a corresponding liability under IFRS 16 at the lease commencement date. We recognized right-of-use assets of RMB159.0 million, RMB133.3 million and RMB113.7 million as of December 31, 2017, 2018 and 2019, respectively. We recognized lease liabilities of RMB156.0 million, RMB137.5 million and RMB119.2 million as of December 31, 2017, 2018 and 2019, respectively;

(2) Under IFRS 16, each lease payment is allocated between the settlement of the principal portion of the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period. The right-of-use asset is depreciated over the lease term on a straight-line basis. No material impact to the consolidated statements of profit or loss is resulted as compared to the recognition of operating lease expenses under IAS 17.

Based on the assessment, by applying IFRS 16, there are increases in both total assets and liabilities of our Group when comparing to that under IAS 17, and other than this, there is no significant impact on our Group's financial position and financial performance. Due to the increase of the current portion of the lease liabilities, there are slight decreases in current ratio and quick ratio when comparing to that under IAS 17, and due to the increase of the lease liabilities, there is increase in gearing ratio. Current ratio equals current assets divided by current liabilities as of the end of the year. Quick ratio is calculated using the sum of cash and bank balances and investments, then divided by current liabilities as of the same date. Gearing ratio equals total financial indebtedness (including interest-bearing bank and other borrowings and lease liabilities) divided by total equity as of the end of the year.

We acquired Topknow in 2018. As the acquisition of Topknow constitutes a business combination under common control, the consolidated financial statements of the Company were

prepared as if Topknow had been combined throughout the Track Record Period. For the details of our acquisitions and disposals, please refer to "History, Development and Corporate Structure" to this document.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which may be beyond our control. We operate in the global pharmaceutical and CDMO industries and our financial condition and results of operations are influenced by the macroeconomic factors affecting these industries, such as global economic growth, policy and regulatory changes. Additionally, we believe our results of operations are affected by a number of company-specific factors, including the key factors as discussed below.

The growth of the global pharmaceutical industry, in particular, the therapeutic areas that we focus on and the CDMO industry

We believe that the overall growth of the global pharmaceutical industry, in particular, the therapeutic areas we focus on and the overall growth of the global CDMO industry, in particular, the biologics CDMO market, have significantly, and will continue to significantly impact, our revenue growth.

According to Frost & Sullivan, the global pharmaceutical industry is expected to grow at a CAGR of 4.6% from US$1,267.4 billion in 2018 to US$1,662.3 billion in 2024. We focus on some of the largest and fast growing therapeutic areas including: (i) anticoagulant and antithrombotic, (ii) oncology, (iii) anti-infectives, (iv) anti-inflammatory, (v) diabetes and (vi) cardiovascular diseases. Our leading drugs, Inhixa, Neoparin and Prolongin (enoxaparin sodium injections), are the "gold standard" anticoagulant and antithrombotic drug with significant growth potential. The anticoagulant market has grown rapidly at a CAGR of 14.2% from US$11.6 billion in 2014 to US$19.8 billion in 2018, and is estimated to reach US$26.0 billion in 2024, according to Frost & Sullivan. Specifically with respect to the market of enoxaparin finished dose products, while the global market by revenue has increased slightly from US$2,671.9 million in 2017 to US$2,735.8 million in 2019, due to the fluctuation of price as a result of the market competition brought by genetic drugs and the termination of Sandoz's supply of enoxaparin finished dose products in July 2018, the global sales volume of enoxaparin finished dose products has increased at a CAGR of 2.2% from 701.5 million syringes/vials in 2014 to 781.9 million syringes/vials in 2019, representing a growing market demands of enoxaparin finished dose products. It is estimated that the global sales volume of enoxaparin products will increase at a CAGR of 5.3% to 1,068.4 million syringes/vials in 2025 as compared to that of 2019, primarily driven by the growing aging population, increasing market awareness of enoxaparin finished dose products in the emerging markets such as China and the recovery of sufficient supply of high-quality API. The enoxaparin market in China has significant growth potential. The sales volume of enoxaparin products in China has grown rapidly at a CAGR of 28.6% from 14.8 million syringes/vials in 2014 to 52.0 million syringes/vials in 2019, and is estimated to reach 185.5 million syringes/vials in 2025, representing a CAGR of 23.6%.

We have commercial rights in the Greater China of our innovative drug candidates. We believe that the growth of the Chinese pharmaceutical market, in particular, the respective therapeutic areas that our drug candidates are targeting will have significant impact on our future revenue after we commercialize our drug candidates. Our drug candidates are being developed for treatment of diseases

with an immune system axis, and the relevant markets for the therapeutic areas we focus on, including oncology, anti-infectives, anti-inflammatory, diabetes and cardiovascular diseases, have grown rapidly in the past years and is expected to continuously grow in the future. For instance, oncology and cardiovascular therapeutic areas grew at a CAGR of 12.8% and 0.9% respectively, from 2014 to 2018. According to Frost & Sullivan, these two therapeutic areas are expected to continue growing rapidly from 2018 to 2024 at a CAGR of 11.1% and 2.1% respectively.

According to Frost & Sullivan, the global CDMO market has grown rapidly at a CAGR of 10.7% from US$17.8 billion in 2014 to US$26.8 billion in 2018. The growth of the global CDMO market is primarily driven by the expansion of the global biologics CDMO market, which has expanded from US$3.1 billion in 2014 to US$6.4 billion in 2018, and is driven by the increasing investment in the field of biologics industry, the emergence of small and mid-sized pharmaceutical companies, and the increasing penetration rate of outsourcing services in the global biologics manufacture industry. Benefiting from the global growth in the biopharmaceutical sector, our CDMO business experienced rapid growth during the Track Record Period. Revenue from our CDMO business increased from RMB324.3 million in 2017 to RMB548.5 million in 2018, and increased to RMB786.4 million in 2019. We expect our CDMO business to further grow as the global biologics CDMO market is expected to reach US$21.6 billion in 2024, representing a CAGR of 22.4% from 2018.

Please refer to "Industry Overview" for further details on the expected growth of these therapeutic areas and the relevant segments. We believe we are well positioned to capitalize on the expected growth of the global pharmaceutical market in general and the therapeutic areas we strategically focus on.

Our ability to expand the sales of our pharmaceutical products and our CDMO business

We focus primarily on the anticoagulant and antithrombotic finished dose pharmaceutical products and their relevant APIs. Sales volume of these products have a significant impact on our results of operation. During the Track Record Period, our revenue primarily comprised of sales of our heparin sodium API and enoxaparin sodium injection. The sales of our finished dose pharmaceuticals accounted for 13.5%, 21.8%, and 26.7% of our total revenue in 2017, 2018, and 2019, respectively, and the sales of our API products accounted for 65.2%, 57.4%, and 49.3% of our total revenue in the respective year. We expect that the sales of heparin sodium API and enoxaparin sodium injection will continue to account for a substantial portion of our total revenue in the near term.

With respect to the sales of our pharmaceutical products, our ability to increase sales volume depends on whether we are able to effectively implement our marketing strategies. For the sales of enoxaparin sodium injection, we intend to increase our sales in various regions by implementing localized and differentiated marketing strategies. In the EU market, we plan to further deepen our penetration in major EU countries where we have established sales and distribution channels, primarily by expanding our sales network to cover more pharmacies through our in-house sales and marketing team or through our distributors, as the sales to pharmacies have a higher profit margin than the sales to hospitals. We also plan to launch our enoxaparin sodium injection in other EU countries. In China, we believe that the sales volume of Prolongin will significantly increase once it obtains the QCE approval in China. We also intend to increase our sales in the U.S. and other regions through our collaboration with leading global or local pharmaceutical companies. We believe that our strong in-house sales team and well-established sales network will enable us to carry out our sales and

marketing strategies and increase the sales volume of our pharmaceutical products. For the sales of heparin sodium API, our ability to maintain the long-term supply arrangements with our existing customers is important for us to secure the current sales volume while further expand our sales through establishing cooperative relationships with new customers.

During the Track Record Period, our CDMO business also contributed to our total revenue. Revenue from our CDMO business accounted for 11.5%, 11.4%, and 17.1% of our total revenue in 2017, 2018, and 2019, respectively. We expect that the revenue generated from our CDMO services will increase and become a more substantial part of our total revenue in the future, as we further develop and expand our business. Growth in our CDMO business depends on our ability to enter into new service contracts and replenish our backlog as our existing contracts are completed. Continuous replenishing our backlog is crucial to our long-term success as it underpins the continued growth of our operations. As of the Latest Practicable Date, our backlog reached US$64.4 million. Our ability to win new projects from existing and new customers is affected substantially by our service quality, price, range of services and capacity. We provided services to 50, 54 and 52 customers in the years ended December 31, 2017, 2018 and 2019. For details, see "Risk Factors—Risks Relating to Our CDMO Business—Our CDMO business is dependent on our customers' spending on and demand for outsourced biologics discovery, development and manufacturing. A reduction in spending or demand could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects."

Development and commercialization of our innovative drug candidates

Our ability to develop new drugs, replenish our drug pipeline with additional candidates, and further diversify our drug portfolio, has a significant impact on our results of operations and business prospects. Focusing on diseases with an immune system axis, we have strategically invested in a number of biotech companies with first-in-class drug candidates addressing the significant unmet clinical demands and obtained exclusive development and commercial rights for selected drug candidates in the Greater China including two drug candidates in phase III clinical trials, two drug candidates in phase II clinical trials and one drug candidates in phase I clinical trial, as of the Latest Practical Date. We plan to conduct the clinical trials for all our in-licensed drug candidates in China under the MRCT, except for RVX-208. We received the NMPA approval for the clinical trial of AR-301 in China in July 2019. We are also developing an oncology drug candidate currently at preclinical stage.

Our results of operations and business prospects also depend on our ability to successfully commercialize new drugs as they come out of pipeline. We have established extensive sales and distribution network and teams in China for our heparin business. We believe we can leverage these resources in China to build specialized in-house sales teams and distribution channel with hospitals and physicals for the academic marketing of our pipeline drugs. Through years of operations, we have and accumulated local insight and vast experiences of business operations in China. We believe we are able to leverage our successful experience in the heparin industry to successfully launch our drug candidates and maximize their commercial value in China.

Our ability to successfully develop and commercialize our drug candidates is subject to a number of risks and uncertainties, many of which are beyond our control. For more information, see "Risk Factors—Risks Relating to the Research and Development of Our Product Candidates."

Our ability to compete in the tender process and coverage of our drugs in the governmental medical insurance programs

The majority of our pharmaceutical products we sell to our distributors are then sold to public hospitals and other medical institutions. Sales of our finished dose pharmaceutical products to public hospitals and other public medical institutions in China and certain EU countries are required to go through a centralized or regional tender process for the procurement of medicines listed in the medical insurance catalogs and medicines that are consumed in large volumes and commonly prescribed for clinical uses. We submit bids in a tender process to supply our products to these public institutions at specified prices. These bids are generally considered on the basis of price competitiveness, clinical effectiveness, as well as product quality and reputation of the manufacturer, among other things. The tender process for pharmaceuticals with the same chemical composition are conducted periodically, and pharmaceuticals that have won in the tender process previously must participate and win in the following period before new purchase orders can be placed. If we are successful in winning bids in a tender process, our products will be sold to the public hospitals in the respective regions at the bidding prices, which will increase the sales volume of our drug and reduce our sales and marketing expenses in promoting our drugs among individual hospitals.

Our bidding strategy generally focuses on differentiating our products instead of competing solely based on pricing. Our sales volumes and profitability depends on our ability to successfully differentiate our products and price our bids in a manner that enables us to succeed in the tender process. We believe each of our products has had competitive advantages in the tender process during the Track Record Period. If we are unable to differentiate our products or are otherwise not successful in winning bids in the tender process at profitable levels, we will lose the revenue associated with the sale of the affected pharmaceutical products to the relevant public hospitals.

Regulatory and policy changes on tender process may have significant influence on our bidding strategies and therefore on the pricing of our products. In recent years, the PRC government has adopted measures aimed at raising the operating standards of pharmaceutical manufacturing companies in China in order to ensure a stable supply of safe and effective medicines. For example, in March 2016, the General Office of the State Council issued the Opinion on Conducting the Consistency Evaluation of the Quality and Efficacy of Generic Drugs (國務院辦公廳關於開展仿製藥質量和療效一致性評價的意見), which requires existing generic drugs to undergo and pass quality consistency evaluation. Generic drugs that have passed the consistency evaluation in China are afforded certain advantages, including preferential treatment in the centralized tender process. See "Regulatory Environment—Laws and Regulations Related to Our Business in the PRC—Regulations on Drug Research and Development & Registration Services." In November 2018, the PRC government launched the national pilot scheme for tendering with minimum procurement quantities. The implementation of this program may further impact our strategies on how to commercialize drug products in China and how to best compete in the bidding process.

Moreover, under the medical insurance programs in China and the EU, patients are entitled to reimbursement of all or a portion of the cost of pharmaceutical products covered under the government-sponsored medical insurance programs. Consequently, whether a pharmaceutical product is included in any of these medical insurance programs will significantly affect the demand for such product. Please refer to "Risk Factors—Risks Relating to Our Business and Industry—Sales of our pharmaceutical products depend on the reimbursement policies of the governmental authorities and health insurers. Failure to obtain or maintain adequate medical insurance coverage and reimbursement

for our pharmaceutical products could limit our ability to market those products and decrease our ability to generate revenue" for more details. While the inclusion of a pharmaceutical product in government-sponsored medical insurance programs can significantly increase the demand and potentially sales volume, pharmaceuticals so included are subject to relevant pricing regulation and are subject to pricing pressure in the tender process and must undergo pricing negotiation process with the relevant government authorities. As a result, whether our enoxaparin sodium injection can continue to be included in the governmental medical insurance and whether our innovative drug candidates once launched can be included in the governmental medical insurance will significantly affect our financial conditions and results of operations.

On balance, the benefits of inclusion of our pharmaceuticals in the governmental medical insurance programs outweighed the disadvantages of such inclusion during the Track Record Period. We believe that we will continue to benefit from such inclusion in the foreseeable future for our current finished dose pharmaceutical products.

Raw materials supply and pricing and our ability to control costs and expenses

During the Track Record Period, costs of raw materials represented a major component of our costs of sales. For the years ended December 31, 2017, 2018 and 2019, our costs for raw materials amounted to RMB1,158.3 million, RMB1,853.6 million and RMB1,782.2 million respectively, representing approximately 58.6%, 63.3% and 60.6%, respectively, of our total costs of sales. Among the costs of raw materials, the costs of heparin raw materials constitute a significant portion; therefore, the supply and pricing of heparin raw materials have a material impact on our results of operations.

During the Track Record Period, we primarily contract with third-party suppliers to acquire porcine small intestine for the manufacturing of crude heparin at our crude heparin factories. We also acquire crude heparin for the manufacturing of heparin sodium APIs at our facilities. The price of heparin raw materials is heavily reliant on the supply of breeding stock pigs. In China, due to the outbreak of African swine fever in late 2018, the number of breeding stock pigs has decreased significantly in 2019. Such decrease in the number of breeding stock pigs has resulted in a shortage of porcine small intestine and an increase in the price of porcine small intestine and crude heparin, which has resulted in an increase in our costs of raw materials and therefore, costs of sales. However, since there is generally one year lag from the price increase of porcine small intestine to that of heparin sodium API, we have limited capability to transfer the increasing costs of raw materials to downstream industry chain in a timely manner. As we typically enter into short term supply agreements with our suppliers, the price is constantly affected by the prevailing market conditions. For the years ended December 31, 2017, 2018 and 2019, the average unit price for crude heparin was RMB151 per mega, RMB162 per mega, and RMB237 per mega, respectively.

The following table sets forth the sensitivity of our profit for the years ended December 31, 2017, 2018 and 2019 in relation to movements in costs of crude heparin for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
Increase / (Decrease) of Costs of crude heparin	Change in profit (RMB'000)	% Change	Change in profit (RMB'000)	% Change	Change in profit (RMB'000)	% Change
5%	(41,362)	(17)	(62,213.8)	(10)	(65,393.8)	(6)
(5)%	41,362	17	62,213.8	10	65,393.8	6

Our profitability has benefited from our effective control of cost of sales. Our cost of sales primarily includes raw material costs, staff costs, depreciation and utilities and others. We have devoted significant efforts to continuously improving our production efficiency, including through increased automation in our production processes. As a result, we were able to increase our production volumes to meet growing market demand without significantly increasing our material costs, staff and other costs. During the Track Record Period, the cost of our raw materials, especially the price of porcine small intestines, was affected by the reduced supply as a result of the outbreak of swine fever. We were able to limit its impact on our raw material costs, through our control on the global supply of the porcine small intestines and our long-term collaboration with the suppliers. The raw material costs accounted for 58.6%, 63.3% and 60.6% of our total cost of sales in 2017, 2018 and 2019. As our production efficiency and economies of scale improve, our cost of sales as a percentage of revenue has remained relatively stable at 69.9%, 61.0% and 63.7%, respectively, for the years ended December 31, 2017, 2018 and 2019.

Our ability to effectively control our operating expenses, particularly our selling and distribution expenses and administrative expenses, also has a material impact on our profitability. Our operating expenses primarily include selling and distribution expenses, administrative expenses, finance costs and share of losses of associates. Selling and distribution expenses and administrative expenses are the two largest component of our operating expenses, with the selling and distribution expenses accounting for 6.8%, 7.7% and 8.9%, respectively, of our revenue and administrative expenses accounting for 15.4%, 10.4% and 11.3%, respectively, of our revenue in 2017, 2018 and 2019. In the future, we intend to continue to control our selling and distribution expenses and enhance our sales productivity through additional tailored training of sales personnel and more targeted marketing activities. Our administrative expenses primarily include R&D expenses, employee compensation and depreciation and amortization. We will continue to control our administrative expenses through more efficient training of our administration personnel and more reasonable allocation of administrative allocation.

Funding for our operations and cost of financing

We fund our business operations primarily through internally generated funds and other financing arrangements during the Track Record Period. As of December 31, 2017, 2018 and 2019, our total outstanding bank loans, corporate bonds and other borrowings amounted to RMB5,084.1 million, RMB4,912.9 million and RMB6,294.0 million, respectively. With the continuing expansion of our business and development of product candidates, we may require further funding through public or private equity offerings, debt financing and other sources. Any changes in our ability to fund our operations and any fluctuation in the interest rates will affect our cash flow and results of operation.

Performance of our portfolio companies

We have strategically invested in a number of biotech companies which focus on research and development of innovative drugs with significant growth potential or cutting edge technologies that we believe will advance the healthcare industry. The performance of our invested companies, including but not limited to the commercial success of their drug candidates, will affect our cash flow and results of operation. Given that these portfolio companies are still in the development stages, they may have a higher failure rate. They may not be able to successfully complete clinical development, obtain regulatory approval or commercialize their drug candidate, or experience delays in doing so. Accordingly, we may fail to realize our anticipated returns on investments in such investees, and may

even experience a total loss on such investments. For the year ended December 31, 2017 and 2018, our share of losses of associates amounted to RMB79.7 million and RMB305.0 million, respectively and for the year ended December 31, 2019, our share of profits of associates amounted to RMB18.2 million. Our investments in associates were RMB642.0 million, RMB562.5 million and RMB1,349.8 million as of December 31, 2017, 2018 and 2019, respectively. As of December 31, 2017, 2018 and 2019, our equity investments designed at fair value through other comprehensive income amounted to RMB550.4 million, RMB608.8 million and RMB627.4 million, respectively. As of December 31, 2017, 2018 and 2019, our financial assets at fair value through profit or loss were RMB1,255.0 million, RMB1,197.7 million and RMB1,316.0 million, respectively. Please refer to "History, Development and Corporate Structure—Major Acquisitions and Disposals" and "—Selected Items regarding Our Investments" for more information regarding our investments.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that we believe to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our consolidated financial statements. Our significant accounting policies and estimates, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 2 and 3 to the Accountants' Report in Appendix I to this document.

Significant Accounting Policies

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year,

revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of products

Revenue from the sale of products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of products provide customers with rights of return. The rights of return give rise to variable consideration.

(b) Contract development and manufacturing organization ("CDMO") services

The Group earns revenues by providing research services to its customers through Fee-for-service ("**FFS**") contracts. Contract duration ranges from a few months to years. Under the FFS model, the contracts usually have multiple task units, which are generally in the form of technical laboratory reports and/or samples, each of which is with an individual selling price specified within the contract. The Group identifies each task unit as a separate performance obligation. The revenue is recognized over time, as the Group's performance has created an asset with no alternative use and the Group has an enforceable right for payments for performance completed to date. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using cost-to-cost (input method).

