You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 included in the Accountants' Report set out in Appendix I to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a company engaged in the R&D, production and commercialization of pharmaceuticals and currently are primarily focused on generic pharmaceuticals. We have a diversified product portfolio in our strategically focused therapeutic areas, including, (i) oncology (including cell therapy), (ii) central nervous system diseases and (iii) autoimmune diseases.

During the Track Record Period, we generated revenue primarily from sales of our pharmaceutical products that we manufactured in-house. To a lesser extent, we also generated revenue from sales of third-party pharmaceutical products and provision of promotion services to other pharmaceutical companies.

We have been recognized as one of the "Top 10 Innovative Pharmaceutical Enterprises in China (中國創新力醫藥企業十強)" from 2014 to 2019 and as one of the "Top 100 Pharmaceutical Manufacturing Enterprises of China (中國製藥工業百強)" from 2009 to 2018. Our revenue increased from RMB3,867.9 million in 2017 to RMB5,036.7 million in 2019, representing a CAGR of 14.1%. Our revenue decreased by 20.2% from RMB2,414.0 million for the six months ended June 30, 2019 to RMB1,925.4 million for the six months ended June 30, 2020. Our net profit increased from RMB350.4 million in 2017 to RMB1,003.6 million in 2019, representing a CAGR of 69.2% Our net profit decreased by 59.9% from RMB461.0 million for the six months ended June 30, 2019 to RMB184.8 million for the six months ended June 30, 2020.

BASIS OF PRESENTATION

Our Company was incorporated in Hong Kong on November 30, 2015 as a limited liability company. As part of the Reorganization, the details of which are disclosed in "History, Reorganization and Corporate Structure – Reorganization," our Company acquired the entire equity interest in Simcere Pharmaceutical and Hainan Simcere in June and September 2017, respectively. The Reorganization only involved inserting a newly formed entity with no substantive operations. Accordingly, the Reorganization has been accounted for using a principle similar to that for a reverse acquisition, with Simcere Pharmaceutical and Hainan Simcere treated as the acquirer for accounting purposes. Our consolidated financial information has been prepared and presented as a continuation of the financial statements of Simcere Pharmaceutical and Hainan Simcere with the assets and liabilities of Simcere Pharmaceutical and Hainan Simcere recognized and measured at their historical carrying amounts prior to the Reorganization.

Our consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the Track Record Period include the results of operations of the companies now comprising the Group (or where the companies were incorporated or established at a date later than January 1, 2017, for the period from the date of incorporation or establishment to June 30, 2020) as if the current group structure had been in existence throughout the Track Record Period. Our consolidated statements of financial position as of December 31, 2017, 2018 and 2019 and June 30, 2020 have been prepared to present the state of affairs of the companies now comprising the Group as at those dates as if the current group structure had been in existence at the respective dates. All intra-group balances, transactions and unrealized gains/losses on intra-group transactions have been eliminated on consolidation.

Our consolidated financial information has been prepared in accordance with HKFRSs, which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the HKICPA.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the following are key factors that affect our results of operations:

The growth of the PRC pharmaceutical market, and in particular, the therapeutic areas we focus on

We believe that the overall growth of the PRC pharmaceutical market, and in particular, the therapeutic areas we focus on, has significantly, and will continue to significantly impact, our revenue growth. Our broad and diversified product portfolio spans across oncology, central nervous system diseases, autoimmune diseases, cardiovascular diseases, anti-infective and other therapeutic areas, many of which are among the largest or fastest growing therapeutic areas in China. The three therapeutic areas we strategically focus on, namely, oncology, central nervous system diseases and autoimmune diseases accounted for an aggregate of 69.9%, 66.9%, 65.9% and 65.1% of our total revenue in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. Together, these therapeutic areas accounted for 24.7% of total PRC pharmaceutical market in terms of sales revenue of pharmaceuticals in 2019, and grew faster than the overall PRC pharmaceutical market, which grew at a CAGR of 7.5% from 2015 to 2019. Specifically, oncology, central nervous system diseases and autoimmune diseases grew at a CAGR of 13.5%, 9.1% and 13.4%, respectively, from 2015 to 2019. In line with the growth of these therapeutic areas, our revenue increased from RMB3,867.9 million in 2017 to RMB5,036.7 million in 2019, representing a CAGR of 14.1%.

The continued economic growth, increasing healthcare expenditure, expanding medical insurance coverage and aging population have driven, and are expected to continue to drive, the rapid growth of the PRC pharmaceutical market. According to Frost & Sullivan, the overall PRC pharmaceutical market is expected to continue to grow at a CAGR of 6.8% from RMB1,714.7 billion in 2020 to RMB2,228.8 billion in 2024, while the oncology, central nervous system diseases and autoimmune diseases are expected to grow further at a CAGR of 15.4%, 4.6% and 27.2%, respectively, from 2020 to 2024. Please see "Industry Overview" for more details. We believe we are well positioned to capitalize on the continued growth of the overall PRC pharmaceutical market and some of its largest or fastest growing therapeutic areas which we strategically focus on.

Our ability to compete in the centralized tender process for pharmaceutical procurement by public medical institutions in China

A substantial portion of the products we sell to distributors are then sold to public hospitals and other public medical institutions in China. Public medical institutions in China are required to implement a centralized tender process for the procurement of pharmaceuticals listed in the medical insurance catalogs or consumed in large volumes and commonly prescribed for clinical uses. We submit bids in a centralized tender process to supply our products to these institutions at specified prices. These bids are generally considered on the basis of, among other things, price competitiveness, product quality, clinical effectiveness, as well as qualifications and reputation of the manufacturer. If we are successful in winning bids in a centralized tender process, the relevant products will be sold to the public medical institutions at the bid prices, which in part determine the prices at which we sell our products to our distributors. The centralized tender process can create pricing pressure among substitute products or products that are perceived to be substitute products. Our bidding strategy generally focuses on differentiating our products from those of our competitors instead of competing solely based on pricing. Therefore, our sales volumes and profitability depend on our ability to successfully differentiate our products from competing products and price our bids in a manner that enables us to succeed in the centralized tender processes at profitable levels. We believe each of our major products had competitive advantages in the centralized tender processes during the Track Record Period as a result of them being innovative or first-to-market generic pharmaceuticals, their national-level recognitions, or their passing of the quality and efficacy consistency evaluation. Please see "Business – Pricing – Centralized Tender Process."