Under the input method, the Group uses the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Group incurs costs on its contract, under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred.

The Group also enters into commercial manufacturing contracts, and engages in manufacturing and sale of products under customers' specific order. The Group recognized revenue at a point in time upon acceptance of the deliverable products under customers' specific order.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. Contract assets are subject to impairment assessment. For further details, please refer to "—Impairment of financial assets."

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due, whichever is earlier, from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Investments in associates

An associate is an entity in which the Group has a long-term interest of generally but not necessary not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The Group's investments in associates are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statements of profit or loss and consolidated statements of comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

Upon loss of significant influence over the associates, the Group measures and recognizes any retained investments at their fair values. Any difference between the carrying amounts and the fair values of the retained investment and proceeds from disposal is recognized in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation.*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method except for business combination under common control. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by

the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity. Contingent consideration from the business combination under common control is recognized in equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. The recoverable amount of the CGUs has been determined based on the higher of value in use calculation ("**VIU**") and fair value less costs of disposal ("**FVLCD**"). In measuring VIU, we base cash flow projections on the most recent financial

budgets/forecasts covering a period of five years, or a period longer than five years if it is justifiable, which take into account the length of the post projection period for the cash flow into perpetuity, and this shall be achieved by identifying a 'steady state' set of assumptions for the cash flows and applying a terminal value multiple to those cash flows. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment Testing of Goodwill

Goodwill is allocated to Heparin SPL cash-generating unit and CDMO cash-generating unit (collectively of the two above, the "**CGUs**") for impairment testing. The recoverable amount of the Heparin SPL CGU and CDMO CGU have been determined based on the higher of VIU and FVLCD. VIU is using cash flow projections based on financial budgets covering a five or seven-year period approved by senior management. In measuring FVLCD, multiple valuation techniques are used to measure fair value. The fair value is evaluated using a combination of the income approach and the market approach, with 50 percent weighting for each approach.

The respective recoverable amount and the carrying value of the CGUs as of December 31, 2017, 2018 and 2019 are as follows:

Heparin SPL CGU

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Recoverable amount	3,789,836[1]	2,885,976[1]	3,278,814[2]
Carrying value including allocated goodwill	2,373,226	2,451,764	2,623,443

CDMO CGU

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Recoverable amount	1,503,193[1]	1,642,021[1]	1,991,726[1]
Carrying value including allocated goodwill	1,472,574	1,585,716	1,702,667

1. The recoverable amount was determined based on FVLCD.
2. The recoverable amount was determined based on VIU.

For income approach, the pre-tax discount rates applied to the cash flow projections, the forecasted growth rates and earnings before interest, taxes, depreciation and amortization ("**EBITDA**") margin used to extrapolate cash flow projections and terminal growth rates are as follows:

Heparin SPL CGU

	As of December 31,		
	2017	2018	2019
Revenue growth rates	7%-65%	-5%-31%	7%-32%
EBITDA margin	33%-44%	22%-29%	19%-31%
Pre-tax discount rate	21.5%	17.9%	18.6%
Terminal revenue growth rate	3%	3%	3%

CDMO CGU

	As of December 31,		
	2017	2018	2019
Revenue growth rates*	9%-44%	6%-36%	6%-29%
EBITDA margin*	8%-26%	20%-27%	25%-29%
Pre-tax discount rate	13.9%	15.1%	15.4%
Terminal revenue growth rate	3%	3%	3%

* A period longer than five years can be used if it is justifiable, and the management used a seven-year period in 2017. The expected annual growth rates over the seven-year forecast period are based on the past performance and management's expectation of future market and business developments.

The VIU calculations use cash flow projections based on the most recent financial budgets/ forecasts covering a period of five years, or a period longer than five years if it is justifiable. Throughout these years, the Group applied a five years period of cash flow projection. Yet, the management of the Group use cash flow projections covering a period of seven years for CDMO CGU's goodwill impairment assessment as of December 31, 2017, which takes into account the length of the post projection period for the cash flow into perpetuity, and this has been achieved by identifying a 'steady state' set of assumptions for the cash flows and applying a terminal value multiple to those cash flows. The expected annual growth rates over the seven-year forecast period are based on the Group's past performance and management's expectation of future market and business developments. On the other hand, assumptions were used in the FVLCD of the CGUs for December 31, 2017, 2018 and 2019. The revenue growth rate beyond the five or seven-year period had been projected as 3.0%. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue growth rate—The revenue growth rate is based on the average growth achieved in the past years and the expected revenue from sales of heparin and pancreatin.

Budgeted EBITDA margins—The basis used to determine the value assigned to the budgeted gross margins is the EBITDA margins achieved in the past years and the expectation for market development.

Discount rate—The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development and discount rate are consistent with external information sources.

For market approach, fair value was determined based on ratios of enterprise value ("**EV**") divided by revenue and EBITDA of several comparable public companies for specific historical and/or forecasted years. Multiples were selected for the respective time periods and multiplied by the revenue and EBITDA of the related CGU resulting in an implied EV of the CGU, on a minority, marketable basis. Weightings were applied to the implied indications of value and a control premium was added to arrive at an EV on a controlling, marketable basis. The guideline companies were selected based on a comprehensive search of publicly-listed companies in the CGU's industry, such that the guideline companies had similar or comparable operations and likely exposed to similar risks as the CGU. The selected multiples and control premium are as follows:

Heparin SPL CGU

	As of December 31,		
	2017	2018	2019
Revenue multiples	n/a	n/a	n/a
EBITDA multiples	8.5x	6.0x-8.8x	7.5x-8.0x
Control premium	5.0%	5.0%	5.0%

CDMO CGU

	As of December 31,		
	2017	2018	2019
Revenue multiples	2.0x-3.0x	2.3x-3.0x	2.3x-2.5x
EBITDA multiples	9.0x	11.0x	11.0x-12.0x
Control premium	15.0%	10.0%	10.0%

Assumptions were used in the FVLCD of the CGUs for December 31, 2017, 2018 and 2019. The following describes each key assumption on which management has based to undertake impairment testing of goodwill:

Revenue multiples—The revenue multiples are based on the CGU's historical and forecasted performance compared to the guideline companies, as well as how the business has performed relative to plan for that period.

EBITDA multiples—The basis used to determine the value of EBITDA multiples is the CGU's historical and forecasted profitability performance compared to the guideline companies, as well as relative to plan, and initiatives driving profitability.

Control Premium—The control premium is based on review of recent transactions in the industry and the comparability of the transactions to the respective CGU's.

Sensitivity Analysis

For Heparin SPL CGU, the estimated recoverable amounts exceeded its carrying values by RMB1,416,610,000, RMB434,212,000 and RMB655,371,000 as of December 31, 2017, 2018 and 2019, respectively. The directors of the Company have not identified that a reasonable possible change in any of the key assumptions that could cause the carrying amount of Heparin SPL CGU to exceed the recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Heparin SPL CGU's recoverable amount to be equal to its carrying value as of December 31, 2017, 2018 and 2019.

	Change required for carrying value to equal recoverable amount		
	As of December 31,		
	2017	2018	2019
Revenue growth rates	(54.0%)	(10.4%)	(11.0%)
EBITDA margin	(27.1%)	(7.1%)	(7.3%)
Pre-tax discount rate	58.8%	6.6%	6.9%

For CDMO CGU, the estimated recoverable amounts exceeded its carrying values by RMB30,619,000, RMB56,305,000 and RMB289,059,000 as of December 31, 2017, 2018 and 2019, respectively. The directors of the Company have not identified that a reasonable possible change in any of the key assumptions that could cause the carrying amount of the CDMO CGU to exceed the recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to CDMO CGU's recoverable amount to be equal to its carrying value as of December 31, 2017, 2018 and 2019.

	Change required for carrying value to equal recoverable amount		
	As of December 31,		
	2017	2018	2019
Revenue growth rates	(0.7%)	(2.0%)	(8.8%)
EBITDA margin	(0.7%)	(1.3%)	(7.1%)
Pre-tax discount rate	0.3%	0.9%	5.4%

Fair value measurement

The Group measures its equity investments designated at fair value through other comprehensive income, derivative financial instruments and financial assets at fair value through profit or loss at the end of each relevant period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1—based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2—based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3—based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Track Record Period.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.375%-4.75%
Machine equipment	19%-9.5%
Motor vehicles	19%-9.5%
Other equipment	19%-9.5%
Leasehold improvement	2.326%-33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Other intangible assets (other than goodwill)

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of other intangible assets are assessed to be either finite or indefinite. Other intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the other intangible assets may be impaired. The amortization period and the amortization method for other intangible assets with a finite useful life are reviewed at least at each financial year end.

Other intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such other intangible assets are not amortized. The useful life of other intangible assets with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licenses

Purchased patents and licenses are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 to 20 years, which are determined by considering the periods of validity of patents and licenses.

Computer software

Acquired computer software is stated at historical cost less amortization. Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software, and is amortized on a straight-line basis over the useful life of 3 to 10 years, which is determined by the remaining useful lives with regular upgrades or maintenance.

Trademarks

Trademarks are initially recognized and measured at costs incurred to register. The costs are amortized on the straight-line basis over their estimated useful lives of 10 years. The useful lives of trademarks are protected by the relevant laws.

Proprietary technology

Proprietary technologies invested by minority shareholders are recognized at fair vales assessed at the investment day or cost of getting the medicine licenses from the related authorities. Proprietary

technologies are amortized on the straight-line basis over the respective estimated useful lives of 10 to 30 years, which are determined by considering the period of the benefit of ownership enterprises in accordance with the cooperation agreements or the period of the economic benefits to the enterprises, and the useful lives of the Proprietary technologies are assessed by the Group after considering the useful lives of similar technologies and the market condition.

Brands

Brands acquired in a business combination are recognized at fair value at the acquisition date. The Brands have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of 15 years for the Brands.

Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of 15 years for the customer relationships.

The useful lives of brands and customer relationships are determined by considering the period of the economic benefits to the enterprise and referring to the useful lives of the same type of intangible assets in the same industry.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

Employee Benefit

Share-based payments

The Company operates share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is computed based on their most recent post-money valuations. The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each of the Track Record Periods until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Cash-settled scheme

The cost of cash-settled transactions is measured initially at the best estimate of the settlement amounts at the settlement date, taking into account the terms and conditions upon which the instruments were granted as detailed in note 35 to the Accountants' Report included in Appendix I to this document. The best estimate of the settlement amounts is expensed over the period until the vesting date with recognition of a corresponding liability. The liability should be spread on a straight-line basis over the full vesting periods. The cumulative expense recognized for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in best estimate of the settlement amounts at the settlement date recognized in the statement of profit or loss.

Pension scheme

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Housing fund—China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the

Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognized in profit or loss and allocated by function as part of "cost of sales", "selling and distribution expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognized in other comprehensive income. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

Significant accounting judgments and estimates

The preparation of the Group's financial statements requires 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. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Accountants' Report included in Appendix I to this document:

Determining the timing of satisfaction of performance obligations

The Group has different contractual arrangements with different customers. In determining the timing of satisfaction of performance obligations, management reviews the contract terms of each individual contract.

For certain types of revenue under the FFS model, the directors of the Company have determined that performance obligations are satisfied over time. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to certain types of revenue under the FFS model create an enforceable right to payment for the Group.

Determining the method for measuring progress towards complete satisfaction of performance obligations

Depending on which better depicts the transfer of value to the customer, the directors of the Company make judgment to measure the progress of the projects using either input method or output method.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Track Record Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill as of December 31, 2017, 2018 and 2019 were RMB2,205.7 million, RMB2,316.8 million and RMB2,354.9 million, respectively. Further details are given in note 16 to the Accountants' Report included in Appendix I to this document.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is computed based on their most recent post-money valuations. Details of share-based payments are contained in notes 40 to the Accountants' Report included in Appendix I to this document.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is computed based on their most recent post-money valuations. The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Post-employment benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Discount rate is one of the assumptions used in determining the net cost (income) for pensions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers using market yields at the end of each of the Relevant Period on high quality United States corporate bonds for SPL Acquisition Corp, which is also the currency that benefits will be paid, and make sure terms of corporate bonds will match the estimated term of defined benefit plan.

Other key assumptions for pension obligations are partially based on current market conditions.

Provision for expected credit losses of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables is disclosed in notes 25 and 27 to the Accountants' Report included in Appendix I to this document, respectively.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses as of December 31, 2017, 2018 and 2019 were RMB76.7 million, RMB26.1 million and RMB36.6 million, respectively. The amount of unrecognized tax losses as of December 31, 2017, 2018 and 2019 were RMB262.0 million, RMB449.1 million, and RMB475.1 million, respectively. Further details are given in note 34 to the Accountants' Report included in Appendix I to this document.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 48 to the Accountants' Report included in Appendix I to this document. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences.

The Group classifies the fair value of these investments as Level II and III. The fair value of the unlisted equity investments as of December 31, 2017, 2018 and 2019 were RMB1,012.6 million, RMB1,435.7 million, and RMB1,828.3 million, respectively. Further details are given in note 20 and note 21 to the Historical Financial Information.

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs as detailed in note 2.3 to the Accountants' Report included in Appendix I to this document. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, the discount rates to be applied and the expected year of benefits. The best estimate of the carrying amount of capitalized development costs as of December 31, 2017, 2018 and 2019 were RMB12.6 million, RMB15.4 million and RMB11.1 million, respectively.

DESCRIPTION OF SELECTED COMPONENTS OF STATEMENTS OF PROFIT OR LOSS

The table below sets forth our consolidated statements of profit or loss with line items in absolute amounts and as percentages of our revenue for the years indicated derived from our consolidated statements of profit or loss set out in the Accountants' Report included in Appendix I to this document:

	For the year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Revenue	**2,828,225**	**100.0**	**4,799,807**	**100.0**	**4,612,105**	**100.0**
Cost of sales	(1,976,442)	(69.9)	(2,926,275)	(61.0)	(2,939,916)	(63.7)
Gross profit	851,783	30.1	1,873,532	39.0	1,672,189	36.3
Other income and gains	209,701	7.4	308,150	6.4	833,775	18.1
Selling and distribution expenses	(192,201)	(6.8)	(371,710)	(7.7)	(411,318)	(8.9)
Administrative expenses	(435,629)	(15.4)	(497,735)	(10.4)	(521,039)	(11.3)
Impairment losses on financial assets	(10,884)	(0.4)	(12,454)	(0.3)	(737)	(0.016)
Other expenses	(2,707)	(0.096)	(366)	(0.008)	(569)	(0.012)
Finance costs	(183,268)	(6.5)	(229,207)	(4.8)	(275,198)	(6.0)
Share of profits and losses of associates	(79,710)	(2.8)	(305,003)	(6.4)	18,177	0.4
Profit before tax	**157,085**	**5.6**	**765,207**	**15.9**	**1,315,280**	**28.5**
Income tax credit/(expense)	83,807	3.0	(148,244)	(3.1)	(271,382)	(5.9)
Profit for the year	**240,892**	**8.5**	**616,963**	**12.9**	**1,043,898**	**22.6**
Attributable to:						
Owners of the parent	238,904	8.4	640,194	13.3	1,059,700	23.0
Non-controlling interests	1,988	0.1	(23,231)	(0.5)	(15,802)	(0.3)
Earnings per share attributable to equity holders of the parent						
Basic						
—for profit for the year	RMB0.19		RMB0.51		RMB0.85	
Diluted						
—for profit for the year	RMB0.19		RMB0.51		RMB0.85	

Revenue

During the Track Record Period, a significant portion of our revenue was generated from sales of pharmaceutical products, including heparin sodium API, finished dose pharmaceutical products and other products. Revenues from finished dose pharmaceutical products are generated from sales of heparin and enoxaparin sodium injections. Revenues from API are generated from sales of heparin sodium APIs and enoxaparin sodium APIs. Revenues from other products are mainly generated from sales of pancreatin API and other materials. The following table sets forth a breakdown of our revenue by products and services for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Sales of goods						
Finished dose pharmaceutical products						
Enoxaparin sodium injection	311,165	11.0	981,938	20.5	1,230,840	26.7
Heparin sodium injection	70,032	2.5	63,705	1.3	—	—
Subtotal	381,197	13.5	1,045,643	21.8	1,230,840	26.7
API						
Enoxaparin sodium API	171,422	6.0	230,002	4.8	371,714	8.1
Heparin sodium API	1,674,707	59.2	2,522,384	52.6	1,902,275	41.2
Subtotal	1,846,129	65.2	2,752,386	57.4	2,273,989	49.3
Others[1]	217,124	7.7	385,403	8.0	287,538	6.2
Subtotal	2,444,450	86.4	4,183,432	87.2	3,792,367	82.2
CDMO service	324,308	11.5	548,469	11.4	786,401	17.1
Others[2]	59,467	2.1	67,906	1.4	33,337	0.7
Total	**2,828,225**	**100.0**	**4,799,807**	**100.0**	**4,612,105**	**100.0**

Notes:
(1) Other products mainly include pancreatin API.
(2) Other business mainly includes manufacture and marketing service, processing service, technical support service and other services.

The following table sets forth our sales volume and average selling price of finished dose pharmaceutical products and API combined for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
Revenue (RMB'000)	2,227,325.3	3,798,028.9	3,499,990.4
Sales volume (IU in billion)	694	864	601
Average selling price (RMB/IU)	0.0003	0.0004	0.0006

The following table sets forth a breakdown of our revenue by regions for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Europe	1,636,938	57.9	2,937,707	61.2	2,639,743	57.2
U.S.	403,055	14.3	804,715	16.8	1,019,402	22.1
China	352,443	12.5	442,599	9.2	401,830	8.7
Other countries/regions	435,789	15.3	614,786	12.8	551,130	12.0
Total	**2,828,225**	**100.0**	**4,799,807**	**100.0**	**4,612,105**	**100.0**

Our revenue generated from the European market increased from RMB1,636.9 million in 2017 to RMB2,937.7 million in 2018, which was primarily attributable to our increasing market penetration

rate in Europe. As our enoxaparin finished dose product was the first biosimilar enoxaparin sodium injection entering into the European market with pricing advantages, our revenue growth rate in Europe was significantly higher than the growth rate of the European enoxaparin finished dose market in 2018. Our revenue generated from the European market decreased from RMB2,937.7 million in 2018 to RMB2,639.7 million in 2019, which was mainly attributable to the drop in our average selling price of enoxaparin sodium injection as a result of our increasing sales via the hospital channel in our new European markets, such as Italy and Spain, where the selling price to hospitals is comparatively low, and the decrease in our API revenue mainly due to the breakout of African swine fever in late 2018 which continued in 2019 and the hog price cycle that aggregately caused the decreased supply of the heparin raw material as well as our control of outbound delivery quantity. According to Frost & Sullivan, primarily due to market competition brought by generic drugs, the sales of enoxaparin finished dose in Europe slightly declined from US$1,691.8 million in 2018 to US$1,664.9 million in 2019. For more industry related information, please refer to the section headed "Industry Overview—Enoxaparin Finished Dose Market—Market Size."

Cost of Sales

The table below sets forth a breakdown of our cost of sales in absolute amount and as percentage of our total cost of sales by products and services for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
	RMB '000	%	RMB '000	%	RMB '000	%
Cost of Sales						
Sale of Goods						
Finished dose pharmaceutical products	214,286	10.8	472,356	16.1	651,365	22.1
API	1,175,547	59.5	1,639,945	56.0	1,462,795	49.8
Others	293,387	14.9	324,251	11.1	277,102	9.4
Subtotal	1,683,220	85.2	2,436,552	83.2	2,391,262	81.3
CDMO services	280,778	14.2	473,418	16.2	545,939	18.6
Others	12,444	0.6	16,305	0.6	2,715	0.1
Total	**1,976,442**	**100.0**	**2,926,275**	**100.0**	**2,939,916**	**100.0**

Our cost of sales primarily consists of raw material costs, employee compensations, depreciation and amortization, utility costs and others. The table below sets forth a breakdown of our cost of sales in absolute amounts and as percentages of our total cost of sales for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
	RMB '000	%	RMB '000	%	RMB '000	%
Cost of Sales						
Cost of inventory sold						
Raw material costs	1,158,347	58.6	1,853,607	63.3	1,782,228	60.6
Employee compensations	212,521	10.8	227,853	7.8	278,291	9.5
Depreciation and amortization	120,851	6.1	133,828	4.6	156,521	5.3
Utility Cost	41,838	2.1	43,578	1.5	43,718	1.5
Others	149,663	7.6	177,686	6.1	130,504	4.4
Subtotal	1,683,220	85.2	2,436,552	83.3	2,391,262	81.3
Cost of service provided						
Employee compensations	119,879	6.1	160,930	5.5	205,530	7.0
Material and utility Cost	101,940	5.1	187,332	6.4	176,833	6.0
Depreciation and amortization	18,177	0.9	28,842	1.0	57,094	1.9
Others	53,226	2.7	112,619	3.8	109,197	3.8
Subtotal	293,222	14.8	489,723	16.7	548,654	18.7
Total	1,976,442	100.0	2,926,275	100.0	2,939,916	100.0

Our raw material costs under cost of inventory sold primarily consist of porcine small intestines, crude heparin, and packaging materials. We purchase raw materials on an as-needed basis at market prices. Raw material costs comprised a significant amount of the total cost of sales, accounting for 58.6%, 63.3% and 60.6% of our total cost of sales in the years ended December 31, 2017, 2018 and 2019, respectively.

Our employee compensations under cost of inventory sold include salaries, welfare and pension for employees involved in the production of our products. Employee compensations under cost of inventory sold accounted for 10.8%, 7.8% and 9.5% of our total cost of sales in the years ended December 31, 2017, 2018 and 2019, respectively.

Depreciation and amortization under cost of inventory sold mainly relates to plants and equipment used for the production of our products and amortization represents the amortization of relevant patents and technology know-how. Depreciation and amortization under cost of inventory sold accounted for 6.1%, 4.6% and 5.3% of our total cost of sales in the years ended December 31, 2017, 2018 and 2019, respectively.

Other costs under cost of inventory sold are mainly comprised of rent and maintenance. Other costs under cost of inventory sold comprised a significant amount of the total cost of sales, accounting for 7.6%, 6.1% and 4.4% of our total cost of sales in the years ended December 31, 2017, 2018 and 2019, respectively.

Employee compensations under cost of service provided primarily consist of salaries, welfare and pension for employees involved in the CDMO service. Employee compensations under cost of service provided accounted for 6.1%, 5.5% and 7.0% of our total cost of sales in the years ended December 31, 2017, 2018 and 2019, respectively.

Our material and utility cost under cost of service provided primarily include the material costs used in our CDMO business. Material and utility cost under cost of service provided accounted for 5.1%, 6.4% and 6.0% of our total cost of sales in the years ended December 31, 2017, 2018 and 2019, respectively.

Gross Profit and Gross Margin

Our gross profit represents our revenue less our cost of sales. Our gross margin represents our gross profit as a percentage of our revenue. For the years ended December 31, 2017, 2018 and 2019, our gross profit was RMB851.8 million, RMB1,873.5 million and RMB1,672.2 million, respectively, and our gross profit margin was 30.1%, 39.0% and 36.3%, respectively. The following table sets forth our gross profit and gross profit margin by segments for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%
Sale of goods						
Finished dose pharmaceutical products	166,911	43.8	573,287	54.8	579,475	47.1
API	670,582	36.3	1,112,441	40.4	811,194	35.7
Others	(76,263)	(35.1)	61,152	15.9	10,436	3.6
Subtotal	761,230	31.1	1,746,880	41.8	1,401,105	36.9
CDMO services						
Cytovance	50,446	16.0	92,164	19.0	82,375	48.5
SPL	(6,916)	(40.0)	(17,113)	(33.0)	158,087	25.6
Subtotal	43,530	13.4	75,051	13.7	240,462	30.6
Others	47,023	79.1	51,601	76.0	30,622	91.9
Total	851,783	30.1	1,873,532	39.0	1,672,189	36.3

Other Income and Gains

Our other income and gains primarily consist of bank interest income, government grants related to income, dividend income from financial assets, foreign exchange differences, fair value gains on financial assets, gains on disposal of subsidiaries, gain on deemed partial disposal of associates and others. The table below sets forth a breakdown of our other income and gains for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)
Other Income			
Bank interest income	137,740	69,456	45,673
Government grants related to			
—Assets	2,298	2,242	2,106
—Income	40,190	31,581	32,374
Dividend income from financial assets at fair value through profit or loss	781	36,823	643
Dividend income from financial assets at fair value through other comprehensive income	—	3,694	16,541
	181,009	143,796	97,337
Other Gains			
Foreign exchange differences, net	(49,584)	70,545	32,072
Gains on disposal of financial assets at fair value through profit or loss	26,363	13,917	4,774
Fair value gains, net:			
Fair value gains on financial assets at fair value through profit or loss	46,757	8,191	199,726
Fair value (losses)/gains on derivative instrument	(3,728)	30,490	(83,242)
Gain on disposal of a subsidiary	—	28,766	—
Gains on deemed disposal of a subsidiary	—	—	573,865
(Losses)/gains on disposal of items of property, plant and equipment	(383)	2,304	2,068
Others	9,267	10,141	7,175
	28,692	164,354	736,438
Total	209,701	308,150	833,775

The government grants mainly represent government grants related to assets and income. We received certain government grants related to assets to invest in laboratory equipment and plant. We also received governments grants related to income to compensate for our research and development expenditures.

Gains on disposal of financial assets at fair value through profit or loss primarily came from the redemption of our wealth management products.

Fair value gains/(losses) on derivative instruments represents the fair value gains or losses on the warrants we purchased from Resverlogix, which are not designated for the hedging purpose.

Fair value gains on financial assets at fair value through profit or loss represent the fair value gains or losses on unlisted equity investments and the convertible loan with Shenzhen Moshi Jianye Investment Center. For the details of our financial assets at fair value through profit or loss, please refer to the section headed "—Selected Items regarding Our Investments—Financial Assets at Fair Value through Profit or Loss."

Gain on disposal of a subsidiary refers to the gain we obtained from the disposal of Hapatunn in June 2018. Gains on deemed disposal of a subsidiary refer to the gains we obtained from the

deconsolidation of HighTide in March 2019. For the details of our acquisitions and disposals, please refer to the section headed "History, Development and Corporate Structure—Major Acquisitions and Disposals."

Selling and Distribution expenses

Our selling and distribution expenses consist of market development expenses, employee compensations, sales agency fees, business fees, exhibition participation and advertisement expenses and others. The table below sets forth a breakdown of our selling and distribution expenses in absolute amounts and as percentages of our total selling and distribution expenses for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
	RMB '000	%	RMB '000	%	RMB '000	%
Selling and Distribution expenses						
Market development expenses	58,655	30.5	175,578	47.3	201,967	49.1
Employee compensations	44,569	23.2	82,245	22.1	91,577	22.3
Sales agency fees	10,051	5.2	19,184	5.2	21,508	5.2
Business fees	18,467	9.6	18,372	4.9	18,038	4.4
Exhibition participation and advertisement expenses	7,973	4.2	11,529	3.1	11,839	2.9
Others	52,486	27.3	64,802	17.4	66,389	16.1
Total	192,201	100.0	371,710	100.0	411,318	100.0

Our market development expenses primarily include fees for hosting conferences and seminars and expenses for contract research organizations. Employee compensations include employee salaries and allowance and performance related bonus for our sales personnel. Sales agency fees include office expenses, insurance expenses and rental fees. Business fees primarily include fees incurred for business trips, commuting fees and communication expenses. Exhibition participation and advertisement expenses include the expenses relating to the exhibitions and advertisement. Our other selling and distribution expenses primarily include customs charges relating to our sales in the EU markets and inspection charges relating to the inspections associated with the exports to the EU markets and visa expenses, etc.

Administrative Expenses

Our administrative expenses primarily consist of R&D expenses, employee compensation, depreciation and amortization, professional service fees, insurance expenses, office expenses and other expenses including, tax expenses, bank transaction fees, travel expenses, lease expenses, management fees, meeting and related expenses and recruitment expenses. The table below sets forth a breakdown of our administrative expenses in absolute amounts and as percentages of our total administrative expenses for the years indicated:

	For the year ended December 31,					
	2017		2018		2019	
	RMB '000	%	RMB '000	%	RMB '000	%
Administrative Expenses						
R&D expenses	93,814	21.5	186,534	37.5	148,714	28.6
Employment compensation	140,345	32.2	126,412	25.4	137,921	26.5
Depreciation and amortization	64,509	14.8	77,189	15.5	86,695	16.6
Professional service fees	52,788	12.1	27,178	5.5	53,702	10.3
Insurance expenses	12,426	2.9	14,559	2.9	15,818	3.0
Office expenses	15,943	3.7	11,565	2.3	16,224	3.1
Others	55,804	12.8	54,298	10.9	61,965	11.9
Total	435,629	100.0	497,735	100.0	521,039	100.0

Our R&D expenses mainly include employee cost of research and development personnel, third party contracting costs, materials and depreciation and amortization associated with equipment used in research and development. Employee compensation include employee salaries and allowance, performance related bonus and retirement benefit scheme. Depreciation and amortization represents the depreciation and amortization of our machinery, equipment and software.

Impairment losses on financial assets

Our impairment losses on financial assets were RMB10.9 million, RMB12.5 million and RMB0.7 million for the year ended December 31, 2017, 2018 and 2019, respectively. Our impairment losses on financial assets mainly consist of impairment of trade receivables and other receivables.

Other Expenses

Our other expenses were RMB2.7 million, RMB0.4 million and RMB0.6 million for the year ended December 31, 2017, 2018 and 2019, respectively. Our other expenses mainly consist of liquidated damages incurred in 2017 relating to delay in the construction of our Pingshan Industrial Park, and other miscellaneous expenses.

Finance Costs

Our financial costs mainly consist of interest expenses on bank borrowings, corporate bonds and lease liabilities, and other finance cost, partially offset by interest capitalized. The table below sets forth a breakdown of finance costs for the years indicated:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Finance Costs			
Interest expenses on:			
bank borrowings	118,923	165,968	192,431
corporate bonds	33,661	33,721	63,725
lease liabilities	9,246	7,193	5,684
Other finance cost	26,028	24,609	13,358
Less：interest capitalized	(4,590)	(2,284)	—
Total	183,268	229,207	275,198

Share of Profits and Losses of Associates

The table below sets forth a breakdown of our share of profits and losses of associates for the years indicated:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
OncoQuest	(12,927)	(17,956)	(24,480)
Resverlogix	(60,185)	(303,663)	78,932
Shenzhen Asia Pacific Health Management Co., Ltd. ("Shenzhen Asia Pacific")	—	(9,255)	(22,462)
HighTide[1]	—	—	(45,961)
Quest PharmaTech Inc.	(4,366)	(3,359)	(4,361)
Shanghai Taiyi Venture Capital Partnership (limited partnership) ("Shanghai Taiyi VC")	(2,232)	29,230	36,509
Total	(79,710)	(305,003)	18,177

Note:

(1) HighTide became the Group's associate as a result of its deconsolidation in March 2019.

Our share of losses of associates were RMB79.7 million and RMB305.0 million for the years ended December 31, 2017 and 2018, respectively. Our share of profits of associates was RMB18.2 million for the year ended December 31, 2019. Most of our associates are growth companies that are still in the development stages, which incurred losses during the Track Record Period. Our share of losses of associates increased from RMB79.7 million for the year ended December 31, 2017 to RMB305.0 million for the year ended December 31, 2018, which was primarily attributable to an increase in our equity investment in Resverlogix which is loss-making from 12.74% to 42.86% in December 2017, partially offset by share of profits of Shanghai Taiyi VC from its fair value gain in 2018 as a result of the increase in the fair value of Shanghai Taiyi VC's portfolio investments. Our share of profits and losses of associates changed from losses of RMB305.0 million for the year ended December 31, 2018 to profits of RMB18.2 million for the year ended December 31, 2019, which was mainly due to share of profits of Resverlogix from its significant fair value gain in 2019 primarily as a result of the decrease in fair value of warrants and royalty preferred shares issued by Resverlogix

which were presented as liabilities on Resverlogix's financial statements. The decrease in the fair value of warrants and royalty preferred shares was mainly attributable to the decrease in Resverlogix's stock trading price. During the Track Record Period, we have not recognized any impairment against the goodwill on acquisition of our associates. For the details of our investments, please refer to "History, Development and Corporate Structure—Major Acquisitions and Disposals" to this document.

Income Tax Credit/(Expense)

Our income tax credit/(expense) mainly consists of EIT from the PRC, Hong Kong, the U.S., the EU and other jurisdictions and deferred income tax in the PRC, the U.S., Hong Kong and other jurisdictions.

Pursuant to the EIT Law, our subsidiaries which operate in China are subject to EIT at a rate of 25% on the taxable income. Our Company and Shenzhen Techdow Pharmaceutical Co., Ltd were accredited as a "High and New Technology Enterprise" and therefore were entitled to a preferential EIT rate of 15% during the Track Record Period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Our subsidiaries incorporated in the U.S. were subject to the federal corporate tax rate at 35% for the years prior to 2018. On December 22, 2017, the 2017 Tax Cuts and Jobs Act was enacted, which reduces the federal corporate tax rate to 21% from 35% and is effective on January 1, 2018. The state income tax rate remains at a range from 1% to 9.5% during the Track Record Period.

Under the two-tiered profits tax rates regime in Hong Kong which became effective in March 2018, the first HK$2 million of profits of our subsidiaries incorporated in Hong Kong will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of our subsidiaries incorporated in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Our subsidiary incorporated in Singapore is subject to the corporate income tax rate of 17% during the Track Record Period.

Our subsidiaries incorporated in Sweden are subject to the corporate income tax rate of 22%, 22% and 21.4% for the years ended December 31, 2017, 2018 and 2019, respectively.

Our subsidiary incorporated in Poland is subject to the corporate income tax rate of 19% during the Track Record Period.

Our subsidiaries incorporated in Netherland are subject to the corporate income tax rate of 20%, 20% and 19% for the years ended December 31, 2017, 2018 and 2019, respectively, for which taxable income that do not excess the amount of EUR 200,000, and if the taxable income excess the amount of EUR 200,000, the tax rate of 25% should apply to the part that excess the amount of EUR 200,000 during the Track Record Period.

Our subsidiary incorporated in the UK is entitled to the tax rate at 20% before April 1, 2017. The tax rate reduced from 20% to 19% from April 2017. The tax rate remains at 19% during the remaining Track Record Period.

Our subsidiary incorporated in Spain is subject to the corporate income tax rate of 25% during the Track Record Period.

Our subsidiary incorporated in Italy is subject to the national corporate income tax rate of 24% and the provincial income tax rate of 3.9% during the Track Record Period.

Our subsidiary incorporated in France is subject to the corporate income tax rate of 28% for taxable income below EUR 500,000 and if the taxable income excesses EUR500,000, the tax rate of 33.33% should apply to the part above EUR500,000 for the years ended December 31, 2017 and 2018. The tax rate of 31% should apply to the part above EUR500,000 for the year ended December 31, 2019.

During the Track Record Period, we sold a substantial portion of API products to Europe through our subsidiaries in China and HK, and therefore did not incur tax related to such sales in Europe. We also generated substantial revenue from our sales of enoxaparin finished dose products in the European market during the Track Record Period. Our subsidiaries in Europe sold most of our enoxaparin sodium injections via the hospital channel in certain European countries where the selling price to hospitals is comparatively low with a typical lower gross profit margin. The costs and expenses related to such sales in Europe were recorded on the financial statements of our European subsidiaries. Additionally, the outbreak of swine fever increased the cost of raw materials which further lowered the taxable income of our European subsidiaries. Therefore, our subsidiaries in Europe had minimum taxable income or incurred losses, and did not pay tax in Europe for sales of products during the Track Record Period.

During the Track Record Period, we had paid all relevant taxes in accordance with tax regulations and did not have any disputes or unresolved tax issues with the relevant tax authorities.

Transfer Pricing

During the period from January 1, 2017 to September 30, 2019 (the "**Review Period**"), we were involved in intra-group related-party transactions relating to the manufacturing and sales of our heparin sodium API and enoxaparin sodium injection, CDMO services provided by Cytovance to OncoQuest, intra-group financings and other intra-group transactions that were not directly related to our principal business, such as leasing and property management. In compliance with applicable laws and regulations, we have formulated transfer pricing documentation with support from our tax advisor.

We have engaged an independent tax advisor, one of the four largest international auditing, tax and advisory firms, to conduct a transfer pricing study on our intra-group transactions, based on, among other things, the applicable law and regulations on transfer pricing in the PRC, the Organization for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration and general practice. Taking into account of the amount of each transaction and revenue attributable to the entities involved in the respective year or period, our tax advisor has conducted a comprehensive transfer pricing analysis on selective intra-group transactions (the "**Covered Transactions**") that are material to our financial conditions.

The Covered Transactions specifically refer to the following transactions: (i) with respect to the manufacturing and sales of heparin sodium API, during the Review Period, Hepalink entered into to a supply agreement with each of its subsidiaries, Chengdu Sunrace and Shandong Ruisheng, to purchase crude heparin for the production of heparin sodium API, and then sold the finished goods to Shenzhen Techdow and Hepalink (Hong Kong), and (ii) with respect to the sales of enoxaparin sodium injection, Shenzhen Techdow sold the finished products to Techdow (Hong Kong), who then resold the products to Techdow Pharma Italy S.r.l during the Review Period. Shenzhen Techdow also sold enoxaparin sodium injection to Techdow Pharma Europe AB in 2017.

Our tax advisor conducted the analysis based on, among others, its comparison of related parties' tax treatment, evaluation of each transaction's influence on our overall financial conditions, assessment of each party's function, risks and relevant return on sales, and our tax provisions.

On the basis mentioned above, our tax advisor is of the opinion that the Covered Transactions during the Review Period were conducted on an arm's length basis and in compliance with the applicable transfer pricing rules and guidelines.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2019

Revenue

Our total revenue decreased by 3.9%, from RMB4,799.8 million for the year ended December 31, 2018 to RMB4,612.1 million for the year ended December 31, 2019, which was primarily attributable to the decrease in revenue from sale of API, and offset by an increase in revenue from finished dose pharmaceutical products, CDMO services and other products.

Our revenue from sale of goods decreased by 9.3%, from RMB4,183.4 million for the year ended December 31, 2018 to RMB3,792.4 million for the year ended December 31, 2019, mainly attributable to the decreases in the sales of API products and other products and partially offset by the increase in the sales of finished dose pharmaceutical products.

- ***Finished dose pharmaceutical products.*** Revenue from our finished dose pharmaceutical products increased by RMB185.2 million or 17.7% from RMB1,045.6 million for the year ended December 31, 2018 to RMB1,230.8 million for the year ended December 31, 2019. The increase in our revenue from our finished dose pharmaceutical products was primarily due to a 11.1% increase in our sales volume of enoxaparin sodium injection, resulting from the increasing penetration of our enoxaparin sodium injection in major countries in the EU, such as the UK, and the expansion into new markets, such as Spain and Italy.

- ***API***. Revenue from our API products decreased by RMB478.4 million or 17.4% from RMB2,752.4 million for the year ended December 31, 2018 to RMB2,274.0 million for the year ended December 31, 2019. The decrease in our revenue from API products was primarily due to a 31.2% decrease in the sales volume of heparin sodium API, which was primarily attributable to both the breakout of African swine fever in late 2018 which continued in 2019 and the hog price cycle that aggregately caused the decreased supply of the heparin raw material as well as our control of outbound delivery quantity as we had limited ability to timely transfer the price increase in raw materials to the price of our heparin sodium API due to the typical time lag between the price increase of raw materials price to heparin sodium API, and the utilization of our manufactured APIs to produce more enoxaparin sodium injections in-house.

- ***Others***. Revenue from our other products decreased by RMB97.9 million or 25.4% from RMB385.4 million for the year ended December 31, 2018 to RMB287.5 million for the year ended December 31, 2019. The decrease in our revenue from other products was primarily due to a decrease in sales revenue from our pancreatin API products, which was resulted from a decreased demand from some of our customers with higher average order prices based on their drug development progress, partially offset by an increase in the sales volume of our pancreatin API products.

Our revenue from our CDMO services increased by RMB237.9 million or 43.4% from RMB548.5 million for the year ended December 31, 2018 to RMB786.4 million for the year ended December 31, 2019. The increase in our revenue from CDMO business was primarily due to an increase in Cytovance's production capacity and in the number of CDMO projects we undertook.