If we are unable to differentiate our products or are otherwise not successful in winning bids in the centralized tender processes at profitable levels, we will lose the revenue associated with the sale of the affected pharmaceutical products to the relevant public medical institutions. Please see "Risk Factors – Risks Relating to Our Business and Industry – If we are unable to succeed in tender processes to sell our products to PRC public hospitals and other medical institutions, we may lose market share and our revenue and profitability could be materially and adversely affected." In November 2018, the PRC government launched the national scheme for centralized volume-based drug procurement. The implementation of this program has resulted in increased pricing pressure on us and may further impact our strategies on how to commercialize our products in China and how to best compete in the centralized tender processes. Please see "Risk Factors – Risks Relating to Our Business and Industry – The prices of certain of our products are subject to pricing regulation, competition and other factors and therefore may decrease, which could materially and adversely affect our profitability."

The inclusion of our product in the national, provincial or other government-sponsored medical insurance programs in China

Under the medical insurance programs in China, patients are entitled to reimbursement of all or a portion of the cost of pharmaceutical products listed in the NRDL, the provincial medical insurance catalogs or critical illness medical insurance catalogs at provincial-or local-levels. Consequently, the inclusion or exclusion of a pharmaceutical product in or from any of these medical insurance programs will significantly affect the demand for such product in China. Please see "Risk Factors – Risks Relating to Our Business and Industry – If our products are excluded or removed from national, provincial or other government-sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be materially and adversely affected."

As of the Latest Practicable Date, eight of our major products were included in the NRDL; our revenue from sales of these eight products accounted for 50.0%, 53.6%, 60.9% and 66.7% of our total revenue, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

While the inclusion of a pharmaceutical product in these national, provincial or other government-sponsored medical insurance programs can significantly increase the demand and potentially sales volume, pharmaceuticals so included were subject to relevant pricing regulation and face pricing pressure in the centralized tender process. In addition, innovative pharmaceuticals included in the national medical insurance negotiation list generally need to undergo pricing negotiation process with the PRC government. For example, Endostar (recombinant human endostatin injection) has entered into the NRDL through pricing negotiation, which resulted in a decrease of its retail price across the country. See "Risk Factors – Risks Relating to Our Business and Industry – The prices of certain of our products are subject to pricing regulation, competition and other factors and therefore may decrease, which could materially and adversely affect our profitability."

On balance, we believe the overall benefits of inclusion of our pharmaceutical products in the national, provincial or other government-sponsored medical insurance programs in China significantly outweighed the associated costs during the Track Record Period, and we believe the benefits of such inclusion will continue to contribute to our business growth in the foreseeable future.

Our ability to develop and commercialize new products

Our ability to develop and commercialize new products, replenish our product pipeline with additional product candidates, innovative and first-to-market generic pharmaceuticals in particular, and further diversify our product portfolio has had, and will continue to have, a significant impact our results of operations and business prospects.

We have a proven track record in developing and commercializing pharmaceuticals that have gained widespread market acceptance in China. Please see "Business – Our Product Portfolio – Our Product Pipeline" for more details. We believe innovative pharmaceuticals and first-to-market generic pharmaceuticals generally command higher profit margins and enable rapid market penetration.

Our results of operations and business prospects also depend on our ability to successfully commercialize new products as they come out of pipeline. We generally commence preparatory work for the marketing and promotion of each new product before its expected launch date to help maximize sales. We generally expect accelerated growth in sales of our new products during the first few years after launch, followed by an extended period of steady growth. The sales volume of our new products will be affected by the level of our market penetration. We plan to continue to strengthen our highly specialized sales and marketing network and expand and empower our skilled in-house sales force, which we anticipate to contribute to the sales growth of our new products.

Our ability to successfully develop and commercialize new products is subject to a number of risks and uncertainties, many of which are beyond our control. See "Risk Factors – Risk Relating to Our Business and Industry – Development of new products, in particular innovative drugs, is time-consuming and costly and the outcome is uncertain. If we fail to develop and commercialize new products, our business prospects could be adversely affected."

Our ability to effectively control our costs and expenses

Our profitability has benefited from our effective control of cost of sales. Our cost of sales primarily comprises cost of raw materials, direct labor, manufacturing costs, cost of distributed products and cost of promotion services. We have devoted significant efforts to continuously improving our production efficiency, including through upgrading our production facilities to achieve 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 staff and other costs. Our cost of sales as a percentage of revenue has remained relatively stable at 15.2% in 2017, 17.1% in 2018, 17.6% in 2019, 17.7% in the six months ended June 30, 2019 and 20.2% in the six months ended June 30, 2020.

Compared to our ability to control our cost of sales, our ability to effectively control our operating expenses has a greater impact on our profitability. Our operating expenses include selling and distribution expenses, research and development costs, as well as administrative and other operating expenses. Selling and distribution expenses are the largest component of our operating expenses, accounting for 55.7%, 49.2%, 40.0%, 43.0% and 32.6% of our revenue in 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively. 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 product and service mix

We have broad and diversified product portfolio across oncology, central nervous system diseases, autoimmune diseases, cardiovascular diseases, anti-infective and other therapeutic areas, which ensures our ability to withstand market and regulatory changes while maintaining a strong financial growth trajectory. As the gross profit margin of each product varies, the mix of products in our portfolio may materially affect our financial performance and results of operations. We continuously evaluate the product portfolio to allocate our resources towards products with promising market outlook and high profitability. We intend to continue to diversify our existing portfolio according to prevailing market conditions, expected clinical demand for our products in our focused therapeutic areas as well as our R&D plan and business strategies. We believe that we can continue developing a diversified product mix that supports our sustainable growth and helps us meet our current and future profitability targets.