Cost of Sales

Our costs of sales increased by 0.5% from RMB2,926.3 million for the year ended December 31, 2018 to RMB2,939.9 million for the year ended December 31, 2019, which is primarily attributable to an increase of in employee compensations as a result of the increased number of employees and salaries. Our costs of sales accounted for approximately 61.0% and 63.7% of our revenue for the year ended December 31, 2018 and 2019, respectively.

Our cost of sales of goods decreased from RMB2,436.6 million for the year ended December 31, 2018 to RMB2,391.3 million for the year ended December 31, 2019, mainly attributable to the decrease in cost of sales of API and others.

- ***Finished dose pharmaceutical products.*** The cost of sales of finished dose pharmaceutical products increased by 37.9% from RMB472.4 million for the year ended December 31, 2018 to RMB651.4 million for the year ended December 31, 2019, which was mainly attributable to the increase in the cost of raw materials and sales volume of enoxaparin sodium injection.
- ***API.*** The cost of sales of API products decreased by 10.8% from RMB1,639.9 million for the year ended December 31, 2018 to RMB1,462.8 million for the year ended December 31, 2019, which was primarily resulted from the decrease in sales volume of heparin sodium API.
- ***Others***. The cost of sales of other products decreased by 14.6% from RMB324.3 million for the year ended December 31, 2018 to RMB277.1 million for the year ended December 31, 2019, which was primarily resulted from the decrease in sales volume of pancreatin API products.

The cost of sales of CDMO services increased by 15.3% from RMB473.4 million for the year ended December 31, 2018 to RMB545.9 million for the year ended December 31, 2019, which was primarily resulted from the increase in the number of orders on commercial production from certain SPL's customers and the increase in Cytovance's production capacity and an improvement in Cytovance's order fulfillment ability, resulting from the completion of Cytovance's post acquisition integration.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 10.7% from RMB1,873.5 million for the year ended December 31, 2018 to RMB1,672.2 million for the year ended December 31, 2019. Our gross profit margin decreased from 39.0% for the year ended December 31, 2018 to 36.3% for the year ended December 31, 2019, primarily attributable to the decreases in gross profit margin of our sale of goods.

Our gross profit margin of our sale of goods decreased from 41.8% for the year ended December 31, 2018 to 36.9% for the year ended December 31, 2019, which was mainly attributable to

the decreases in gross profit margin of our API products, finished dose pharmaceutical products, and other products.

- ***Finished dose pharmaceutical products***. Our gross profit margin of finished dose pharmaceutical products decreased from 54.8% for the year ended December 31, 2018 to 47.1% for the year ended December 31, 2019. Such decrease in gross profit margin was primarily attributable to the increase in the sales volume to hospitals in the EU countries, and the increase in the cost of raw materials. The profit margin for sales to hospitals is generally lower compared to sales to pharmacies in the EU, as the selling price via the pharmacy channel is typically higher than the price via the hospital channel, according to Frost & Sullivan.
- ***API***. Our gross profit margin of API products decreased from 40.4% for the year ended December 31, 2018 to 35.7% for the year ended December 31, 2019. Such decrease in gross profit margin was primarily attributable to the substantial increase in the cost of raw materials and the time lag between increase of porcine small intestine and crude heparin costs and increase of heparin sodium API price.
- ***Others***. Our gross profit/(loss) margin from other products decreased from 15.9% for the year ended December 31, 2018 to 3.6% for the year ended December 31, 2019. Such decrease in gross profit margin was driven by the decrease in gross profit margin in the sales of pancreatin API products due to the decreased number of orders from one of our major customers.

Our gross profit margin of CDMO services increased from 13.7% for the year ended December 31, 2018 to 30.6% for the year ended December 31, 2019. Such increase in gross profit margin was primarily attributable to (i) the increase in Cytovance's production capacity from 14,800L in 2018 to 22,000L in 2019 for the mammalian cell culture production line, and from 18,670L in 2018 to 39,270L in 2019 for the microbial fermentation production line, in addition to the completion of Cytovance's post acquisition integration, both of which lead to an improvement in Cytovance's order fulfillment ability, and (ii) the increasing orders on commercial production from certain SPL's customers, in aggregate from 8 lots in 2018 to 23 lots in 2019.

Other Income and Gains

Our other income and gains increased by 170.5%, from RMB308.2 million in 2018 to RMB833.8 million in 2019. Such increase was primarily attributable to an increase in gain on deemed disposal of a subsidiary of RMB573.9 million as a result of deconsolidation of HighTide in March 2019 and an increase in fair value gains on financial assets at fair value through profit or loss of RMB191.5 million, primarily from our investment in TPG Biotechnology Partners V, L.P. ("TPG V"), as a result of the successful listing of one of TPG V's investees that significantly increased its fair value, partially offset by a change from fair value gains on derivative instrument of RMB30.5 million to a fair value loss on derivative instrument of RMB83.2 million related to common share purchase warrants we purchased from Resverlogix in 2019, a decrease in net foreign exchange differences of RMB38.5 million and a decrease in dividend income from financial assets at fair value through profit or loss of RMB36.2 million.

Selling and distribution expenses

Our selling and distribution expenses increased by 10.7%, from RMB371.7 million in 2018 to RMB411.3 million in 2019. The increase was generally in line with the increase in our revenue along

with our marketing and promotion efforts. It was primarily attributable to an increase in our market development expenses of RMB26.4 million and an increase in our employee compensations of RMB9.3 million as a result of the increase in sales and marketing personnel and the increase in the compensation level. Selling and distribution expenses as a percentage of our revenue increased from 7.7% in 2018 to 8.9% in 2019.

Administrative Expenses

Our administrative expenses increased by 4.7%, from RMB497.7 million in 2018 to RMB521.0 million in 2019, primarily as a result of an increase in depreciation and amortization of RMB9.5 million because we began calculating depreciation of our Pingshan building in August 2018, partially offset by a decrease in R&D expenses of RMB37.8 million because of the deconsolidation of HighTide in March 2019 and a decrease in professional service fees of RMB26.5 million. Administrative expenses as a percentage of our revenue increased from 10.4% in 2018 to 11.3% in 2019.

Other Expenses

Our other expense increased by 55.5%, from RMB366 thousand in 2018 to RMB569 thousand in 2019, primarily due to the late fee paid for delay in construction and the liquidated damages paid for early termination of an office lease.

Finance Costs

Our finance costs increased by 20.1%, from RMB229.2 million in 2018 to RMB275.2 million in 2019, primarily as a result of an increase in interest-bearing loans and borrowings.

Net Profit and Net Profit Margin

Our net profit increased by 69.2%, from RMB617.0 million for the year ended December 31, 2018 to RMB1,043.9 million for the year ended December 31, 2019. Our net profit margin increased from 12.9% for the year ended December 31, 2018 to 22.6% for the year ended December 31, 2019, which primarily attributable to an increase in gain on deemed disposal of a subsidiary as a result of deconsolidation of HighTide in March 2019, partially offset by a decrease in the gross profit margin of our sale of goods.

Income Tax Expense

Our income tax expense increased by 83.1%, from RMB148.2 million in 2018 to RMB271.4 million in 2019, primarily due to an increase in our taxable income. Our effective income tax rate in 2018 and 2019 was 19.4% and 20.6%, respectively. The income tax expenses for the year ended December 31, 2019 primarily came from our PRC subsidiaries accredited as a "High and New Technology Enterprise," which were entitled to a preferential EIT rate of 15%, and our U.S. subsidiaries which are subject to higher income tax rates, ranging from 22% to 30.5%.

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

Revenue

Our total revenue increased by 69.7%, from RMB2,828.2 million for the year ended December 31, 2017 to RMB4,799.8 million for the year ended December 31, 2018, primarily attributable to the significant increases in revenue from sale of goods, which consists of API, finished dose pharmaceutical product and others, and significant increases in revenue from CDMO services.

Our revenue from sale of goods increased by 71.1%, from RMB2,444.5 million for the year ended December 31, 2017 to RMB4,183.4 million for the year ended December 31, 2018, mainly attributable to the significant increases in the sales of API products and finished dose pharmaceutical products.

- ***Finished dose pharmaceutical products***. Revenue from our finished dose pharmaceutical products increased by RMB664.4 million or 174.3% from RMB381.2 million in 2017 to RMB1,045.6 million in 2018. The increase in our revenue from finished dose pharmaceutical products was primarily due to a 69.5% increase in our sales volume of enoxaparin sodium injection, resulting from the increasing penetration of our enoxaparin sodium injection in the EU market, such as the UK.
- ***API.*** Revenue from our API products increased by RMB906.3 million or 49.1% from RMB1,846.1 million in 2017 to RMB2,752.4 million in 2018. The increase in our revenue from API products was primarily due to an increase in the price of our heparin sodium API in 2018 as a result of upstream price increase in porcine small intestines and a 25.0% increase in our sales volumes of heparin sodium API.
- ***Others***. Revenue from our other products increased by RMB168.3 million or 77.5% from RMB217.1 million in 2017 to RMB385.4 million in 2018. The increase in our revenue from other products was primarily due to an increase in sale of pancreatin API products, which was resulted from an increasing demand from our customer who anticipated significant market demand of their new drug once the drug is approved by the FDA.

Our revenue from our CDMO services increased by RMB224.2 million or 69.1% from RMB324.3 million in 2017 to RMB548.5 million in 2018. The increase in our revenue from CDMO business was primarily due to an increase in the pricing of our CDMO service resulting from adjustments to pricing strategies and the increase in the CDMO projects we undertook.

Cost of Sales

Our cost of sales increased by 48.1% from RMB1,976.4 million for the year ended December 31, 2017 to RMB2,926.3 million for the year ended December 31, 2018, which was primarily in line with the increase in the cost of raw materials of RMB695.3 million due to our increased sales volumes as well as an increase of RMB56.4 million in employee compensations as a result of an increase in the number of employees supporting our expansion. Our costs of sales accounted for approximately 69.9% and 61.0% of our revenue for the years ended December 31, 2017 and 2018, respectively.

Our cost of sales of goods increased from RMB1,683.2 million for the year ended December 31, 2017 to RMB2,436.6 million for the year ended December 31, 2018, mainly attributable to the increase in cost of sales of finished dose pharmaceutical products and API.

- ***Finished dose pharmaceutical products.*** The cost of sales of finished dose pharmaceutical products increased by 120.4% from RMB214.3 million for the year ended December 31, 2017 to RMB472.4 million for the year ended December 31, 2018, which was mainly attributable to the increase in the sales volume of enoxaparin sodium injection.
- ***API***. The cost of sales of API products increased by 39.5% from RMB1,175.5 million for the year ended December 31, 2017 to RMB1,639.9 million for the year ended

December 31, 2018, which was primarily resulted from the increase in the sales volume of heparin sodium API.

- ***Others***. The cost of sales of other products increased by 10.5% from RMB293.4 million for the year ended December 31, 2017 to RMB324.3 million for the year ended December 31, 2018, which was due to increase in sales volume of pancreatin API products.

The cost of sales of CDMO services increased by 68.6% from RMB280.8 million for the year ended December 31, 2017 to RMB473.4 million for the year ended December 31, 2018, which was primarily resulted from the increase in the CDMO projects we undertook and the increase in Cytovance's production capacity and an improvement in Cytovance's order fulfillment ability, resulting from the completion of Cytovance's post acquisition integration.

Gross Profit and Gross Profit Margin

Our gross profit increased by 119.9%, from RMB851.8 million for the year ended December 31, 2017 to RMB1,873.5 million for the year ended December 31, 2018. Our gross profit margin increased from 30.1% for the year ended December 31, 2017 to 39.0% for the year ended December 31, 2018, primarily attributable to the increases in gross profit margin of our sale of goods.

Our gross profit margin of our sale of goods increased from 31.1% for the year ended December 31, 2017 to 41.8% for the year ended December 31, 2018, which was mainly attributable to the increase in gross profit margin of our API products, finished dose pharmaceutical products business, and other products.

- ***Finished dose pharmaceutical products***. Our gross profit margin of finished dose pharmaceutical products increased from 43.8% for the year ended December 31, 2017 to 54.8% for the year ended December 31, 2018. Such increase in gross profit margin was primarily attributable to the increase in the price of our enoxaparin sodium injection and economies of scale brought by the increased production volume driven by the increasing demand from our EU market.
- ***API***. Our gross profit margin of API products increased from 36.3% for the year ended December 31, 2017 to 40.4% for the year ended December 31, 2018. Such increase in gross profit margin was primarily attributable to the increase in the price of heparin sodium API and economies of scale as a result of increase in the sales volume of heparin sodium API to our major customers.
- ***Others***. Our gross profit/(loss) margin from other products increased from (35.1)% for the year ended December 31, 2017 to 15.9% for the year ended December 31, 2018. Such increase in gross profit margin was driven by the increase of gross profit margin in the sales of pancreatin API products due to sale of our pancreatin API products to some customer with relatively high unit prices.

Our gross profit margin of CDMO services remained relatively stable at 13.4% for the year ended December 31, 2017 and 13.7% for the year ended December 31, 2018.

Other Income and Gains

Our other income and gains increased by 47.0%, from RMB209.7 million for the year ended December 31, 2017 to RMB308.2 million for the year ended December 31, 2018. Such increase was

primarily attributable to an increase in the dividend income from financial assets at fair value through profit or loss of RMB36.0 million as a result of dividend distribution from a convertible loan in 2018, the change from foreign exchange loss of RMB49.6 million to foreign exchange gain of RMB70.5 million as a result of the depreciation of Renminbi against US dollar, a gain on disposal of a subsidiary (namely Hepatunn) of RMB28.8 million in 2018, and a change from fair value losses on derivative instrument of RMB3.7 million to fair value gains on derivative instrument of RMB30.5 million, primarily due to the increase of fair value of warranties issued by Resverlogix in 2018, partially offset by a decrease in bank interest income of RMB68.3 million from 2017 to 2018 as a result of the decrease in our time deposits and cash and cash equivalents due to our financing needs related to our acquisition of Topknow and a decrease in fair value gains on financial assets at fair value through profit or loss from RMB46.8 million to RMB8.2 million, which was primarily attributable to the decrease in fair value gains on Shenzhen Top Dental Medical Co., Ltd, the fair value of which increased significantly in 2017 in the course of its listing preparation.

Selling and distribution expenses

Our selling and distribution expenses increased by 93.4%, from RMB192.2 million for the year ended December 31, 2017 to RMB371.7 million for the year ended December 31, 2018. The increase was generally in line with the increase in our revenue along with our marketing and promotion efforts. It was primarily attributable to an increase in our market development expenses of RMB116.9 million, an increase in our employee compensations of RMB37.7 million and an increase in our exhibition participation and advertisement expenses of RMB3.6 million. Selling and distribution expenses as a percentage of our revenue increased from 6.8% for the year ended December 31, 2017 to 7.7% for the year ended December 31, 2018, which is in line with the growth of our business.

Administrative Expenses

Our administrative expenses increased by 14.3%, from RMB435.6 million for the year ended December 31, 2017 to RMB497.7 million for the year ended December 31, 2018, primarily as a result of an increase in R&D expenses of RMB92.7 million and an increase in depreciation and amortization of RMB12.7 million, partially offset by a decrease in professional service fees of RMB25.6 million paid to a consulting firm. Administrative expenses as a percentage of our revenue decreased from 15.4% for the year ended December 31, 2017 to 10.4% for the year ended December 31, 2018.

Other Expenses

Our other expense decreased by 86.5%, from RMB2.7 million for the year ended December 31, 2017 to RMB0.4 million for the year ended December 31, 2018. The decrease was mainly attributable to liquidated damages incurred in 2017 related to delay in construction of our Pingshan Industrial Park.

Finance Costs

Our finance costs increased by 25.1%, from RMB183.3 million for the year ended December 31, 2017 to RMB229.2 million for the year ended December 31, 2018, primarily as a result of an increase in interest-bearing loans and borrowings.

Net Profit and Net Profit Margin

Our net profit increased by 156.1%, from RMB240.9 million for the year ended December 31, 2017 to RMB617.0 million for the year ended December 31, 2018. Our net profit margin increased

from 8.5% for the year ended December 31, 2017 to 12.9% for the year ended December 31, 2018, which was primarily attributable to an increase in gross profit margin of our sale of goods.

Income Tax Expense/(Credit)

We recorded a income tax credit of RMB83.8 million for the year ended December 31, 2017 as compared to RMB148.2 million of income tax expense for the year ended December 31, 2018. Such change was primarily attributable to a one-off income tax credit we received for our U.S. subsidiary in 2017 due to the promulgation of the Tax Cuts and Jobs Act of 2017. Our effective income tax rate in the year ended December 31, 2017 and 2018 was (53)% and 19%, respectively.

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

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

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Total non-current assets	7,995,387	8,236,874	9,351,977
Total current assets	6,213,469	5,607,404	5,999,970
Total assets	**14,208,856**	**13,844,278**	**15,351,947**
Total current liabilities	3,946,852	4,690,579	4,996,561
Total non-current liabilities	2,208,235	2,877,366	2,883,512
Total liabilities	**6,155,087**	**7,567,945**	**7,880,073**
Total assets less current liabilities	**10,262,004**	**9,153,699**	**10,355,386**
Net assets	**8,053,769**	**6,276,333**	**7,471,874**
Share capital	1,247,202	1,247,202	1,247,202
Reserves	6,584,962	4,852,410	6,101,158
Non-controlling interests	221,605	176,721	123,514
Total equity	**8,053,769**	**6,276,333**	**7,471,874**

NET CURRENT ASSETS

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

	As of December 31,			As of April 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current Assets				
Inventories	1,353,592	1,646,559	2,363,168	2,927,370
Trade and bills receivables	703,202	1,084,489	1,282,125	1,451,565
Contract assets	11,389	17,384	31,186	32,000
Prepayments, other receivables and other assets	652,415	476,801	629,560	724,075
Due from the related parties	50,285	44,468	315,672	315,947
Financial assets at fair value through profit or loss	293,185	266,293	87,876	8,548
Derivative financial instruments	43,150	77,174	24,768	15,735
Pledged deposits	6,141	3,837	61,568	51,586
Time deposits	2,369,640	464,299	127,510	—
Cash and cash equivalents	730,470	1,526,100	1,076,537	862,359
Total current assets	6,213,469	5,607,404	5,999,970	6,389,185
Current Liabilities				
Trade and bills payables	162,474	205,273	228,661	235,574
Other payables and accruals	340,024	493,683	528,737	414,062
Contract liabilities	129,398	254,843	200,268	246,937
Interest-bearing bank and other borrowings	3,259,732	2,463,482	3,939,340	3,718,136
Tax payable	24,134	61,788	63,424	106,395
Due to related parties	2,122	1,180,701	4,151	4,164
Lease liabilities	28,968	30,809	31,980	32,566
Total current liabilities	3,946,852	4,690,579	4,996,561	4,757,834
Net Current Assets	**2,266,617**	**916,825**	**1,003,409**	**1,631,351**
Total assets less current liabilities	**10,262,004**	**9,153,699**	**10,355,386**	**11,265,855**

We had net current assets of RMB1,631.4 million as of April 30, 2020, as compared to net current assets of RMB1,003.4 million as of December 31, 2019. The increase was primarily due to the increase in our inventories of RMB564.2 million, as a result of our continued inventory storage in anticipation of an increasing demand of enoxaparin sodium injections from the EU market, and the increase in our trade and bills receivables of RMB169.4 million that was in line with our increased sales of goods, and the decrease in our current interest-bearing bank and other borrowings of RMB221.2 million as a result of repayment of certain of our exiting current bank borrowings with the proceeds from the issuance of a 3-year corporate bond of RMB870 million in February 2020, and incurring less new current bank borrowings as the Chinese banks are usually closed during the Chinese New Year holiday, and therefore few new loans are granted during the period.

We had net current assets of RMB1,003.4 million as of December 31, 2019, as compared to net current assets of RMB916.8 million as of December 31, 2018. The increase was primarily due to the settlement of RMB1,176.0 million payables due to related parties as a result of our acquisition of Topknow, offset by the increase in interest-bearing bank and other borrowings of RMB1,475.9 million.