In addition, with the implementation of "dual invoicing system" across China, we started to provide promotion services to other pharmaceutical companies through our in-house sales and marketing team. Our promotion services generally have lower gross profit margin than that of sales of pharmaceutical products. Please see "– Description of Key Statements of Profit or Loss Items – Gross Profit and Gross Profit Margin." Our overall gross profit margin may be negatively affected if we derive a higher proportion of revenue from promotion services.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial information in accordance with HKFRSs, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the consolidated financial information and the reported amounts of revenue and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. We will continuously assess our assumptions and estimates going forward. We consider the policies discussed below to be critical to an understanding of our consolidated financial information as their application places significant demands on our management's judgment.

For details of our significant accounting policies and estimates, see Notes 2 and 3 in the Accountants' Report set out in Appendix I to this prospectus.

Revenue Recognition

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 we expect to be entitled in exchange for those goods or services. Revenue from the sale of pharmaceutical products is recognized at the point in time when the customer takes possession of and accepts the products. Promotion service income is recognized when we satisfy our promise to arrange for the pharmaceutical products to be provided by the seller to the purchaser.

Useful Lives and Impairment of Property, Plant and Equipment

Our property, plant and equipment include machinery and equipment, leasehold land, plant and buildings, furniture, fixtures and office equipment, motor vehicles and construction in progress. We state property, plant and equipment at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs. We depreciate property, plant and equipment by writing off their cost, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold land	Over the period of leases
Plant and buildings	5 – 20 years or remaining lease terms
Machinery and equipment	3 – 10 years
Motor vehicles	5 – 10 years
Furniture, fixtures and office equipment	3 – 5 years

Within these parameters, we determine the useful lives for property, plant and equipment based on our historical experience with similar assets and taking into account anticipated technological changes. We review both the useful life of property, plant and equipment and its residual value, if any, annually.

Construction in progress represents properties under construction and machinery and equipment pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the purchase cost of the asset and the related construction and installation costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the asset is substantially ready for use.

Research and Development Costs

During the Track Record Period, all of our research and development costs are recognized as expenses as incurred. Our accounting policies permit us to capitalize research and development costs if the product or process is technically and commercially feasible and we have sufficient resources and the intention to complete development.

We did not capitalize any research and development costs during the Track Record Period because we did not have any development projects meeting these criteria.

Fair Value of Financial Assets

During the Track Record Period, we had investments in structured deposits, wealth management products as well as investments in equity securities of private companies and units in investment funds, which were categorized within level 3 of the fair value hierarchy. The fair value of structured deposits and wealth management products is determined based on discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of unlisted equity securities and unlisted units in investment funds is determined using the recent comparable transaction price, if available, valuation multiples technique with comparable companies or net asset value of underlying investments.

In relation to the valuation of our financial assets categorized within the level 3 of fair value hierarchy, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of the relevant investments; (ii) built up a team that manages the annual valuation of the relevant investments; (iii) reviewed the fair value measurement assessment of the relevant investments presented by our finance personnel and carefully considered all information available and applied various applicable valuation techniques in determining the valuation of the relevant investments; and (iv) engaged independent financial advisers and professional valuers when necessary. Based on the above procedures, our Directors are of the view that the valuation of our financial assets categorized within the level 3 of fair value hierarchy is fair and reasonable, and our financial statements have been properly prepared.

Details of the fair value measurement of the level 3 financial assets, particularly the fair value hierarchy, the valuation techniques and significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Note 37(e) to the historical financial information of our Group for the Track Record Period as set out in the Accountants' Report in Appendix I. The Reporting Accountants' opinion on the historical financial information of our Group during the Track Record Period as a whole is set out on page I-2 of the Accountants' Report in Appendix I.

In relation to the fair value assessment of the financial assets requiring level 3 measurements under the fair value classification, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes in the Accountants' Report as contained in Appendix I to this prospectus; (ii) reviewing the relevant valuation reports with respect to the financial assets; (iii) obtaining and reviewing the relevant agreements regarding the financial assets; and (iv) discussing with the Company and the Reporting Accountants the key basis and assumptions for the valuation of the financial instruments. Having considered the work done by the Company's management, the Directors and the Reporting Accountants, and the relevant due diligence done as stated above, nothing material has come to the Joint Sponsors' attention that indicates that the Directors have not undertaken independent and sufficient investigation and due diligence, or that the Directors' reliance on the work products of the independent valuer is unreasonable or excessive.

Estimated Impairment of Goodwill

For the purpose of impairment testing as of December 31, 2017, 2018 and 2019 and June 30, 2020, goodwill has been allocated to the operations of BCY Pharm and our remaining business (the "**pharmaceutical business**") as individual cash-generating units of our Group as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(RMB'000)		
Pharmaceutical business	142,474	142,474	142,474	142,474
BCY Pharm	–	–	–	30,314
	142,474	142,474	142,474	172,788

The recoverable amount of each cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by our management covering a five-year period and cash flows beyond that five-year period are extrapolated using zero growth rate. The cash flows for the pharmaceutical business cash-generating unit are discounted using pre-tax discount rate of 15.2%, 14.3% and 15.0% as of December 31, 2017, 2018 and 2019. Key assumptions for the value-in-use calculation are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("**EBITDA**") growth rate in the five-year projection period. The estimated recoverable amount of the pharmaceutical business cash-generating unit exceeded its carrying amount as of

December 31, 2017, 2018 and 2019 by approximately RMB6,433.6 million, RMB6,167.6 million and RMB5,705.3 million, respectively. The following table sets forth the percentage point by which the two key assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

	2017	**2018**	**2019**
Increase in discount rate	+74.3%	+37.2%	+32.7%
Decrease in budgeted EBITDA growth rate	-26.9%	-21.6%	-21.4%

As the estimated recoverable amount of the pharmaceutical business cash-generating unit exceeded its carrying amount as of December 31, 2017, 2018 and 2019, we did not record any impairment charge on goodwill in 2017, 2018 and 2019. Also, based on the sensitivity analysis above, we have concluded that a reasonably possible change in key parameters would not cause the carrying amount of the cash-generating unit to exceed its recoverable amount as of December 31, 2017, 2018 and 2019. During the six months ended June 30, 2020, our Directors did not identify any significant adverse change in our operations and therefore, concluded that there was no impairment indicator of goodwill as of June 30, 2020.