We had net current assets of RMB916.8 million as of December 31, 2018, as compared to net current assets of RMB2,266.6 million as of December 31, 2017. The decrease was primarily due to a decrease in time deposits of RMB1,905.3 million and an increase in amount due to related parties of

RMB1,178.6 million. Among the above, the decrease in time deposits was primarily due to the financing needs in relation to our acquisition of Topknow, and the increase in amount due to related parties was primarily attributable to unpaid considerations to original shareholders of Topknow in connection with our acquisition of Topknow.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. Please refer to Note 2.3 "Summary of Significant Accounting Policies — Inventories" to the Accountants' Report included in Appendix I to this document for further details of our accounting policies on inventories. See "Business—Inventory" in this document for further details of our inventory management.

The tables below set forth our inventory balances as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Raw materials and consumables	406,034	559,116	740,841
Work in progress	296,829	298,875	465,808
Finished goods	650,729	788,568	1,156,519
Total	**1,353,592**	**1,646,559**	**2,363,168**

Our inventory balance increased from RMB1,353.6 million as of December 31, 2017 to RMB1,646.6 million as of December 31, 2018 primarily due to an increase in the procurement price of the raw materials and increase in our stock of finished goods in anticipation of an increasing demand of finished dose pharmaceutical products from the EU market.

Our inventory balance increased from RMB1,646.6 million as of December 31, 2018 to RMB2,363.2 million as of December 31, 2019 primarily due to an increase in the procurement price of the raw materials, our control of outbound delivery quantity of API products as a result of price increase in porcine small intestines and an increase in the inventory storage in anticipation of increasing demand of finished dose pharmaceutical products from the EU market.

In 2017, 2018 and 2019, we incurred write-down of inventories of approximately RMB37.6 million, RMB40.6 million and RMB48.0 million respectively. For the years ended December 31, 2017, 2018 and 2019, our inventories with a carrying amount of RMB353.0 million, RMB302.4 million and RMB348.6 million respectively were pledged as security for our bank loans.

The table below sets forth our inventory and finished goods turnover days for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
Inventory turnover days[1]	186	185	246
Average finished goods turnover days[2]	94	89	119

Note:

(1) Inventory turnover days for a year is the arithmetic mean of the beginning and ending balances of inventory for the relevant year divided by the sum of cost of sales for the relevant year and multiplied by 360 days for 2017, 2018 and 2019.

(2) Average finished goods turnover days for a year is the arithmetic mean of the beginning and ending balances of finished goods for the relevant year divided by the sum of cost of sales for the relevant year and multiplied by 360 days for 2017, 2018 and 2019.

Our inventory turnover day remained relatively stable in 2017 and 2018. The 61 days increase in inventory turnover days from 2018 to 2019 was primarily due to the increase of inventory balance as of December 31, 2019 as a result of our increasing inventories of finished goods and raw materials. The increase in our inventory of finished goods was primarily attributable to our anticipation of a growing demand of finished dose pharmaceutical products and API products in 2020. The increase in our inventory of raw materials was mainly due to our anticipation of an increasing price level in raw materials in 2020. Our average finished goods turnover days decreased slightly from 94 days in 2017 to 89 days in 2018, and increased to 119 days in 2019, which was primarily attributable to the increase in our stock of finished goods in anticipation of an increasing demand of finished dose pharmaceutical products from the EU market partially offset by an increase in cost of sales for finished dose pharmaceutical products in line with our increasing sales volume of finished dose pharmaceutical products in 2019.

As of April 30, 2020, RMB1,303.1 million, representing 96.3% of the RMB1,353.6 million inventory as of December 31, 2017, was utilized, RMB1,579.7 million, representing 95.9% of the RMB1,646.6 million inventory as of December 31, 2018, was utilized, and RMB1,342.4 million, representing 56.8% of the RMB2,363.2 million inventory as of December 31, 2019, was utilized.

Trade and Bills Receivables

Our trade and bills receivables primarily represent the balances due from certain customers. We generally grant our customers credit terms from one month to three months. We take into consideration a number of factors in determining the credit terms of a customer, including its cash flow conditions and credit worthiness. See "Business—Sales and Marketing—Our Distributors—Management of Distributors" in this document for further details of our distributor management. We seek to maintain strict control over our outstanding receivables. Overdue balances are reviewed regularly by senior management. We do not hold any collateral or other credit enhancements over our trade and bills receivable balances. Trade and bills receivables are non-interest-bearing. The table below sets forth our trade and bills receivables as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Trade receivables	710,738	1,109,381	1,281,020
Bill receivables	11,097	1,270	22,826
Allowance for expected credit losses	(18,633)	(26,162)	(21,721)
Total	703,202	1,084,489	1,282,125

Our trade and bills receivables balances increased from RMB703.2 million as of December 31, 2017 to RMB1,084.5 million as of December 31, 2018 and further increased to RMB1,282.1 million as of December 31, 2019, which primarily reflected a significant increase in the sales of enoxaparin sodium injections in 2018.

In determining impairment, we conduct regular impairment analysis at the end of each year during the Track Record Period using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each year during the Track Record Period about past events, current conditions and forecasts of future economic conditions.

Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings.

The table below sets forth our trade receivables turnover days, trade and bills receivables turnover days and trade and bills receivables turnover days (including contract assets) for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
Trade receivables turnover days[1]	76	67	91
Trade and bills receivables turnover days[2]	77	67	92
Trade and bills receivables turnover days (including contract assets)[3]	78	68	94

Note:

(1) Trade receivables turnover days for a year equals the arithmetic mean of the beginning and ending trade receivable balances divided by revenue for that year and multiplied by 360 days for 2017, 2018 and 2019.

(2) Trade and bills receivables turnover days for a year equals the arithmetic mean of the beginning and ending trade and bills receivables balances divided by revenue for that year and multiplied by 360 days for 2017, 2018 and 2019.

(3) Trade and bills receivables turnover days (including contract assets) for a year equals the arithmetic mean of the beginning and ending trade and bills receivables balances and contract assets balances divided by revenue for that year and multiplied by 360 days for 2017, 2018 and 2019.

The calculation of trade and bills receivables turnover days (including contract assets) enumerates the average of trade and bills receivables and contract assets in the beginning and the end of a year. The average trade and bills receivables turnover days (including contract assets) decreased from 78 days for 2017 to 68 days for 2018, which was primarily due to a significant increase in the sales of our API products in 2018 as compared to 2017 where the credit period we give to our API customers is generally shorter than that for our customers of enoxaparin sodium injections. The average trade and bills receivables turnover days (including contract assets) increased from 68 days for 2018 to 94 days for 2019, which was mainly attributable to the increase in the sales of our enoxaparin sodium injections in 2019 as compared to 2018 where we generally provide longer credit period to our customers of enoxaparin sodium injections than that for our API customers, and the decrease in revenue from sales of API products due to our control of outbound delivery quantity of API products as a result of price increase in porcine small intestines due to the outbreak of swine fever in late 2018. During the Track Record Period, we generally provided a credit period ranging from 30 days to 270 days, with an average period of no longer than 120 days, to our customers of enoxaparin sodium injections, and a credit period ranging from 30 days to 90 days, with an average period of no longer than 60 days to our API customers. Such difference on the credit period was primarily attributable to 1) the nature that the sales of enoxaparin sodium injections are more easily affected by the market demand, whereas the sales of APIs are mainly for the downstream manufacture of finished dose products with a relatively stable production schedule, and thus are generally less fluctuated, and 2) our strategic expansion into new markets for the sales of enoxaparin sodium injection, where we generally granted the customers with flexible terms, and in some cases, a longer credit period.

The following table sets forth an aging analysis for trade and bills receivables based on the billing date and net of allowance for expected credit losses as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Within 90 days	642,198	1,019,880	1,221,105
90 to 180 days	13,858	33,962	13,363
180 days to 1 year	24,784	11,125	39,523
1 year to 2 years	19,486	14,845	3,972
Over 2 years	2,876	4,677	4,162
Total	**703,202**	**1,084,489**	**1,282,125**

For the years ended December 31, 2017, 2018 and 2019, a significant portion of our trade receivables are due within 90 days. As of April 30, 2020, RMB692.1 million, representing 100.0% of the trade receivables outstanding as of December 31, 2017 were settled, RMB1,067.5 million, representing 98.6% of the RMB1,083.2 million trade receivables outstanding as of December 31, 2018, were settled and RMB897.0 million, representing 71.2% of the RMB1,259.3 million trade receivables outstanding as of December 31, 2019, were settled.

For the years ended December 31, 2017, 2018 and 2019, a significant portion of our trade and bills receivables are due within 90 days. As of April 30, 2020, RMB703.2 million, representing 100% of the trade and bills receivables outstanding as of December 31, 2017 were settled, RMB1,068.8 million, representing 98.6% of the RMB1,084.5 million trade and bills receivables outstanding as of December 31, 2018, were settled and RMB919.8 million, representing 71.7% of the RMB1,282.1 million trade and bills receivables outstanding as of December 31, 2019, were settled.

Contract assets

Our contract assets refer to our right to consideration for work we have completed but have not billed to our customers, all of which arose from the CDMO service we provided. Our contract assets increased from RMB11.4 million as of December 31, 2017 to RMB17.4 million as of December 31, 2018, and further to RMB31.2 million as of December 31, 2019, which was in line with our increasing revenue generated from our CDMO service.

Upon our completion of the service and acceptance by the customer, the amounts recognized as contract assets will be re-classified to trade receivables. As of April 30, 2020, RMB11.4 million, 100% of the contract assets outstanding as of December 31, 2017 were subsequently re-classified to trade receivables, RMB17.4 million, 100% of the contract assets outstanding as of December 31, 2018 were subsequently re-classified to trade receivables and RMB17.1 million, 54.8% of the contract assets outstanding as of December 31, 2019, were subsequently re-classified to trade receivables.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets include prepayments, deposits and other receivables, interest receivables, VAT refund receivables, VAT recoverable, prepaid tax and prepaid expenses. Prepayments primarily include prepayments to our raw material suppliers and service

providers. The table below sets forth our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Prepayments	252,935	206,628	431,266
Deposits and other receivables(1)	56,239	57,725	62,360
Interest receivables	202,849	68,902	12,152
VAT refund receivables	43,334	48,582	42,832
VAT recoverable	91,609	83,645	60,330
Prepaid tax	203	459	534
Prepaid expenses	13,356	20,945	33,274
Less: impairment(2)	(8,110)	(10,085)	(13,188)
Total	**652,415**	**476,801**	**629,560**

Note:

(1) Deposits and other receivables are unsecured, non-interest-bearing and repayable on demand.

(2) As of December 31, 2017, 2018 and 2019, the impairment of the financial assets included in prepayments, other receivables and other assets were measured based on 12-month expected credit loss if they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, they were measured based on lifetime expected credit loss.

Our prepayments, other receivables and other assets decreased from RMB652.4 million as of December 31, 2017 to RMB476.8 million as of December 31, 2018, which was primarily attributable to the decrease of interest receivables as a result of the decrease of our time deposits and cash and cash equivalents due to financing needs in relation to our acquisition of Topknow. Our prepayments, other receivables and other assets increased from RMB476.8 million as of December 31, 2018 to RMB629.6 million as of December 31, 2019, which was primarily attributable to the increase in prepayment to our raw material suppliers as a result of increase in the raw material price.

We had VAT refund receivables of RMB43.3 million, RMB48.6 million and RMB42.8 million as of December 31, 2017, 2018 and 2019, respectively. As of April 30, 2020, the VAT refund receivables outstanding as of December 31, 2017 and 2018 were fully settled and RMB42.4 million, representing 99% of the VAT refund receivables outstanding as of December 31, 2019 were settled.

During the Track Record Period, our VAT refund receivables mainly consisted of export VAT refund receivables in China. We exported heparin sodium API, enoxaparin sodium API and enoxaparin sodium injection free of duty from China and the relevant tax authorities in China refunded us the VAT we paid related to our procurement of raw materials for the manufacture of these products in China. Export VAT refund could be returned according to the prescribed tax refund rate and enterprises should declare the tax refund to the relevant tax authorities in China from the month after the date of the customs clearance for the exported products till April 30 of the next year. Export VAT refund can be received within 1 to 3 months after customs clearance in general.

During the Track Record Period, our VAT recoverable mainly included VAT deductible in the UK and in China. We incurred VAT deductible in the UK in 2017 and 2018 of RMB16.9 million and RMB24.0 million, respectively, for the importation of our enoxaparin sodium injection into UK by Techdow Europe AB in 2017. The UK HM Revenue and Customs ("**HMRC**") initially did not agree to deduct the VAT we paid related to such importation from the VAT we paid related to the sales of enoxaparin products by Techdow Europe AB in the UK and therefore we paid the full amount of the VAT related to the sales of enoxaparin products by Techdow Europe AB in the UK. In 2019, HMRC

agreed that the VAT we paid related to such importation should have been deducted after Techdow Europe AB provided alternative evidence, and the HMRC refunded us an amount of RMB25.6 million in October 2019.

Trade And Bills Payables

Our trade and bills payables primarily consist of the balances due to our suppliers of raw materials. The table below sets forth our bills payable and trade payable as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Bills payable	3,344	—	—
Trade payables	159,130	205,273	228,661
	162,474	205,273	228,661

Our trade and bills payables increased from RMB162.5 million as of December 31, 2017 to RMB205.3 million as of December 31, 2018, and increased to RMB228.7 million as of December 31, 2019, primarily because of a significant increase in the sales of finished dose pharmaceutical products, which results in our increased purchase of raw materials.

The table below sets forth our average trade payables turnover days for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
Average trade payables turnover days[(1)]	21	23	27

Note:

(1) Trade payables turnover days for a year equals the arithmetic mean of the beginning and ending trade payables balances divided by the sum of cost of sales for the relevant year and multiplied by 360 days for 2017, 2018 and 2019.

The average trade payables turnover days remained relatively stable at 21 days in 2017 and 23 days in 2018 and increased to 27 days in 2019 was mainly due to higher trade payable balance as of December 31, 2019. The average trade payables turnover days during the Track Record Period were in line with the credit terms typically granted by our suppliers.

The following table sets forth an aging analysis of the trade and bills payables as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Within 1 year	161,562	203,668	226,579
1 year to 2 years	225	778	1,617
2 years to 3 years	62	194	262
over 3 years	625	633	203
Total	**162,474**	**205,273**	**228,661**

The trade payables are non-interest-bearing. As of April 30, 2020, 99.8% of the trade payables outstanding as of December 31, 2017 were settled, 99.7% of the trade payables outstanding as of December 31, 2018 were settled and 46.1% of the trade payables outstanding as of December 31, 2019, were settled.

Other Payables and Accruals

Our other payables and accruals primarily consist of other payables, accrued expenses, project equipment payables, accrued purchase of intangible assets, accrued interest expenses, salary payables and tax payables. Other payables are unsecured, non-interest-bearing and repayable on demand.

The table below sets forth the details of our other payables and accruals as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Accruals	86,154	105,136	157,019
Salary payables	125,773	157,292	152,420
Payables for purchase of property, plant and equipment	41,395	132,251	99,996
Other payables	33,014	43,848	94,480
Other tax payables	8,552	20,613	24,822
Payables for purchase of other intangible assets	29,259	14,717	—
Interest payables	15,877	19,826	—
Total	**340,024**	**493,683**	**528,737**

Our other payables and accruals increased by 45.2% from RMB340.0 million as of December 31, 2017 to RMB493.7 million as of December 31, 2018, which was primarily attributable to an increase in payables for purchase of property, plant and equipment and an increase in salary payables to our employees as a result of increase in the number of our employees, consistent with growth of our finished dose pharmaceutical products business. Our other payables and accruals remained relatively stable at RMB493.7 million as of December 31, 2018 and RMB528.7 million as of December 31, 2019.

The following table sets forth the breakdown of our other payables as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Sales allowance	—	—	61,336
Quality warranty and security deposits	21,720	28,926	26,534
Commission	70	6,786	2,411
Others	11,224	8,136	4,199
Total	**33,014**	**43,848**	**94,480**

Our other payable increased from RMB33.0 million as of December 31, 2017 to RMB43.8 million as of December 31, 2018, which was mainly due to an increase in the quality warranty and security deposits paid by our suppliers to us which will be returned to the suppliers and an increase in commission payables to our distributors in Austria and CSOs in China primarily attributable to the increase in our sales of enoxaparin sodium injection in Austria and China. Our other payables increased from RMB43.8 million as of December 31, 2018 to RMB94.5 million as of December 31, 2019, primarily due to an increase in sales allowance payable to our distributors in the UK, as a result of the increase in our sales of enoxaparin sodium injection in the UK. In the UK, our distributors purchased enoxaparin sodium injections from us at around 3% to 7% discount off the product's listing price, which is generally higher than their resale price to the hospitals as the selling price through hospital channel is relatively low. In Europe, according to Frost & Sullivan, the selling

price through hospital channel is typically lower than the price through pharmacy channel. As part of our strategy to increase our penetration to the UK hospitals, we agreed to provide our distributors in the UK with the sales allowance. The sales allowance consists of the price difference between the actual selling price to the distributors and the resale price to the hospitals, and the distribution fee paid to the distributors. The sale allowance will be recorded when the distributors re-sell the enoxaparin sodium injections to the hospitals, and is determined based on the sales volume to hospitals by each distributor in the UK. We started to adopt the sales allowance approach in the UK in December 2018, and therefore did not record any sales allowance in 2017 and 2018. We granted RMB158.1 million of sales allowance to our UK distributors in 2019. The sales allowance is accounted as an expense that offsets the revenue in our consolidated statements of profit or loss.

Our accruals mainly consisted of accrued marketing fees associated with our sales of enoxaparin sodium injection in China, consulting fees, traveling expenses, and the **[REDACTED]** related service fee. Our accruals increased from RMB86.2 million as of December 31, 2017 to RMB105.1 million as of December 31, 2018, which was primarily attributable to the increase in our accrued marketing fees, consistent with our growing sales of enoxaparin sodium injection in China. Our accruals further increased from RMB105.1 million as of December 31, 2018 to RMB157.0 million as of December 31, 2019, which was mainly due to the increase in our accrued marketing fees as a result of our continuing growth in the sales of enoxaparin sodium injection in China and the incurrence of the **[REDACTED]** related service fee as a result of our preparation of the **[REDACTED]** and the **[REDACTED]**.

Our Directors confirm that we did not have any material default in payment of trade and non-trade payables during the Track Record Period and up to the Latest Practicable Date.

Contract Liabilities

The table below sets forth our revenue-related contract liabilities as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Sale of products	12,730	9,177	3,642
CDMO services	116,668	215,344	196,626
Others	—	30,322	—
Total	**129,398**	**254,843**	**200,268**

We generally receive payments from customers based on billing schedules set forth in the sales contracts for our pharmaceutical products. Under certain contracts with our customers, payments are usually received in advance of the delivery of our products.

We also receive payments from customers based on billing schedules set forth in the CDMO service contracts. Under our CDMO service contracts, payments are usually received in advance of the performance of our CDMO services.

Our revenue-related contract liabilities increased from RMB129.4 million as of December 31, 2017 to RMB254.8 million as of December 31, 2018, primarily attributable to the increase in the contract liabilities related to CDMO services, which mainly resulted from the payments we have received under the new CDMO service contracts we entered into in 2018. Our revenue-related contract liabilities decreased from RMB254.8 million as of December 31, 2018 to RMB200.3 million as of

December 31, 2019, which was mainly due to the decrease in the contract liabilities related to CDMO services as a result of our performance of CDMO services under the previously signed CDMO contracts due to the increase in Cytovance's production capacity and an improvement in its order fulfillment ability, partially offset by the payments we have received under the new CDMO orders.

Between February 2018 and May 2019, we subscribed for an aggregate of 162,138 shares in Curemark for a total consideration of US$56,185,000, comprising a cash consideration of US$5,000,000 and the provision of pancreatin products and preparation services to Curemark of US$51,185,000. See "History, Development and Corporate Structure—Major Acquisitions and Disposals—Major Acquisitions—Further Information in respect of our Share Subscription in Curemark," for further details. As of December 31, 2018, we recorded RMB30.3 million of contract liabilities–others, which was associated with our obligations we have yet to perform, pursuant to our agreement with Curemark, to deliver the required pancreatin products to Curemark as the consideration for the Curemark's common shares we received in 2018 as part of our subscription of Curemark's common shares. Given such transaction between Curemark and us is non-cash and non-recurring in nature, our obligation to deliver the required pancreatin products was recorded as contract liabilities–others, which was distinct from the contract liabilities recognized in the ordinary sales of products. In the ordinary sales of products, contract liabilities are recorded when we have received the cash consideration but have yet to perform the corresponding obligation. We delivered the required pancreatin products to Curemark pursuant to our agreement with Curemark in 2019 and therefore such contract liabilities–others of RMB30.3 million were subsequently settled in 2019.