Share-based Payment Expenses

On July 31, 2014, SPHL, our then offshore holding company of our business, adopted the Pre-IPO Share Incentive Scheme, in connection with which, Excel Management executed a declaration of trust as the trustee on December 10, 2015 in order to hold shares of SPHL for the benefit of participants of the Pre-IPO Share Incentive Scheme. For the purpose of the Pre-IPO Share Incentive Scheme, on July 8, 2016, SPHL allotted and issued 5,583,613 shares to Excel Management through Artking. Please see "History, Reorganization and Corporate Structure – Reorganization – Offshore Reorganization – Adoption of the Pre-IPO Share Incentive Scheme" and "Appendix V – Statutory and General Information – D. Pre-IPO Share Incentive Scheme" for more details about our Pre-IPO Share Incentive Scheme. Participants of the Pre-IPO Share Incentive Scheme received restricted shares at grant prices lower than the then fair value of the awarded shares and the difference was recorded as share-based payment expenses in our consolidated statements of profit or loss over the respective vesting period of the awarded shares. We recorded share-based payment expenses with an aggregate amount of RMB15.2 million, RMB5.7 million, RMB14.2 million, RMB2.5 million and RMB17.7 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively, in connection with the Pre-IPO Share Incentive Scheme. In addition, we expect to recognize share-based payment expenses of RMB16.1 million and RMB33.1 million for the six months ending December 31, 2020 and the year ending December 31, 2021, respectively. For further details about the accounting treatment of our Pre-IPO Share Incentive Scheme, please see Note 32 in the Accountants' Report set out in Appendix I to this prospectus.

As part of the Reorganization, on June 21, 2019, the Company allotted and issued 54,719,407 Shares to Excel Management to enable it to directly hold our Shares and maintain its total shareholding interest in our Group at the same proportionate level. For further details, see "History, Reorganization and Corporate Structure – Reorganization – Offshore Reorganization – Allotment of Shares by Our Company to the Shareholders." As the purpose of the allotment and issuance of these 54,719,407 Shares was to ensure that Excel Management's shareholding in the Company will not be diluted as a result of allotment of Shares to other Shareholders and the Shareholders' effective shareholding percentages in our Company remained the same before and after such issuance of Shares, no accounting treatment has been made to reflect such issuance of Shares in our consolidated financial statements and such issuance of Shares did not have any impact on our consolidated financial statements except for an increase in share capital.

Adoption of HKFRS 9, HKFRS 15 and HKFRS 16

We have adopted a full retrospective application of HKFRS 9, HKFRS 15 and HKFRS 16, which we have applied on a consistent basis throughout the Track Record Period. We have assessed the effect of adopting HKFRS 9, HKFRS 15 and HKFRS 16 on our historical financial information and identified the following areas that have been affected:

HKFRS 9

HKFRS 9 "Financial Instruments" replaces HKAS 39 and requires the recognition of impairment provisions of financial assets measured at amortized cost based on expected credit losses. The adoption of expected credit loss model under HKFRS 9 did not have a material impact on the impairment loss allowance for our financial assets measured at amortized cost during the Track Record Period as compared with the incurred loss model under HKAS 39.

HKFRS 15

HKFRS 15 "Revenue from Contracts with Customers" replaces HKAS 18 and requires separate presentation of contract assets and contract liabilities in the balance sheet. This has resulted in some reclassifications in relation to our unsatisfied performance obligations. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our contract liabilities of RMB21.4 million, RMB18.3 million, RMB16.7 million and RMB14.8 million, respectively, should have been presented as advances from customers in our balance sheet if HKAS 18 was applied throughout the Track Record Period.

HKFRS 16

HKFRS 16 "Leases" provides new provisions for the accounting treatment of leases and requires lessees to recognize certain leases on the statements of financial position. Specifically, for any lease with a term of more than 12 months, unless the underlying asset is of low value, we recognize a right-of-use asset representing our right to use the underlying leased asset in our consolidated statements of financial position and depreciation of the right-of-use asset is recognized over the lease term on a straight-line basis in our consolidated statements of profit and loss. In addition, we record a lease liability representing our obligation to make lease payments based on present value, calculated by using the effective interest method, in our consolidated statements of financial position and finance costs on the lease liability is recognized in our consolidated statements of profit and loss. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we recorded right-of-use assets of RMB201.3 million, RMB234.4 million, RMB351.5 million and RMB446.8 million, respectively, and lease liabilities of RMB25.7 million, RMB56.7 million, RMB157.8 million and RMB257.5 million, respectively, in our consolidated statements of financial position. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, we recorded depreciation of right-of-use assets of RMB18.0 million, RMB25.8 million, RMB41.1 million, RMB21.0 million and RMB22.4 million, respectively, and interest expenses on lease liabilities of RMB1.3 million, RMB1.6 million, RMB7.1 million, RMB3.3 million and RMB5.1 million, respectively, in our consolidated statements of profit and loss.

Save as disclosed above, the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have any significant impact on our financial position as of December 31, 2017, 2018 and 2019 and June 30, 2020 or our results of operations during the Track Record Period.

DESCRIPTION OF KEY STATEMENTS OF PROFIT OR LOSS ITEMS

The following table sets forth selected consolidated statements of profit or loss items for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
			(RMB'000)		
				(Unaudited)	
Revenue	3,867,908	4,514,204	5,036,658	2,414,023	1,925,413
Cost of sales	(586,301)	(771,195)	(888,486)	(428,429)	(388,130)
Gross profit	3,281,607	3,743,009	4,148,172	1,985,594	1,537,283
Other revenue	70,351	67,538	91,507	40,719	43,072
Other net (loss)/gain	(175,939)	90,501	15,941	10,271	(6,447)
Research and development costs	(212,309)	(447,148)	(716,412)	(252,532)	(454,091)
Selling and distribution expenses	(2,155,662)	(2,221,757)	(2,016,222)	(1,036,868)	(628,502)
Administrative and other operating expenses	(277,469)	(290,202)	(351,676)	(155,599)	(193,464)
Profit from operations	530,579	941,941	1,171,310	591,585	297,851
Finance income	25,146	36,253	34,724	24,889	10,851
Finance costs	(58,441)	(47,534)	(115,955)	(64,812)	(79,576)
Net finance costs	(33,295)	(11,281)	(81,231)	(39,923)	(68,725)

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Share of losses of associates	–	(1,616)	(8,129)	(1,518)	(4,353)
Share of losses of a joint venture	–	–	(135)	–	(40)
Profit before taxation	497,284	929,044	1,081,815	550,144	224,733
Income tax	(146,872)	(195,357)	(78,191)	(89,136)	(39,898)
Profit for the year/period	350,412	733,687	1,003,624	461,008	184,835
Attributable to:					
Equity shareholders of the Company	350,409	733,687	1,003,624	461,008	185,518
Non-controlling interest	3	–	–	–	(683)

Revenue

During the Track Record Period, we generated our revenue primarily from sales of our pharmaceutical products that we manufactured in-house. To a lesser extent, we also generated revenue from sales of third-party pharmaceutical products and provision of promotion services to other pharmaceutical companies.

Revenue by Businesses

The following table sets forth our revenue by businesses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Sales of pharmaceutical products[(1)]	3,836,979	99.2	4,309,148	95.5	4,800,323	95.3	2,283,550	94.6	1,803,398	93.7
Promotion service income	30,929	0.8	205,056	4.5	236,335	4.7	130,473	5.4	122,015	6.3
Total	3,867,908	100.0	4,514,204	100.0	5,036,658	100.0	2,414,023	100.0	1,925,413	100.0

Note:

(1) Revenue generated from sales of pharmaceutical products comprises revenue generated from the sales of our own pharmaceutical products and sales of third-party pharmaceutical products. Revenue generated from sales of third-party pharmaceutical products amounted to RMB358.7 million, RMB327.1 million, RMB376.4 million, RMB165.1 million and RMB200.5 million, respectively, for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020.

Revenue by Therapeutic Areas

The following table sets forth a breakdown of our revenue from sales of pharmaceutical products by therapeutic areas for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Oncology products	1,004,855	26.2	1,279,801	29.7	1,568,853	32.7	660,902	28.9	537,638	29.8
Central nervous system products	1,276,142	33.3	1,202,008	27.9	936,869	19.5	572,780	25.1	178,011	9.9
Autoimmune products	423,219	11.0	537,849	12.5	813,786	17.0	329,243	14.4	536,976	29.8
Cardiovascular products	243,432	6.3	353,082	8.2	445,468	9.3	216,008	9.5	181,894	10.1
Anti-infective products	564,699	14.7	579,476	13.4	635,719	13.2	305,933	13.4	211,165	11.7
Others[(1)]	324,632	8.5	356,932	8.3	399,628	8.3	198,684	8.7	157,714	8.7
Total	3,836,979	100.0	4,309,148	100.0	4,800,323	100.0	2,283,550	100.0	1,803,398	100.0

Note:

(1) Including pharmaceutical products for the treatment of other diseases, APIs and other healthcare products.

Revenue by Major Products

The following table sets forth the sales of our major products in absolute amounts and as percentages of our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000* (Unaudited)	*% of revenue*	*RMB'000*	*% of revenue*
Endostar	669,662	17.3	856,830	19.0	1,136,547	22.6	457,484	19.0	388,588	20.2
Bicun	1,244,176	32.2	1,198,595	26.6	936,901	18.6	572,788	23.7	178,020	9.2
Iremod	159,025	4.1	291,687	6.5	520,157	10.3	203,828	8.4	389,514	20.2

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000* *(Unaudited)*	*% of revenue*	*RMB'000*	*% of revenue*
Softan	179,152	4.6	277,666	6.2	334,852	6.6	166,916	6.9	121,644	6.3
Yingtaiqing[(1)]	261,533	6.8	242,832	5.4	289,912	5.8	123,681	5.1	146,155	7.6
Newanti	257,138	6.6	258,184	5.7	283,907	5.6	136,851	5.7	99,924	5.2
ZAILIN	189,163	4.9	187,427	4.2	199,706	4.0	93,945	3.9	54,586	2.8
Jepaso	132,909	3.4	162,361	3.6	173,104	3.4	79,044	3.3	66,240	3.4
Sinofuan	116,582	3.0	115,710	2.6	128,265	2.5	54,283	2.2	57,528	3.0
Jiebaili	85,664	2.2	144,833	3.2	127,033	2.5	70,090	2.9	18,371	1.0
Total major products	3,295,004	85.1	3,736,125	83.0	4,130,384	81.9	1,958,910	81.1	1,520,570	78.9

Note:

(1) Including sales of Yingtaiqing-branded diclofenac sodium sustained-release capsules sourced from CPU Pharma as well as Yingtaiqing-branded diclofenac sodium sustained-release capsules and Yingtaiqing-branded diclofenac sodium gel manufactured by us.