All of such obligations as represented by the contract liabilities are expected to be performed within one year. We will recognize the revenue upon performance of such obligations under the relevant contracts.

As of December 31, 2018, RMB129.4 million, representing 100% of the contract liabilities as of December 31, 2017 were settled. As of December 31, 2019, RMB254.8 million, representing 100% of the contract liabilities as of December 31, 2018 were settled. As of April 30, 2020, RMB100.7 million, representing 50.3% of the contract liabilities as of December 31, 2019 were settled.

SELECTED ITEMS REGARDING OUR INVESTMENTS

Historically, we strategically invested in a number of biotech companies with a focus on research and development of innovative drugs, and seasonally purchased wealth management products provided by banks. The financial performance of such investments are primarily reflected in our investments in associates, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss, as shown in the below table. For the details of our investments, please refer to the section headed "History, Development and Corporate Structure—Major Acquisitions and Disposals".

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Investments in associates	641,979	562,490	1,349,772
Equity investments designated at fair value through other comprehensive income	550,363	608,785	627,397
Financial assets at fair value through profit or loss	961,863	931,367	1,228,171
CURRENT ASSETS			
Financial assets at fair value through profit or loss	293,185	266,293	87,876
Total	**2,447,390**	**2,368,935**	**3,293,216**

Investments in Associates

Our investments in associates were RMB642.0 million, RMB562.5 million and RMB1,349.8 million as of December 31, 2017, 2018 and 2019, respectively. Most of our associates are growth companies that are still in the development stages and are principally engaged in the research and development of innovative drugs with significant growth potential. The below table sets forth the business development status of our associates with the principal business of biopharmaceutical research and development, our equity interests in each of the associates and our current investment plans with respect to such investments, which are subject to changes in light of our evolving business needs and changing market conditions:

Name	Place of Registration and Business	Principal activities	Percentage of ownership interest attributable to the Group			Business Development Status	Current Investment Plan
			As of December 31,				
			2017	2018	2019		
Resverlogix	Canada	Biopharmaceutical R&D	42.86%	38.86%	38.78%	Major product (RVX-208) at phase III clinical trial	Continue to hold the shares with no current plan in increasing the share proportion
Quest PharmaTech Inc.	Canada	Biopharmaceutical R&D	14.96%	14.94%	14.94%	Invested in various innovative oncology drugs	Continue to hold the shares with no current plan in increasing the share proportion
OncoQuest	Canada	Biopharmaceutical R&D	39.16%	39.16%	38.74%	Major product (Oregovomab) at phase II clinical trial	Continue to hold the shares with no current plan in increasing the share proportion

Name	Place of Registration and Business	Principal activities	Percentage of ownership interest attributable to the Group			Business Development Status	Current Investment Plan
			As of December 31,				
			2017	2018	2019		
HighTide	Cayman Islands	Biopharmaceutical R&D	—(1)	—(1)	47.02%	Major product (HTD1801) at phase II clinical trial	Continue to hold the shares with no current plan in increasing the share proportion
Shanghai Taiyi VC	PRC	Investment management	50.00%	50.00%	50.00%	—	Continue to hold the shares with no current plan in increasing the share proportion
Shenzhen Asia Pacific	PRC	Health management consulting	—	27.43%	27.43%	—	Continue to hold the shares with no current plan in increasing the share proportion

Note:

(1) HighTide became the Group's associate as a result of the deconsolidation in March 2019. Before the deconsolidation, HighTide was the Group's subsidiary.

Equity Investments Designated at Fair Value through Other Comprehensive Income

Our equity investments designated at fair value through other comprehensive income amounted to RMB550.4 million, RMB608.8 million and RMB627.4 million as of December 31, 2017, 2018 and 2019, respectively, as shown in the table below.

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Listed equity investment, at fair value:			
Prometic Life Sciences Inc. ("Prometic")	281,583	37,560	—
Aridis	71,876	66,862	27,271
Subtotal	353,459	104,422	27,271
Unlisted equity investments, at fair value:			
Cantex Pharmaceuticals, Inc.	196,027	205,896	209,286
Curemark	—	297,608	388,940
Rapid Micro Biosystems, Inc. ("Rapid Micro")	877	859	1,900
Subtotal	196,904	504,363	600,126
Total	550,363	608,785	627,397

The following table sets forth our equity interests in each of our investees under equity investments at fair value through other comprehensive income as of the dates indicated:

Name	Percentage of ownership interest attributable to the Group		
	As of December 31,		
	2017	2018	2019
Prometic	7.16%	4.07%	—
Aridis	14.85%	10.84%	9.85%
Cantex Pharmaceuticals, Inc.	16.60%	16.60%	16.60%
Curemark	—	2.61%	3.31%
Rapid Micro	0.60%	0.19%	0.15%

Two of our investees, Prometic and Aridis, are public companies. Prometic is a Candian biopharmaceutical company listed on the Toronto Stock Exchange and the NASDAQ (stock code: LMNL)[(1)]. The below table briefly summarizes the financial performance with the key financial metrics of Prometic as of the dates or for the years indicated based on public information:

	As of December 31,	
	2017	2018
	CAD'000	CAD'000
Current Assets	72,275	40,842
Non Current Assets	211,598	62,050
Total Assets	283,873	102,892

	For the year ended December 31,	
	2017	2018
	CAD'000	CAD'000
Revenues	39,115	47,374
Research and Development Expenses	100,392	91,666
Net Loss	(120,036)	(237,896)

Note:

(1) Prometic Life Sciences changed its name to Liminal BioSciences in October, 2019.

Aridis is a biopharmaceutical company incorporated in the U.S. and was listed on the NASDAQ (stock code: ARDS). The below table briefly summarizes the financial performance with the key financial metrics of Aridis as of the dates or for the years indicated based on public information:

	As of December 31,	
	2017	2018
	USD'000	USD'000
Current Assets	25,340	28,347
Non Current Assets	1,138	3,264
Total Assets	26,478	31,611

	For the year ended December 31,	
	2017	2018
	USD'000	USD'000
Revenues	860	2,757
Research and Development Expenses	(17,438)	(23,000)
Net Loss	(24,656)	(22,105)

The below table sets forth a breakdown of the net losses on equity investment designated at fair value through other comprehensive income, which in aggregated amounted to RMB180.5 million,

RMB190.9 million and RMB51.6 million for the year ended December 31, 2017, 2018 and 2019, respectively. Our equity investment in Cantex Pharmaceuticals, Inc. and Curemark did not record such net profits or losses during the Track Record Period because both companies' drug candidates were under the clinical stages with limited revenue generated, and the development progress of their drug candidates was in line with the expected time line when our investments were made. We use our investment costs as the fair value of Cantex and Curemark as they both have not experienced any significant change in their clinical stages since we invested in them. We understand that it is a common situation where the drug candidates of a biophamaceutical company undergo clinical trials for a prolonged period and thus little or no revenue has been generated since inception. Additionally, as the drug candidates of both Cantex and Curemark are under the expected clinical stages, we have not identify any negative indicator on the development progress of such drug candidates. Hence, there was no decrease in fair value of equity investments at FVTOCI for Curemark and Cantex during the Track Record Period.

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Prometic	(166,464)	(178,805)	(20,535)
Aridis	—	(10,150)	(31,865)
Rapid Micro	(14,037)	(1,897)	802
Total	(180,501)	(190,852)	(51,598)

The following tables illustrate the reconciliation of our fair value losses on equity investments designated at fair value through other comprehensive income to the fair value of the respective equity investments as of the dates indicated:

	As of December 31, 2017				
	Prometic	Aridis	Cantex	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	477,423	76,307	208,110	7,414	769,254
Change in investment cost	—	—	—	15,948	15,948
Change in fair value of equity investments at fair value through other comprehensive income	(195,840)	—	—	(17,526)	(213,366)
Exchange differences on translation of foreign operations	—	(4,431)	(12,083)	(4,959)	(21,473)
Closing balance	281,583	71,876	196,027	877	550,363

	As of December 31, 2017				
	Prometic	Aridis	Cantex	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Change in fair value of equity investments at fair value through other comprehensive income	(195,840)			(17,526)	(213,366)
Tax effect through other comprehensive income	29,376	—	—	3,489	32,865
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	(166,464)	—	—	(14,037)	(180,501)

	As of December 31, 2018					
	Prometic	Curemark	Aridis	Cantex	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	281,583	—	71,876	196,026	878	550,363
Change in investment cost	(31,018)	288,427	3,694	—	—	261,103
Change in fair value of equity investments at fair value through other comprehensive income	(213,005)	—	(12,268)	—	(2,430)	(227,703)
Exchange differences on translation of foreign operations	—	9,181	3,560	9,870	2,411	25,022
Closing balance	37,560	297,608	66,862	205,896	859	608,785

	As of December 31, 2018					
	Prometic	Curemark	Aridis	Cantex	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Change in fair value of equity investments at fair value through other comprehensive income	(213,005)	—	(12,268)	—	(2,430)	(227,703)
Tax effect through other comprehensive income	34,200	—	2,118	—	533	36,851
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	(178,805)	—	(10,150)	—	(1,897)	(190,852)

	As of December 31, 2019					
	Prometic	Curemark	Aridis	Cantex	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	37,560	297,608	66,862	205,896	859	608,785
Change in investment cost	(17,053)	85,907	—	—	—	68,854
Change in fair value of equity investments at fair value through other comprehensive income	(20,507)	—	(39,997)	—	1,027	(59,477)
Exchange differences on translation of foreign operations	—	5,425	406	3,390	14	9,235
Closing balance	—	388,940	27,271	209,286	1,900	627,397

	As of December 31, 2019					
	Prometic	Curemark	Aridis	Cantex	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Change in fair value of equity investments at fair value through other comprehensive income	(20,507)	—	(39,997)	—	1,027	(59,477)
Tax effect through other comprehensive income	(28)	—	8,132	—	(225)	7,879
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	(20,535)	—	(31,865)	—	802	(51,598)

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss amounted to RMB1,255.0 million, RMB1,197.7 million and RMB1,330.7 million as of December 31, 2017, 2018 and 2019, respectively, as shown in the table below.

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Current assets			
Wealth management products	293,185	266,293	87,876
Non-current assets			
Unlisted equity investments, at fair value			
Kymab	241,766	259,427	312,532
TPG Biotechnology Partners IV, L.P. ("TPG IV")	104,983	89,744	51,046
TPG V	116,613	181,109	379,819
ORI Healthcare Fund, L.P.	190,890	221,873	216,564
Shenzhen Top Dental Medical Co., Ltd.	90,400	104,500	136,000
Labway Clinical Laboratory Co., Ltd.	33,915	36,500	41,400
Hejia Hongli (Hang Zhou) Venture Investment Partnership (L.P.)	24,554	32,995	42,403
CDH Avatar, L.P.	12,076	4,730	6,679
Others	462	489	41,728
Subtotal	815,659	931,367	1,228,171
Convertible loan	146,204	—	—
Subtotal	961,863	931,367	1,228,171
Total	1,255,048	1,197,660	1,316,047

In order to enhance our liquidity position without significantly increasing our exposure to the financial risks, we principally engaged in the purchase and redemption of our wealth management products using surplus cash on hand, which constituted the majority of our purchases and sales of financial assets at fair value through profit or loss. During the Track Record Period, substantially all of the wealth management products we purchased were principal-protected.

We have internal control measures in place regarding our treasury policy, which was approved by our Board. Our treasury policy sets out our investment strategy related to the wealth management products and the corresponding internal control measures to mitigate the risks. Under the supervision of our financial controller, our finance department is responsible for managing our investment in wealth management products. Before making any investment proposal, our finance department will assess our cash flow levels, operational needs and capital expenditures. Our investment strategy related to the wealth management products aims to minimize the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, and to generate investment returns for the benefits of our shareholders. Under our Board approved treasury policy, we are prohibited from investing in high risk wealth management products and the proposed investment must not interfere with our daily operation and business prospects. In accordance with our treasury policy, we make our investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macro-economic environment, general market conditions and the expected profit or potential loss of the investment.

The financial assets at FVTPL categorized within level 2 of fair value measurement were mainly unlisted equity investments (the "**Unlisted Equity Investments**"). The Unlisted Equity Investments have been valued based on market-based fair value techniques that are appropriate in the corresponding circumstances. Such techniques require sufficient data being available to measure the fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Accordingly, we have estimated the fair value by using the precedent transaction method and the guideline public company method. These methods are applicable when significant observable inputs, including the market multiplier, the risk-free interest rate, and volatility and liquidity discounts are available from public market.

Having discussed with the external valuer and considered the relevant facts as summarized above, we are satisfied that the estimated fair values, resulting from the corresponding valuation techniques, recorded in the consolidated statement of financial position at the end of 2017, 2018 and 2019, respectively, and the corresponding changes in fair value that are recorded in consolidated statement of other comprehensive income or profit or loss during the Track Record Period, are appropriate and with support.

In respect of the valuation of the Unlisted Equity Investments, the Joint Sponsors have, among others, (i) reviewed the qualification of the external valuer engaged by the Group for the valuation of the Unlisted Equity Investments; and (ii) discussed with the management of the Company, the external valuer and the Reporting Accountants regarding the valuation technique applied by the external valuer to determine the valuation of the Unlisted Equity Investments. Based on the above due diligence work, nothing has come to the attention of the Joint Sponsors for them to cast doubt on the valuation of the Unlisted Equity Investments as provided in the Accountants' Report.

The financial assets at FVTPL categorized within level 3 of fair value measurement was the convertible loan initially granted by the Group to Shenzhen Moshi Jianye Investment Center (limited partnership) ("**Moshi Jianye**") in July 2015, whose rights and obligations were later assumed by Shenzhen Asia Pacific pursuant to an agreement entered into among the Group, Moshi Jianye and Shenzhen Asia Pacific and us in July 2018 (the "**Convertible Loan**").

For the Convertible Loan, we have estimated the fair value by using a discounted cash flow valuation model, the discount rate at valuation date was the risk-free rate plus implied spread. We estimated the risk-free interest rate based on the yield of the China Government Bond as of the end of 2017 with a maturity life equal to the period from the respective appraisal dates to the expected liquidation date. The implied spread was calculated so that the fair value of the bond was equal to its face value at the initial day.

Having discussed with the external valuer and considered the relevant facts as summarized above, we are satisfied that the estimated fair values resulting from the valuation technique recorded in the consolidated statement of financial position and the related changes in fair values recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of 2017.

We have applied valuation techniques to determine the fair value of financial assets at fair value through profit or loss categorized within level 3 ("**Financial Instruments**"). These valuation techniques, particularly those requiring significant unobservable inputs, usually involved subjective judgement and assumptions.

In respect of the valuation of the Convertible Loan, the Joint Sponsors have, among others, (i) reviewed the qualification of the external valuer engaged by the Group for the valuation of the Convertible Loan as well as the valuation analysis prepared by the external valuer; and (ii) discussed with the management of the Company, the external valuer and the Reporting Accountants regarding the valuation technique applied by the external valuer to determine the valuation of the Convertible Loan. Based the above due diligence work, nothing has come to the attention of the Joint Sponsors for them to cast doubt on the valuation of the Convertible Loan as provided in the Accountants' Report.

Procedures regarding the valuation of such Financial Instruments have been performed by the Reporting Accountants to obtain evidence about the amounts and disclosure in the Historical Financial Information, as defined on I-1 of the Accountants' Report included in Appendix I. These selected procedures depend on the judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error.

The following table sets forth our interests in each of our unlisted equity investments under financial assets at fair value as of the dates indicated:

Name	Percentage of ownership interest attributable to the Group		
	As of December 31,		
	2017	2018	2019
Kymab	9.66%	9.35%	8.60%
TPG IV	20.00%	20.00%	20.00%
TPG V	68.52%	68.52%	68.52%
ORI Healthcare Fund, L.P.	26.49%	20.00%	20.00%
Shenzhen Top Dental Medical Co., Ltd.	14.00%	14.62%	14.62%
Labway Clinical Laboratory Co., Ltd.	1.01%	1.01%	1.01%
Hejia Hongli (Hang Zhou) Venture Investment Partnership (L.P.)	4.81%	4.81%	4.81%
CDH Avatar, L.P.	0.58%	1.49%	1.87%

In accordance with the limited partnership agreements of TPG IV, TPG V and ORI Healthcare Fund, L.P., we are entitled to the investment return in accordance with our equity interests, but we do not have representation in the investment committees of these funds. Therefore, despite that our equity interests in these entities were no less than 20%, we are not entitled to participate in the daily management of the funds and are not in a position to exercise any significant control or influence over such investments.

The below table sets forth a breakdown of the fair value gains on financial assets at fair value through profit or loss, which in aggregated amounted to RMB46.8 million, RMB8.2 million and RMB199.7 million for the year ended December 31, 2017, 2018 and 2019, respectively:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Kymab	4,382	6,220	22,289
TPG IV	(9,261)	(29,420)	(14,001)
TPG V	(13,382)	7,010	98,055
ORI Healthcare Fund, L.P.	(5,918)	41,953	44,476
Shenzhen Top Dental Medical Co., Ltd.	55,400	4,100	31,500
Labway Clinical Laboratory Co., Ltd.	(1,785)	2,585	4,900
Hejia Hongli (Hang Zhou) Venture Investment Partnership (L.P.)	3,708	9,774	9,697
CDH Avatar, L.P.	1,820	(7,827)	1,811
Convertible loan	11,793	(26,204)	—
Others	—	—	1,000
Total	46,757	8,191	199,726

The following tables illustrate the reconciliation of our fair value gains on financial assets at fair value through profit or loss to the corresponding financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31, 2017											
	Wealth management products	Kymab Group Limited	TPG IV	TPG V	ORI Healthcare Fund	Convertible loan	Shenzhen Top Dental Medical Co., Ltd	Labway Clinical Laboratory Co., Ltd.	Hejia Hongli (Hang Zhou) Venture Investment Partnership	CDH Avatar, L.P.	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	708,979	—	106,670	33,509	71,678	134,411	35,000	35,700	20,846	10,955	462	1,158,210
Change in investment cost	(442,157)	247,974	7,573	96,690	136,142	—	—	—	—	—	—	46,222
Gains on disposal of financial assets at fair value through profit or loss	26,363	—	—	—	—	—	—	—	—	—	—	26,363
Fair value gains on financial assets at fair value through profit or loss	—	4,382	(9,260)	(13,382)	(5,918)	11,793	55,400	(1,785)	3,708	1,819	—	46,757
Exchange differences on translation of foreign operations	—	(10,590)	—	(204)	(11,012)	—	—	—	—	(698)	—	(22,504)
Closing balance	**293,185**	**241,766**	**104,983**	**116,613**	**190,890**	**146,204**	**90,400**	**33,915**	**24,554**	**12,076**	**462**	**1,255,048**

	As of December 31, 2018											
	Wealth management products	Kymab Group Limited	TPG IV	TPG V	ORI Healthcare Fund	Convertible loan	Shenzhen Top Dental Medical Co., Ltd	Labway Clinical Laboratory Co., Ltd.	Hejia Hongli (Hang Zhou) Venture Investment Partnership	CDH Avatar, L.P.	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	293,185	241,766	104,983	116,613	190,890	146,204	90,400	33,915	24,554	12,076	462	1,255,048
Change in investment cost	(40,809)	—	15,988	57,486	(22,060)	(120,000)	10,000	—	(1,333)	—	27	(100,701)
Gains on disposal of financial assets at fair value through profit or loss	13,917	—	—	—	—	—	—	—	—	—	—	13,917
Fair value gains on financial assets at fair value through profit or loss	—	6,220	(29,420)	7,010	41,953	(26,204)	4,100	2,585	9,774	(7,827)	—	8,191
Exchange differences on translation of foreign operations	—	11,441	(1,807)	—	11,090	—	—	—	—	481	—	21,205
Closing balance	**266,293**	**259,427**	**89,744**	**181,109**	**221,873**	**—**	**104,500**	**36,500**	**32,995**	**4,730**	**489**	**1,197,660**

	As of December 31, 2019											
	Wealth management products	Kymab Group Limited	TPG IV	TPG V	ORI Healthcare Fund	Convertible loan	Shenzhen Top Dental Medical Co., Ltd	Labway Clinical Laboratory Co., Ltd.	Hejia Hongli (Hang Zhou) Venture Investment Partnership	CDH Avatar, L.P.	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	**266,293**	**259,427**	**89,744**	**181,109**	**221,873**	**—**	**104,500**	**36,500**	**32,995**	**4,730**	**489**	**1,197,660**
Change in investment cost	(183,191)	24,169	(24,697)	100,655	(47,472)	—	—	—	(289)	—	40,239	(90,586)
Gains on disposal of financial assets at fair value through profit or loss	4,774	—	—	—	—	—	—	—	—	—	—	4,774
Change in fair value gains on financial assets at fair value through profit or loss	—	22,289	(14,001)	98,055	44,476	—	31,500	4,900	9,697	1,810	1,000	199,726
Exchange differences on translation of foreign operations	—	6,647	—	—	(2,313)	—	—	—	—	139	—	4,473
Closing balance	**87,876**	**312,532**	**51,046**	**379,819**	**216,564**	**—**	**136,000**	**41,400**	**42,403**	**6,679**	**41,728**	**1,316,047**

The following tables illustrate the reconciliation of our purchase of, and sales from, financial assets at fair value through profit or loss to the corresponding financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31, 2017											
	Wealth management products	Kymab	TPG IV	TPG V	ORI Healthcare Fund	Convertible loan	Shenzhen Top Dental Medical Co., Ltd	Labway Clinical Laboratory Co., Ltd.	Hejia Hongli (Hang Zhou) Venture Investment Partnership	CDH Avatar, L.P.	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	**708,979**	**—**	**106,670**	**33,509**	**71,678**	**134,411**	**35,000**	**35,700**	**20,846**	**10,955**	**462**	**1,158,210**
Purchase of financial asset at fair value through profit or loss	1,519,880	247,974	7,573	96,690	136,142	—	—	—	—	—	—	2,008,259
Proceeds from disposal of financial assets at fair value through profit or loss	(1,938,515)	—	—	—	—	—	—	—	—	—	—	(1,938,515)
Investment income received from financial assets at fair value through profit or loss	(24,377)	—	—	—	—	—	—	—	—	—	—	(24,377)
Gains on disposal of fair value through profit or loss	26,363	—	—	—	—	—	—	—	—	—	—	26,363
Fair value gains on fair value through profit or loss	—	4,382	(9,260)	(13,382)	(5,918)	11,793	55,400	(1,785)	3,708	1,819	—	46,757
Value-added tax	855	—	—	—	—	—	—	—	—	—	—	855
Exchange differences on translation of foreign operations	—	(10,590)	—	(204)	(11,012)	—	—	—	—	(698)	—	(22,504)
Closing balance	**293,185**	**241,766**	**104,983**	**116,613**	**190,890**	**146,204**	**90,400**	**33,915**	**24,554**	**12,076**	**462**	**1,255,048**

	As of December 31, 2018											
	Wealth management products	Kymab	TPG IV	TPG V	ORI Healthcare Fund	Convertible loan	Shenzhen Top Dental Medical Co., Ltd	Labway Clinical Laboratory Co., Ltd.	Hejia Hongli (Hang Zhou) Venture Investment Partnership	CDH Avatar, L.P.	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	**293,185**	**241,766**	**104,983**	**116,613**	**190,890**	**146,204**	**90,400**	**33,915**	**24,554**	**12,076**	**462**	**1,255,048**
Purchase of financial asset at fair value through profit or loss	707,160	—	15,988	57,486	23,255	—	10,000	—	—	—	27	**813,916**
Proceeds from disposal of financial assets at fair value through profit or loss	(741,970)	—	—	—	(45,315)	—	—	—	(1,333)	—	—	**(788,618)**
Investment income received from financial assets at fair value through profit or loss	(6,685)	—	—	—	—	—	—	—	—	—	—	**(6,685)**
Gains on disposal of fair value through profit or loss	13,917	—	—	—	—	—	—	—	—	—	—	**13,917**
Fair value gains on fair value through profit or loss	—	6,220	(29,420)	7,010	41,953	(26,204)	4,100	2,585	9,774	(7,827)	—	**8,191**
Converted into shares	—	—	—	—	—	(120,000)	—	—	—	—	—	**(120,000)**
Value-added tax	686	—	—	—	—	—	—	—	—	—	—	**686**
Exchange differences on translation of foreign operations	—	11,441	(1,807)	—	11,090	—	—	—	—	481	—	**21,205**
Closing balance	**266,293**	**259,427**	**89,744**	**181,109**	**221,873**	**—**	**104,500**	**36,500**	**32,995**	**4,730**	**489**	**1,197,660**

	As of December 31, 2019												
	Wealth management products	Kymab Group Limited	TPG IV	TPG V	ORI Healthcare Fund	Convertible loan	Shenzhen Top Dental Medical Co., Ltd	Labway Clinical Laboratory Co., Ltd.	Hejia Hongli (Hang Zhou) Venture Investment Partnership	CDH Avatar, L.P.	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	**266,293**	**259,427**	**89,744**	**181,109**	**221,873**	—	**104,500**	**36,500**	**32,995**	**4,730**	**489**	**1,197,660**
Purchase of financial asset at fair value through profit or loss	1,582,100	24,169	1,727	100,655	18,341	—	—	—	—	—	40,239	**1,767,231**
Proceeds from disposal of financial assets at fair value through profit or loss	(1,749,100)	—	(26,424)	—	(65,813)	—	—	—	(289)	—	—	**(1,841,626)**
Investment income received from financial assets at fair value through profit or loss	(16,436)	—	—	—	—	—	—	—	—	—	—	**(16,436)**
Gains on disposal of financial assets at fair value through profit or loss	4,774	—	—	—	—	—	—	—	—	—	—	**4,774**
Fair value gains on financial assets at fair value through profit or loss	—	22,289	(14,001)	98,055	44,476	—	31,500	4,900	9,697	1,810	1,000	**199,726**
Value-added tax	245	—	—	—	—	—	—	—	—	—	—	**245**
Exchange differences on translation of foreign operations	—	6,647	—	—	(2,313)	—	—	—	—	139	—	**4,473**
Closing balance	**87,876**	**312,532**	**51,046**	**379,819**	**216,564**	—	**136,000**	**41,400**	**42,403**	**6,679**	**41,728**	**1,316,047**

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, we financed our operations primarily through cash generated from our operating activities. Our primary uses of cash were to fund working capital and other recurring expenses, and capital expenditures.

Cash Flows

The following table sets forth our cash flows for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities before movements in working capital	495,408	1,041,803	982,737
Change in working capital	(872,010)	(353,088)	(1,101,502)
Bank interest income and income tax paid	(16,872)	(15,927)	(74,623)
Net cash flows (used in)/from operating activities	(393,474)	672,788	(193,388)
Net cash flows (used in)/from investing activities	(257,197)	1,835,888	1,703
Net cash flows (used in)/from financing activities	503,302	(1,732,475)	(268,549)
Net increase/(decrease) in cash and cash equivalents	(147,369)	776,201	(460,234)
Cash and cash equivalents at beginning of year/period	882,376	730,470	1,526,100
Effect of foreign exchange rate changes, net	(4,537)	19,429	10,671
Cash and cash equivalents at end of year/period	730,470	1,526,100	1,076,537

Operating Activities

In 2019, our net cash used in operating activities was RMB193.4 million, primarily attributable to profit before tax of RMB1,315.3 million, adjusted for non-cash and non-operating items. Positive adjustment for non-cash and non-operating items primarily include finance costs of RMB275.2 million, depreciation of property, plant and equipment of RMB196.2 million and fair value loss on derivative instrument of RMB83.2 million, offset by negative adjustments primarily include gain on deemed disposal of a subsidiary of RMB573.9 million as a result of deconsolidation of HighTide in March 2019. The amount was then adjusted downward by changes in working capital, primarily including the increase in inventories of RMB716.6 million as a result of an increase in the procurement price of the raw materials, delay in outbound delivery quantity of API products due to price increase in porcine small intestines and an increase in the inventory storage in anticipation of an increasing demand of finished dose pharmaceutical products from the EU market, the increase in trade and bill receivables of RMB193.2 million, which primarily reflected the increase in the sales of our enoxaparin sodium injection, and the increase in prepayments, deposits and other receivables of RMB192.4 million as a result of the increase in prepayment to our raw material suppliers due to the increase in the raw material price.

In 2018, our net cash flows from operating activities was RMB672.8 million, primarily attributable to profit before tax of RMB765.2 million, adjusted for non-cash and non-operating items. Positive adjustment for non-cash and non-operating items primarily include share of losses of associates of RMB305.0 million, finance costs of RMB229.2 million and depreciation of property, plant and equipment of RMB157.6 million. The amount was then adjusted downward by changes in working capital, primarily including the increase in trade and bills receivables of RMB388.8 million

mainly due to a significant increase in the sales of enoxaparin sodium injections in 2018 and the increase in inventories of RMB293.0 million as a result of an increase in the procurement price of the raw materials and the increase in our stock of finished goods in anticipation of an increasing demand of finished dose pharmaceutical products from the EU market and the decrease in prepayments, deposits and other receivables of RMB119.9 million, which was mainly attributable to the decrease in interest receivables as a result of the decrease in our time deposits and cash and cash equivalents due to our financing needs related to our acquisition of Topknow.

In 2017, our net cash used in operating activities was RMB393.5 million, primarily attributable to profit before tax of RMB157.1 million, adjusted for non-cash and non-operating items. Positive adjustment for non-cash and non-operating items primarily include finance costs of RMB183.3 million and depreciation of property, plant and equipment of RMB139.6 million, offset by negative adjustments primarily include bank interest income of RMB34.8 million. The amount was then adjusted downward by changes in working capital, primarily including the increase in inventories of RMB664.3 million as a result of the increase in the raw material prices and the increase in our stock of finished goods in anticipation of an increasing demand of finished dose pharmaceutical products from the EU market, and the increase in prepayments, deposits and other receivables of RMB288.9 million mainly due to the increase in raw material purchase and the increase in interest receivables derived from our deposits, the increase in trade and bills receivables of RMB199.9 million as a result of the increasing sales of enoxaparin sodium injections and the increase in other payables and accruals of RMB149.5 million in line with our increase in inventories.

Net Cash from Investing Activities

In 2019, our net cash from investing activities was RMB1.7 million, mainly attributable to proceeds from financial assets at fair value through profit or loss of RMB1,841.6 million and decrease in time deposits of RMB464.3 million, partially offset by purchase of financial asset at fair value through profit or loss of RMB1,767.2 million and purchase of property, plant and equipment of RMB359.6 million.

In 2018, our net cash flows from investing activities was RMB1,835.9 million, mainly attributable to decrease in time deposits of RMB2,268.7 million and gains on disposal of financial assets at fair value through profit or of RMB6.7 million, partially offset by purchase of financial asset at fair value through profit or loss of RMB813.9 million and purchases of property, plant and equipment of RMB498.8 million.

In 2017, our net cash used in investing activities was RMB257.2 million, mainly attributable to purchase of financial asset at fair value through profit or loss of RMB2,008.3 million, purchases of property, plant and equipment of RMB621.5 million and investment in associates of RMB439.1 million, partially offset by gains on disposal of financial assets at fair value through profit or loss of RMB24.4 million and decrease in time deposits of RMB922.5 million.

Net Cash from Financing Activities

In 2019, our net cash used in financing activities was RMB268.5 million, mainly attributable to repayment of bank loans and other borrowings of RMB4,669.9 million, acquisition of subsidiaries under common control of RMB1,176.0 million, interest on bank loans and other borrowings paid of RMB247.1 million and dividends paid of RMB124.7 million, partially offset by proceeds from new bank loans and other borrowings of RMB5,974.0 million.

In 2018, our net cash used in financing activities was RMB1,732.5 million, mainly attributable to repayment of bank loans and other borrowings of RMB4,205.2 million and acquisition of subsidiaries under common control of RMB1,224.0 million, partially offset by proceeds from new bank loans and other borrowings of RMB3,917.0 million.

In 2017, our net cash flows from financing activities was RMB503.3 million, mainly attributable to proceeds from new bank loans and other borrowings of RMB3,400.9 million, partially offset by repayment of bank loans and other borrowings of RMB2,365.7 million and dividends paid of RMB311.8 million.

WORKING CAPITAL

The Directors are of the opinion that, taking into account of the following financial resources available to us described below, we have sufficient working capital required for our operations at present and for at least the next 12 months from the expected date of this document:

- our future operating cash flows in respective years;
- cash and cash equivalent of RMB862.4 million as of April 30, 2020;
- available financing facilities; and
- the estimated **[REDACTED]** from the **[REDACTED]**.

INDEBTEDNESS

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

	As of December 31,			As of April 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	5,084,065	4,912,924	6,293,993	6,644,478
Lease liabilities	156,030	137,527	119,233	111,536
Total	**5,240,095**	**5,050,451**	**6,413,226**	**6,756,014**

We had total bank and other borrowings of RMB6,644.5 million as of April 30, 2020, the latest practicable date for the purpose of liquidity disclosure in this document, as compared to RMB6,294.0 million as of December 31, 2019. The change was primarily due to the issuance of a 3-year corporate bond of RMB870 million in February 2020, partially offset by repayment of certain of our existing bank borrowings.

We had total bank and other borrowings of RMB6,294.0 million as of December 31, 2019, as compared to RMB4,912.9 million as of December 31, 2018. The change was primarily due to the increase in interest-bearing borrowing and corporate bond to provide liquidity and make payment for the acquisition of Topknow.

We had total bank and other borrowings of RMB4,912.9 million as of December 31, 2018, as compared to RMB5,084.1 million as of December 31, 2017. The change was primarily due to the repayment of borrowings.

Bank and Other Borrowings

The following tables set forth the breakdown of our bank and other borrowings as of the dates indicated:

	As of December 31, 2017		
	Effective interest rate per annum (%)	Maturity	RMB'000
Current			
Bank loans—secured[(a)]	2.19%-5.6%	2018	786,698
Bank loans—unsecured	2.3%-5.7% 6MLIBOR+275BP	2018	1,281,048
Current portion of long—term bank loans—secured[(a)]	2.2%-5.0% LIBOR+150BP-200BP 3MLIBOR+130BP	2018	1,111,986
Other borrowings—unsecured[(b)]	5.8%	2018	80,000
Total			**3,259,732**
Non-current			
Bank loans—secured[(a)]	4.4% LIBOR+150BP, 3MLIBOR+130BP	2019-2020	831,546
Corporate bonds[(c)]	3.4%	2021	992,787
Total			**1,824,333**

	As of December 31, 2018		
	Effective interest rate per annum (%)	Maturity	RMB'000
Current			
Bank loans—secured[(a)]	2.5%-6.3% 6MLIBOR+282BP, 3MLIBOR+130BP	2019	766,381
Bank loans—unsecured	2.6%-6.5%	2019	937,400
Current portion of long—term bank loans—secured[(a)]	4.4%	2019	4,999
Current portion of long—term bank loans—unsecured	LIBOR+150BP	2019	476,992
Other borrowings—unsecured[(b)]	3.5%-5.4%	2019	277,710
Total			**2,463,482**
Non-current			
Bank loans—secured[(a)]	6.5% 3MLIBOR+130BP-150BP LIBOR+APPLICABLE MARGIN	2020-2023	1,454,834
Corporate bonds[(c)]	3.4%	2021	994,608
Total			**2,449,442**

	As of December 31, 2019		
	Effective interest rate per annum (%)	Maturity	RMB'000
Current			
Bank loans—secured[(a)]	1.1%-4.8%, 3MLIBOR+130BP	2020	1,689,405
Bank loans—unsecured	3.1%-4.9%	2020	507,340
Current portion of long-term bank loans—secured[(a)]	5.4%-6.5%, 3MLIBOR+130BP-150BP LIBOR+APPLICABLE MARGIN	2020	553,195
Other borrowings—unsecured[(b)]	2.9%-4.5%	2020	730,700
Current portion of corporate bonds[(c)]	5.5%-6.5%	2020	458,700
Total			**3,939,340**
Non-current			
Bank loans—secured[(a)]	5.4%-6.5%, 3MLIBOR+150BP, LIBOR+APPLICABLE MARGIN	2021-2029	1,658,959
Corporate bonds[(c)]	5.5%-6.0%	2021-2023	695,694
Total			**2,354,653**

	As of April 30, 2020		
	Effective interest rate per annum	Maturity	RMB'000
Current			
Bank loans—secured[(a)]	1.9%-4.8%, 3MLIBOR+130BP	2020-2021	1,685,192
Bank loans—unsecured	3.0%-4.9%	2020-2021	346,418
Current portion of long-term bank loans—secured[(a)]	5.4%-6.5%, 3MLIBOR+130BP-150BP, LIBOR+APPLICABLE MARGIN	2020-2021	657,722
Other borrowings—unsecured[(b)]	2.9%-3.9%	2020	580,000
Current portion of Corporate bonds[(c)]	3.8%-6.5%	2020-2021	448,805
			3,718,136
Non-current			
Bank loans—secured[(a)]	5.4%-6.5%, LIBOR+APPLICABLE MARGIN	2021-2029	1,371,002
Corporate bonds[(c)]	3.8%-6.0%	2021-2025	1,555,340
			2,926,342

Analyzed into:

	As of December 31,			As of April 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Repayable:				
Within one year	3,259,732	2,463,482	3,939,340	3,718,136
In the second year	459,097	380,442	422,308	180,217
In the third to fifth years, inclusive	1,365,236	2,069,000	1,932,345	2,746,125
Over fifth years	—	—	—	—
Total	**5,084,065**	**4,912,924**	**6,293,993**	**6,644,478**

(a) As of December 31, 2017, 2018 and 2019, and April 30, 2020, the mortgaged and guaranteed bank loans with the amount of RMB159.2 million, RMB317.0 million, RMB454.2 million and RMB508.1 million were secured by the total assets owned by SPL. As of December 31, 2017, 2018 and 2019, and April 30, 2020, the pledged assets had a net carrying amount of approximately RMB1,111.9 million, RMB1,485.3 million, RMB1,654.1 million, and RMB1,868.1 million respectively.

As of December 31, 2017 and 2018, Mr. Li and Shenzhen Topknow Industrial Development Co., Ltd guaranteed certain of our bank loans up to RMB383.2 million and RMB96.4 million, respectively, which has been released upon the repayment of these loans.

As of December 31, 2018 and 2019, the pledged bank loans with the amounts of RMB545.3 million and RMB1,135.2 million were secured by the pledge of 100% of shares of Shenzhen Topknow Industrial Development Co., Ltd, Mr. Li and Ms. Li. As of April 30, 2020, the pledged bank loans with the amounts of RMB1,106.0 million were secured by the pledge of 100% of shares of Shenzhen Topknow Industrial Development Co., Ltd.

As of December 31, 2019, and April 30, 2020, the pledged bank loans with the amounts of RMB1,371.0 million, RMB1,351.5 million were secured by the real estate of the Company located in Pingshan District, Shenzhen. As of December 31, 2019, and April 30, 2020, the real estate of the Company located in Pingshan District, Shenzhen had a net carrying amount of approximately RMB513.0 million, and RMB506.0 million respectively.

As of December 31, 2017, 2018 and 2019, and April 30, 2020, the pledged bank loans with the amounts of RMB2,187.8 million, RMB1,267.5 million, RMB941.0 million and RMB693.2 million were guaranteed by the Company. As of April 30, 2020, the pledged bank loans with the amounts of RMB55.0 million were guaranteed by Shenzhen Techdow Pharmaceutical Co., Ltd.

(b) As of December 31, 2017, 2018 and 2019, and April 30, 2020, other borrowings include discounted notes receivable of RMB80.0 million, RMB95.0 million, RMB500.0 million and RMB550.0 million and letter of credit of nil, RMB182.7 million, RMB230.7 million and RMB30.0 million respectively.

(c) On November 8, 2016, we issued a domestic corporate bond at a par value of RMB1,000.0 million in the PRC (the "**16 Hepalink**"). The 16 Hepalink will mature in five years from the issue date. Upon the third anniversary of the issue date, we shall be entitled to adjust the coupon rate and the bond holders shall be entitled to sell back the whole or partial 16 Hepalink at par. The 16 Hepalink was listed on November 8, 2016 on the Shenzhen Stock Exchange and bears interest at the rate of 3.19% per annum, payable annually in arrears or on the business day nearest to November 8 of each year, beginning November 8, 2017. On November 7, 2019, we paid the bond with a principal of RMB994.1 million and the corresponding interests according to sell-back requests of bond holders.