Cost of Sales

The table below sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(Unaudited)*	*%*	*RMB'000*	*%*
Cost of raw materials	196,818	33.6	251,435	32.6	294,366	33.1	146,057	34.1	106,622	27.5
Direct labor	79,100	13.5	85,115	11.0	107,855	12.1	53,144	12.4	41,518	10.7
Manufacturing costs	118,068	20.1	133,711	17.3	176,782	19.9	65,589	15.3	70,806	18.2
Cost of distributed products	115,607	19.7	98,464	12.8	92,614	10.4	46,232	10.8	70,701	18.2
Cost of promotion services	24,041	4.1	146,925	19.1	162,686	18.3	91,283	21.3	79,372	20.4
Taxes and surcharges	51,738	8.8	52,978	6.9	48,438	5.5	24,313	5.7	13,198	3.4
Others	929	0.2	2,567	0.3	5,745	0.7	1,811	0.4	5,913	1.6
Total	586,301	100.0	771,195	100.0	888,486	100.0	428,429	100.0	388,130	100.0

Cost of raw materials primarily consists of costs incurred for the purchase APIs, chemicals used to produce APIs, excipients and packaging materials used in production. Direct labor costs mainly consist of salaries, bonuses, share-based compensation expenses, pension and other social security and welfare of our manufacturing personnel. Manufacturing costs primarily comprise depreciation expenses of property, plant and equipment used in production, utilities expenses and other manufacturing overheads. Cost of distributed products represents costs at which we purchase third-party pharmaceutical products. Cost of promotion services mainly comprises staff costs, conference expenses and travelling expenses in connection with the promotion of third-party pharmaceutical products.

The table below sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in cost of sales on our net profit for the periods indicated:

	Year ended December 31,						**Six months ended June 30,**			
	2017		**2018**		**2019**		**2019**		**2020**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Cost of sales	586,301		771,195		888,486		428,429		388,130	
Gross profit	3,281,607		3,743,009		4,148,172		1,985,594		1,537,283	
Profit for the year/period	350,412		733,687		1,003,624		461,008		184,835	
Cost of raw materials (5% increase)										
Cost of sales	9,841	1.7	12,572	1.6	14,718	1.7	7,303	1.7	5,331	1.4
Gross profit	(9,841)	(0.3)	(12,572)	(0.3)	(14,718)	(0.4)	(7,303)	(0.4)	(5,331)	(0.3)
Profit for the year/period	(8,365)	(2.4)	(10,686)	(1.5)	(12,511)	(1.2)	(6,207)	(1.3)	(4,531)	(2.5)
Direct labor (5% increase)										
Cost of sales	3,955	0.7	4,256	0.6	5,393	0.6	2,657	0.6	2,076	0.5
Gross profit	(3,955)	(0.1)	(4,256)	(0.1)	(5,393)	(0.1)	(2,657)	(0.1)	(2,076)	(0.1)
Profit for the year/period	(3,362)	(1.0)	(3,617)	(0.5)	(4,584)	(0.5)	(2,259)	(0.5)	(1,765)	(1.0)
Manufacturing costs (5% increase)										
Cost of sales	5,903	1.0	6,686	0.9	8,839	1.0	3,279	0.8	3,540	0.9
Gross profit	(5,903)	(0.2)	(6,686)	(0.2)	(8,839)	(0.2)	(3,279)	(0.2)	(3,540)	(0.2)
Profit for the year/period	(5,018)	(1.4)	(5,683)	(0.8)	(7,513)	(0.7)	(2,788)	(0.6)	(3,009)	(1.6)

Gross Profit and Gross Profit Margin

Gross profit represents our revenue less cost of sales. Gross profit margin represents gross profit divided by total revenue, expressed as percentage. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our gross profit was RMB3,281.6 million, RMB3,743.0 million, RMB4,148.2 million and RMB1,537.3 million, respectively, and our gross profit margin was 84.8%, 82.9%, 82.4% and 79.8%, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by business for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	Gross Profit	*Gross Profit Margin*	*Gross Profit*	*Gross Profit Margin*	*Gross Profit*	*Gross Profit Margin*	*Gross Profit*	*Gross Profit Margin*	*Gross Profit*	*Gross Profit Margin*
	(RMB'000, except percentages)									
							(Unaudited)			
Sales of pharmaceutical products	3,274,719	85.3%	3,684,878	85.5%	4,074,523	84.9%	1,946,404	85.2%	1,494,640	82.9%
Promotion services	6,888	22.3%	58,131	28.3%	73,649	31.2%	39,190	30.0%	42,643	34.9%
Total	3,281,607	84.8%	3,743,009	82.9%	4,148,172	82.4%	1,985,594	82.3%	1,537,283	79.8%

Other Revenue and Other Net (Loss)/Gain

The following table sets forth a breakdown of our other revenue and other net (loss)/gain for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	(RMB'000)				
				(Unaudited)	
Other revenue					
Government grants	52,252	47,029	65,885	28,755	32,514
Rental income	5,024	12,050	15,198	6,908	5,497
Gain on transfer of technology know-how	9,871	–	–	–	–
Property management income	854	1,783	3,911	1,772	1,441
Consulting and technology service income	789	4,580	2,614	535	1,383

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Others	1,561	2,096	3,899	2,749	2,237
	70,351	67,538	91,507	40,719	43,072
Other net (loss)/gain					
Net foreign exchange (loss)/gain	(10,322)	9,811	(1,633)	(2,102)	(19,867)
Net gain/(loss) on from disposal of property, plant and equipment	229	(456)	(3,483)	36	(3,053)
Net realized and unrealized gains/(losses) on trading securities	649	(523)	819	666	(102)
Net realized and unrealized (losses)/gains on financial assets at fair value through profit or loss	(166,495)	81,669	20,238	11,671	13,261
Gain on disposal of a subsidiary	–	–	–	–	1,552
Gain arising from business combination	–	–	–	–	1,762
	(175,939)	90,501	15,941	10,271	(6,447)
Total other revenue and other net (loss)/gain	(105,588)	158,039	107,448	50,990	36,625

Government grants comprise (i) unconditional government subsidies in recognition of our technology innovation and contribution to the local economy which were recognized when received in our statements of profit or loss; and (ii) conditional government subsidies for the construction and relocation of production facilities as well as for encouragement of our research and development projects, which were recognized in our statements of profit or loss when related conditions were satisfied or amortized over the estimated useful lives of the relevant assets.

Realized and unrealized (losses)/gains on financial assets at fair value through profit and loss represent interest and dividend income of and the changes in fair value of the investments in short-term structured deposits, wealth management products, equity securities of private companies and units in investment funds. Please see "– Certain Balance Sheet Items – Financial Assets at Fair Value through Profit or Loss and Trading Securities" for more details about these investments. We recorded realized and unrealized losses on financial assets at fair value through profit and loss in 2017, primarily due to a decrease in the fair value of certain investment as a result of the weakened operating cash flow position of the underlying investment asset. We did not receive or recognize any dividend income in respect of financial assets at fair value through other comprehensive income during the Track Record Period.

Research and Development Costs

The table below sets forth a breakdown of our research and development costs for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Staff costs	69,604	32.8	138,263	30.9	239,478	33.4	93,807	37.1	153,881	33.9
Cost of materials	42,725	20.1	57,928	13.0	100,482	14.0	37,359	14.8	68,059	15.0
Outsourcing expenses	14,342	6.8	92,599	20.7	124,294	17.4	50,008	19.8	121,198	26.7
Clinical trial costs	32,847	15.5	45,258	10.1	111,582	15.6	13,231	5.2	18,397	4.1
Depreciation and amortization	14,305	6.7	24,696	5.5	40,827	5.7	19,058	7.5	39,919	8.8
Others	38,486	18.1	88,404	19.8	99,749	13.9	39,069	15.6	52,637	11.5
Total	212,309	100.0	447,148	100.0	716,412	100.0	252,532	100.0	454,091	100.0

Staff costs mainly consist of salaries, bonuses, share-based compensation expenses, pension and other social security and welfare of our research and development personnel. Cost of materials primarily comprises costs of reagents and consumables used in our research and development. Outsourcing expenses mainly represent service fees to our CROs and payments our external R&D partners. Clinical trial costs represent costs incurred from our clinical trials. Depreciation and amortization represent depreciation and amortization of property, plant and equipment and intangible assets used in our research and development. Other research and development costs primarily consist of travelling and conference expenses, consulting expenses, utilities, rental expenses, general office expenses and other miscellaneous research and development costs.

Selling and Distribution Expenses

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(Unaudited)*	*%*	*RMB'000*	*%*
Marketing and promotion expenses	1,459,809	67.7	1,528,656	68.8	1,290,003	64.0	656,722	63.3	300,727	47.8
Staff costs	272,668	12.6	284,364	12.8	445,376	22.1	225,009	21.7	236,421	37.6
Travelling expenses	348,619	16.2	335,458	15.1	209,269	10.4	123,729	11.9	52,350	8.3
Others	74,566	3.5	73,279	3.3	71,574	3.5	31,408	3.1	39,004	6.3
Total	2,155,662	100.0	2,221,757	100.0	2,016,222	100.0	1,036,868	100.0	628,502	100.0

Marketing and promotion expenses primarily comprise (i) expenses associated with organizing and participating in various academic conferences, seminars and symposia, which mainly consist of registration fees, space and equipment rent, costs related to preparing company brochures, product catalogs and other marketing materials, as well as related meeting disbursements; and (ii) service fees paid to third-party promoters. Travelling expenses primarily consist of travel and accommodation expenses of our in-house sales and marketing personnel for the promotion of our products. Staff costs mainly consist of salaries, bonuses, share-based compensation expenses, pension and other social security and welfare of our sales and marketing personnel. Other selling and distribution expenses mainly consist of general office expenses, logistics expenses, entertainment expenses and other miscellaneous selling and distribution expenses.

Our selling and distribution expenses remained relatively stable at RMB2,155.7 million, RMB2,221.8 million and RMB2,016.2 million, respectively, for the years ended December 31, 2017, 2018 and 2019, which was in line with our stable product portfolio during the Track Record Period. Our selling and distribution expenses as a percentage of total revenue decreased from 55.7% in 2017 to 49.2% in 2018, and further decreased to 40.0% in 2019, primarily due to (i) significant increased sales volumes and market penetration of Endostar and Iremod, our category I innovative pharmaceuticals, as a result of their inclusion in the NRDL in August 2017, which reduced our need to incur expenses for the promotion of such products; and (ii) improved efficiency of our in-house sales and marketing team. Our selling and distribution expenses decreased by 39.4% from RMB1,036.9 million for the six months ended June 30, 2019 to RMB628.5 million for the six months ended June 30, 2020, and our selling and distribution expenses as a percentage of total revenue decreased from 43.0% for the six months ended June 30, 2019 to 32.6% for the six months ended June 30, 2020, primarily due to reduced academic marketing efforts in the first half of 2020 in light of the COVID-19 outbreak.

Administrative and Other Operating Expenses

The following table sets forth a breakdown of our administrative and other operating expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2017		2018		2019		2019		2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Staff costs	115,473	41.6	121,455	41.9	157,881	44.9	69,006	44.3	83,548	43.2
General operating expenses	80,460	29.0	78,703	27.1	80,502	22.8	37,525	24.1	28,375	14.7
Depreciation and amortization	35,076	12.6	39,007	13.4	51,194	14.6	21,730	14.0	24,579	12.7
Professional consulting fees	8,751	3.2	14,976	5.2	22,112	6.3	6,993	4.5	18,928	9.8
Others	37,709	13.6	36,061	12.4	39,987	11.4	20,345	13.1	38,034	19.6
Total	277,469	100.0	290,202	100.0	351,676	100.0	155,599	100.0	193,464	100.0

Staff costs mainly consist of salaries, bonuses, share-based compensation expenses, pension and other social security and welfare of our Directors, senior management and administrative personnel and staff recruitment expenses. General operating expenses mainly consist of travelling and conference expenses, office expenses, utilities, taxation and repair and maintenance expenses. Depreciation and amortization are mainly related to property and equipment for office and other administrative functions. Professional consulting fees mainly comprise service fees to auditors, legal counsel and other professional service providers. Other administrative and operating expenses primarily consist of business entertainment expenses, Internet and telephone expenses, cost of low-value consumables, cleaning and gardening expenses, donation expenses and other miscellaneous administrative and operating expenses.