On April 23, 2019, we issued a non-publicly issued bonds at a par value of RMB700.0 million in the PRC (the "**19 Hepalink**"). The 19 Hepalink will mature in five years from the issue date. Upon the third anniversary of the issue date, we shall be entitled to adjust the coupon rate and the bond holders shall be entitled to sell back the whole or partial 19 Hepalink at par. The 19 Hepalink bears interest at the rate of 5.50% per annum, payable annually in arrears or on the business day nearest to April 23 of each year, beginning April 23, 2019. In connection with the bond issuance, Shenzhen Gaoxintou Group Co., Ltd. ("**Shenzhen Gaoxintou**"), an independent third party of financing and guarantee service provider, guaranteed our repayment obligations under the bond. In return, Mr. Li provided a counter-guarantee to Shenzhen Gaoxintou of such obligations, for a period of two years from the date when Shenzhen Gaoxintou's repayment obligations expire under its guarantee agreement.

On October 30, 2019, we issued a corporate bond at a par value of RMB430.0 million in the PRC (the "**19 Hepalink 01**"). The 19 Hepalink 01 will mature in one year from the issue date. Upon the one anniversary of the issue date, we shall be entitled to adjust the coupon rate and the bond holders shall be entitled to sell back the whole or partial 19 Hepalink 01 at par. The 19 Hepalink 01 bears interest at the rate of 6.50% per annum, payable annually in arrears or on the business day nearest to October 30 of each year, starting from October 30, 2019.

On February 27, 2020, we issued a corporate bond at a par value of RMB870 million in the PRC (the "**20 Hepalink**"). The 20 Hepalink will mature in five years from the issue date. Upon the third anniversary of the issue date, we shall be entitled to adjust the coupon rate and the bond holders shall be entitled to sell back the whole or partial 20 Hepalink at par. The 20 Hepalink bears interest at the rate of 3.80% per annum, payable annually in arrears or on the business day nearest to February 27 of each year, starting from February 27, 2020.

As of April 30, 2020, we had in total RMB4,634.4 million outstanding bank loans, comprised of unsecured banking loans in aggregate of RMB925.4 million from 7 banks and secured banking loans in aggregate of RMB3,709.0 million from 8 banks. As of April 30, 2020, we had unutilized banking facilities of RMB4,299.0 million, which was earmarked for general corporate purpose.

Generally, the bank loan agreements we have entered into contain covenants that impose certain restrictions or maintenance requirements on the Company, our subsidiaries and/or the guarantor, including:

- the guarantor and/or borrower, as applicable, may not change the general nature of its business;
- the guarantor and/or borrower, as applicable, may not create encumbrances on any part of its property or assets; and
- the guarantor and/or borrower, as applicable, must comply with certain financial covenants, including but not limited to (i) combined tangible net worth, and (ii) the ratio of combined net borrowings to combined tangible net worth.

The bank loan agreements contain standard events of default such as the occurrence of a change of control, bankruptcy and an event that has a material adverse effect. Our Directors confirm that we had no material defaults in payment of bank borrowings and had not breached any finance covenants thereunder during the Track Record Period and up to the Latest Practicable Date. Our Directors also confirm that we are not subject to other material covenants under any agreements with respect to any bank loans or other borrowings.

In accordance with our loan agreements with a Chinese bank, our Controlling Shareholders and their acting in concert parties (if any) are not allowed to pledge more than 40% of their shares. Breaching such covenant may result in the acceleration of the loan. As of December 31, 2019, the total outstanding amount of the loans were RMB166.3 million, in which RMB116.3 million will be due in January 2020 and RMB50.0 million will be due in May 2020.

Lease Liabilities

Since IFRS 16 was adopted by our Group throughout the Track Record Period, we recognized right-of-use assets and the corresponding lease liabilities in respect of all leases, except for short-term leases and low value assets. The table below sets forth our lease liabilities for the year indicated:

	As of December 31,			As of April 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current	28,968	30,809	31,980	32,566
Non-current	127,062	106,718	87,253	78,970
Total	**156,030**	**137,527**	**119,233**	**111,536**

During the Track Record Period, we entered into certain long-term lease contracts for office premises, manufacturing facilities, warehouses, vehicles and equipment.

During the Track Record Period, we also leased certain office premises, vehicles, tools and equipment under short-term (i.e. within 12 months) lease arrangement. We elected not to recognize right-of-use assets on these short-term lease contracts. There are no restrictions or covenants imposed on our lease liabilities.

Our total lease liabilities decreased gradually during the Track Record Period up to April 30, 2020, primarily attributable to the settlement of certain of our lease contracts liabilities which are larger than the lease liabilities incurred under our new lease contracts.

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

CAPITAL EXPENDITURE

We regularly make capital expenditures to expand our operations, upgrade our facilities and increase our operating efficiency. The table below sets forth our capital expenditures for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Purchases of property, plant and equipment	621,524	498,797	359,607
Purchases of other intangible assets	18,276	36,212	2,469
Investment in associates	439,120	53,550	75,127
Purchase of derivative instrument	27,154	3,534	30,836
Purchase of financial asset at fair value through profit or loss	2,008,259	813,916	1,767,231
Purchases of equity investments designated at fair value through other comprehensive income	15,948	31,863	—
Increase in an amount due from a related party	43,287	—	—
Acquisition of a subsidiary	8,750	—	—
Total	**3,182,318**	**1,437,872**	**2,235,270**

We expect to incur capital expenditure of RMB337 million in 2020. Such expected capital expenditure is primarily for the expansion of the production capacity for our heparin sodium API and enoxaparin sodium injection, and our CDMO business. See "Future Plans and Use of **[REDACTED]**" in this document for further details. We expect to finance such capital expenditures through a combination of operating cash flows and **[REDACTED]** from the **[REDACTED]**. We may adjust our capital expenditures for any given year according to our development plans or in light of market conditions and other factors we believe to be appropriate.

CONTRACTUAL OBLIGATIONS

Capital Commitments

As of December 31, 2017, 2018 and 2019, we had the following capital commitments:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Property, plant and equipment	369,671	397,317	314,333
Capital contributions payable to investments	406,967	384,276	190,616
Total	**776,638**	**781,593**	**504,949**

Capital contributions payable to investments represents our obligations to make investment in investees.

CONTINGENT LIABILITIES

As of December 31, 2017, 2018 and 2019, we did not have any contingent liabilities. We confirm that as of the Latest Practicable Date, there have been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

KEY FINANCIAL RATIOS

The table below sets forth the key financial ratios of our Group for the years or as of the dates indicated:

	Year ended December 31, /As of December 31,		
	2017	2018	2019
Gross margin[1]	0.30	0.39	0.36
Current ratio[2]	1.57	1.20	1.20
Gearing ratio[3]	0.65	0.80	0.86
Leverage ratio[4]	0.43	0.55	0.51

Notes:

(1) Gross margin equals gross profit divided by revenue for the year.

(2) Current ratio equals current assets divided by current liabilities as of the end of the year.

(3) Gearing ratio equals total financial indebtedness (including interest-bearing bank and other borrowings and lease liabilities) divided by total equity as of the end of the year.

(4) Leverage ratio equals total liabilities divided by total assets as of the end of the year.

Gross Margin

The increase in gross margin from the year ended December 31, 2017 to the year ended December 31, 2018 was primarily due to the decrease in unit production cost of our finished dose pharmaceutical products and the increase in price of our API products. The gross margin was relatively stable from December 31, 2018 to December 31, 2019.

Current Ratio

The decrease in current ratio from December 31, 2017 to December 31, 2018 was primarily due to the decrease in time deposits to pay the acquisition consideration of Topknow, and increase in liabilities due to related parties, resulting from the acquisition of Topknow. The current ratio was relatively stable from December 31, 2018 to December 31, 2019.

Gearing Ratio

The increase in gearing ratio was primarily attributable to the increase in the total amount of short-term and long-term interest-bearing bank and other borrowings in order to supplement working capital and pay the purchase amount of Topknow.

Leverage Ratio

The increase in leverage ratio from December 31, 2017 to December 31, 2018 was primarily attributable to RMB2.4 billion acquisition of Topknow that resulted in an decrease in equity. The decrease in leverage ratio from the year ended December 31, 2018 to the year ended December 31, 2019 was mainly attributable to the increase in investments in associates as a result of the Hightide Deconsolidation, and the increase in inventory in anticipation of an increasing demand of finished dose pharmaceutical products from the EU market, which resulted in a relatively greater increase in equity.

RELATED-PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in note 46 to the Accountants' Report in Appendix I to this document was conducted in the ordinary course of business and 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 results of operations or make our historical results not reflective of our future performance.

The following table sets forth the significant related party transactions for the years indicated:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Revenue from sales of products			
OncoQuest	10,100	3,569	24,163
Acquisition of a subsidiary(1)			
Controlling shareholders	—	1,765,660	—
Mr. Shan	—	55,460	—
Shuidi Shichuan	—	33,600	—
	—	1,854,720	—

Note:

(1) The Company acquired 100% shares of Topknow from the shareholders. Further details are included in note 41 to the Accountants' Report set out in Appendix I.

The following table sets forth the outstanding balances with related parties as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Due from related parties			
Trade receivables (trade in nature)(1)			
OncoQuest(2)	8,427	503	18,584
Other receivables (non-trade in nature)			
Controlling Shareholders(3)	—	—	240,279
Mr. Shan(3)	—	—	7,548
Shuidi Shichuan(3)	—	—	4,572
Resverlogix(4)	41,858	43,965	44,689
Total receivables from related parties	**50,285**	**44,468**	**315,672**
Due to related parties			
Controlling Shareholders(5)	—	1,119,530	—
Mr. Shan(5)	—	35,168	—
Shuidi Shichuan(5)	—	21,302	—
Aridis	—	2,472	1,062
Deposit received (trade in nature)			
OncoQuest	2,122	2,229	3,089
Total payables to related parties	**2,122**	**1,180,701**	**4,151**

Note:

(1) Trade receivables due from related parties are unsecured, interest-free and repayable upon request.

(2) The receivables due from OncoQuest are from the CDMO service provided by Cytovance.
(3) The outstanding balances of controlling shareholders, Mr. Shan and Shuidi Shichuan were due from a contingent consideration based on the achievement of the profit targets of Topknow. Further details are included in note 46 to the Accountants' Report set out in Appendix I.
(4) The receivables due from Resverlogix are the prepayment of the licensing rights fee for RVX-208.
(5) The payables were due from the acquisition of 100% share of Topknow. Further details are included in note 46 to the Accountants' Report set out in Appendix I.

MARKET RISK DISCLOSURE

We are exposed to a variety of financial risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk, as set out below. We regularly monitor our exposure to these risks and as of the Latest Practicable Date, did not hedge or consider necessary to hedge any of these risks by the use of derivative financial instruments.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to the interest-bearing bank with floating interest rates. Our policy is to manage our interest cost using a mix of fixed and variable rate debts. As of December 31, 2017, 2018 and 2019, approximately 70%, 56%, and 75% of our interest-bearing borrowings bore interest at fixed rates, respectively. For further details, including relevant sensitivity analysis, please see note 49 to the Accountant's Report set out in Appendix I.

Foreign Currency Risk

Foreign currency risk arise from sales or purchases by operating units in currencies other than the units' functional currencies.

We have transactional currency exposures. In addition, we have currency exposures from our interest-bearing bank borrowings. We currently have a foreign currency hedging policy to mitigate our foreign currency risk and our management monitors foreign exchange exposure from time to time to adjust our hedging measures. For further details, including relevant sensitivity analysis, please see note 49 to the Accountant's Report set out in Appendix I.

Credit Risk

We have established a policy to perform an assessment for the period beginning on or after January 1, 2017, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument

Our management makes periodic collective assessments for financial assets included in prepayments, and deposits and other receivables as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. We recognized allowance for financial assets included in prepayments, deposits and other receivables based on 12-month ECLs and adjusts for forward looking macroeconomic data. For further details, see note 49 to the Accountant's Report set out in Appendix I.

Liquidity Risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. We regularly review our major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. For further details, see note 49 to the Accountant's Report set out in Appendix I.

DIVIDEND POLICY

We paid and declared dividends of RMB311.8 million, RMB56.1 million and RMB124.7 million to our then shareholders for the years ended December 31, 2017, 2018 and 2019, respectively. In accordance with the Board resolution dated April 27, 2020, we approved the dividend distribution plan for the fiscal year ended December 31, 2019, where we declared the dividend payments of RMB224.5 million with the corresponding payment schedule. Except as disclosed in this section, we had not made any payment of, or set any payment schedule for, dividends as of the Latest Practicable Date.

After the **[REDACTED]**, we may declare and pay dividends mainly by cash or by stock that we consider appropriate. At the end of each financial year, distribution of dividends will be formulated by our Board, and will be subject to shareholders' approval. Decisions to declare or to pay any dividends in the future, will depend on, among other things, the company's profitability, operation and development plans, external financing environment, costs of capital, the company's cash flows and other factors that our Directors may consider relevant.

Pursuant to our Dividends Distribution Plan (2018-2020) formulated by our board, we, in principle, declare and distribute our dividends once a year. The accumulated cash dividends we paid in the past three years shall be no less than 30% of the average annual distributable profit in the respective period. We are also able to declare interim dividends subject to our profitability and capital requirements. When the Board considers that our stock price does not align with the total amount of our outstanding shares, or when the Boards considers appropriate, we can propose and carry out a stock dividend distribution plan, provided that the above requirements of cash dividend distribution are satisfied.

In accordance with the PRC GAAP, when a company distributes the profit after tax, the company shall allocate an amount equivalent to 10% of profit after tax to the statutory common reserve fund. When the statutory common reserve fund reaches and is maintained at or above 50% of the registered capital, no further allocation to this statutory common reserve fund will be require. Before allocating such amount of profit after tax to the statutory common reserve fund in any given year, the company shall allocate the profit after tax to recover the accumulated losses. After the company has recovered the accumulated losses and allocated the required profit after tax to the statutory common reserve fund, the company may distribute the dividends based on the amount of shares that each shareholder possesses. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

For the year ended December 31, 2019, our Company's net profit amounted to RMB146.6 million under PRC GAAP, compared with that of RMB146.0 million under IFRS. As of the Latest Practicable Date, the Directors of the Company are of the view that such difference on the net profit is not material, which will not significantly impact the Company's future dividend distributions.

Our future declarations of dividends may not reflect our historical declaration of dividends and will be at the absolute discretion of our Directors. For more information, please see "Risk Factors—Risks Relating to the **[REDACTED]**."

DISTRIBUTABLE RESERVES

As of December 31, 2019, our reserves available for distribution to our equity holders amounted to approximately RMB1,732 million. Please refer to "Financial Information—Dividend Policy" for more information.

[REDACTED]-RELATED EXPENSE INCURRED AND TO BE INCURRED

The total **[REDACTED]** expenses (including **[REDACTED]**) payable by our Company are estimated to be approximately HK$**[REDACTED]**, assuming the **[REDACTED]** is not exercised and based on an **[REDACTED]** of HK$**[REDACTED]** (being the mid-point of our **[REDACTED]** of HK$**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**). These **[REDACTED]** expenses mainly comprise legal and other professional fees paid and payable to the professional parties, **[REDACTED]** payable to the **[REDACTED]**, and printing and other expenses for their services rendered in relation to the **[REDACTED]** and the **[REDACTED]**.

As of December 31, 2019, the **[REDACTED]** expenses (excluding **[REDACTED]**) incurred by our Company in relation to the **[REDACTED]** were RMB**[REDACTED]**, for the year ended December 31, 2019. We estimate that additional **[REDACTED]** expenses of RMB**[REDACTED]** (including **[REDACTED]** of RMB**[REDACTED]**, assuming the **[REDACTED]** is not exercised and based on the mid-point of our **[REDACTED]** of HK$**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**) will be incurred by our Company, of which approximately RMB**[REDACTED]** is expected to be charged to our consolidated statement of profit or loss and approximately RMB**[REDACTED]** is expected to be charged against equity upon the **[REDACTED]**.

[REDACTED]

[REDACTED]

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this document, there has been no material adverse change in our financial, operational or trading positions or prospects since December 31, 2019, being the date of our consolidated financial statements as set out in the Accountants' Report included in Appendix I to this document.

Caution Letter Issued by Shenzhen Bureau of CSRC

On December 19, 2019, the Shenzhen Bureau of the CSRC issued a Caution Letter to the company, which identified three Concerned Matters, and later conducted Regulatory Interviews with three of our Directors. We have not been required to adopt any rectification measures, nor have we or the interviewed Directors been imposed any penalties by the Shenzhen Bureau of the CSRC. Our PRC legal adviser is of the view that Shenzhen Bureau of the CSRC has concluded the Concerned Matters relating to the Caution Letter and the Regulatory Interviews. Furthermore, our PRC legal adviser is of the view that the Caution Letter and the Regulatory Interviews are administrative regulatory measures that do not constitute administrative penalties, and the risk that the Concerned Matters, the Caution Letter and the Regulatory Interviews would result in any penalties imposed by any other regulatory authorities on the Relevant Parties is low. As such, they do not constitute material non-compliance incidents under the PRC law nor do they represent disciplinary sanctions (紀律處分) taken by the Shenzhen Stock Exchange on the Relevant Parties. For details, see "Business—Legal Proceedings and Compliance." Based on our PRC legal advisor's conclusion, our Directors are of the view that the Caution Letter and Regulatory Interviews do not constitute non-compliance issues that have materially affected or will materially affect our financial, operational or trading positions or prospects.

PYA Announcement Published on the SSE

In compliance with the disclosure requirements of the A-share listed companies, Standard No. 19 for the Contents and Formats of Information Disclosure by Companies Publicly Offering Securities—the Correction and Relevant Disclosure of the Financial Information (《公開發行證券的公司資訊披露編報規則第19號—財務資訊的更正及相關披露》), we timely filed our prior year adjustment (the "**PYA**") report on accounting errors and published the relevant announcement (the "**PYA Announcement**") on the Shenzhen Stock Exchange (the "**SSE**") on April 29, 2020. According to the PYA report, we adjusted certain of our accounting treatments in the prior year financial statements, primarily including the accounting treatments with regard to our equity investments in Resverlogix, OncoQuest, Quest PharmaTech Inc. and Shanghai Taiyi VC, the adjustment for impairment with respect to our investment in Rapid Micro, and the adjustment regarding the stock appreciation rights of SPL.

The adjustments as disclosed in the PYA Announcement, in aggregate, resulted in a decrease of net assets of RMB78.1 million, a decrease of total assets of RMB52.9 million, and a decrease of profit before tax of RMB28.7 million for the year ended December 31, 2018. The percentages for the aggregated adjusted amount out of the Group's consolidated net assets, total assets and profit before tax for the year ended December 31, 2018 after adjustment based on PRC GAAP, are 1.27%, 0.39%, and 4.08%, respectively. In accordance with the relevant PRC laws and regulations, since the percentages for the aggregated adjusted amount out of the Group's consolidated net assets, total assets and profit before tax are well below 10%, our Directors are of the view that the PYA does not constitute a material accounting error.

Since our filing of the PYA report and PYA Announcement on April 29, 2020, no regulatory measure, penalty or sanction was imposed by the competent authority on any of the Directors, our management or us. Our PRC legal advisor is of the view that the risks that the PYA will result in (1) any administrative penalties or disqualification of our Directors, supervisors or senior management, or (2) public censure to be imposed by the SSE, are relatively low. According to the PRC legal advisor, it cannot completely rule out the possibility that the PYA may give rise to certain other administrative regulatory measures to be imposed by the CSRC or the Shenzhen Bureau of CSRC, or self-disciplinary regulatory measures or circulation of a notice of criticism as part of the disciplinary sanctions to be imposed by the SSE.

Based on the above and our communications with the competent authority, our Directors are of the view that the risks of administrative penalties and administrative regulatory measures to be imposed by the CSRC or the Shenzhen Bureau of CSRC, and disciplinary sanctions and self-disciplinary regulatory measures to be imposed by the SSE are low. Accordingly, in the view of our Directors, the possible regulatory consequence of the PYA would not have a material adverse effect.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Save as otherwise disclosed in this document, our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.