Finance Income/(Costs)

The following table sets forth a breakdown of our finance income/(costs) for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
			(RMB'000)		
				(Unaudited)	
Interest income from bank deposits	3,906	5,922	13,373	9,901	10,721
Interest income from loans to related parties	20,060	30,224	21,351	14,988	130
Interest income from loans to third parties	1,180	107	–	–	–
Finance income	25,146	36,253	34,724	24,889	10,851
Interest expense on bank loans	(53,171)	(40,545)	(108,661)	(60,719)	(78,937)
Interest expense on loans from related parties	(4,012)	(6,745)	(6,606)	(3,545)	(298)
Interest expenses on lease liabilities	(1,258)	(1,607)	(7,122)	(3,341)	(5,124)
Less: borrowing costs capitalized as construction in progress	–	1,363	6,434	2,793	4,783
Finance costs	(58,441)	(47,534)	(115,955)	(64,812)	(79,576)
Net finance costs	(33,295)	(11,281)	(81,231)	(39,923)	(68,725)

Please see "– Related Party Transactions" for details about loans from and to related parties.

During the Track Record Period, loans to third parties were subject to interest rates ranging from 5.10% to 6.00% per annum and had no fixed repayment terms. The principal and accrued interest were fully settled in 2019.

We capitalize interest expenses on bank loans incurred for the construction of new production facilities and warehouses.

Income Tax Expense

Our income tax expense consists of current tax and deferred tax. The following table sets forth a breakdown of our income tax expense for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Current tax	114,364	98,519	197,709	138,270	25,399
Deferred tax	32,508	96,838	(119,518)	(49,134)	14,499
Income tax expense	146,872	195,357	78,191	89,136	39,898

The provision for PRC corporate income tax is based on the statutory EIT rate of 25% of the assessable profits of our PRC subsidiaries as determined in accordance with the PRC EIT Law, except for certain of our PRC subsidiaries which were recognized as "high and new technology enterprises" by the local government authorities and thus were entitled to a preferential EIT rate of 15%. Please see "Risk Factors – Risks Relating to Our Business and Industry – Preferential tax treatment and financial subsidies we have enjoyed may change or discontinue, which may have an adverse effect on our financial condition and results of operations."

Our effective income tax rate in 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020 was 29.5%, 21.0%, 7.2%, 16.2% and 17.8%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we paid all relevant taxes that were due and applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

RECENT DEVELOPMENTS ON OUR FINANCIAL PERFORMANCE

Our revenue and net profit decreased significantly in the six months ended June 30, 2020 compared to that of the same period in 2019, and we expect to record decreases in revenue and net profit for the year ending December 31, 2020 as compared to those for the year ended December 31, 2019. We currently expect the consolidated profit attributable to equity shareholders of the Company for the year ending December 31, 2020 to be not less than RMB480 million. Please see "Appendix III – Profit Forecast." These decreases were primarily due to:

- the outbreak of COVID-19 which resulted in a decrease in demand for pharmaceutical products in general as a result of a decrease in patient visits of medical institutions and consequently had an adverse impact on the overall pharmaceutical market in China. According to Frost & Sullivan, total outpatient visits of medical institutions in China decreased by 26.1% from 2,750.2 million for the four months ended April 30, 2019 to 2,033.7 million for the four months ended April 30, 2020, while total inpatient visits of medical institutions in China decreased by 21.8% from 84.7 million for the four months ended April 30, 2019 to 66.2 million for the four months ended April 30, 2020. Our diversified product portfolio across a variety of therapeutic areas makes us susceptible to overall market developments and volatility in the industry;

- a decrease in sales of Bicun as a result of its exclusion from the latest version of the NRDL which came into force on January 1, 2020. Please see "Business – Major Recent Regulatory Reforms" for more details;

- an increase in research and development costs to support our continued R&D efforts. Specifically, we have continued to reinforce our research and development capabilities by, among others, recruiting additional qualified research and development employees, as a result of which, our research and development employees increased from 699 as of December 31, 2019 to 879 as of August 31, 2020. Meanwhile, we have proactively explored external collaboration opportunities, and entered into collaboration arrangements with four major collaboration partners, namely, Immunochina, PREGENE, Primary Peptides and G1 Therapeutics in 2020. As of August 31, 2020, we paid a significant amount to such collaboration partners in connection with the relevant collaboration arrangements;

- a decrease in sales of Endostar as a result of the decrease in its pricing level attributable to the national medical insurance pricing negotiation process for renewing its inclusion in the latest version of the NRDL; and

- a decrease in sales of Softan and Jiebaili as Softan did not win in the bidding processes under the centralized volume-based drug procurement schemes, while Jiebaili was ineligible for bidding because it had yet to pass the consistency evaluation. Please see "Business – Major Recent Regulatory Reforms" for more details.

While we expect our revenue from sales of Bicun to continue to decline in the next half of 2020, we anticipate that revenue from sales of our other major products to increase overall, as the number of inpatient and outpatient visits of medical institutions in China has been recovering.

We believe that we will be able to mitigate the above-mentioned deteriorating financial performance and downward pressure on our profitability in the near future based on the following:

- We expect our revenue contribution from innovative drugs to further increase. In particular, we launched Orencia and Sanbexin in August 2020, both of which have passed the qualification review to undergo the national medical insurance pricing negotiation process for inclusion in the NRDL. In addition, we expect to launch the promotion of KN035 in 2021. We believe that these innovative products will drive our growth in revenue and profit in the next few years. Furthermore, we believe our continuously increasing investment in R&D could enable us to bring additional innovative products to the market, which in turn will have a positive impact on our future profitability;

- We also expect to launch a number of generic drug candidates in the next few years. Specifically, we won the bid for tofacitinib citrate tablets in the nationwide centralized volume-based drug procurement scheme in August 2020, which is expected to significantly drive its sales after launch;

- We currently do not anticipate a further material adverse impact on our financial performance brought by the major recent regulatory reforms. Please see "Business – Major Recent Regulatory Reforms" for more details. Meanwhile, we will continue to strive to win bids under the centralized volume-based drug procurement schemes, which, if successful, may enable us to further enhance our operating efficiency and achieve greater economies of scale; and

- Our financial performance in 2020 is affected by certain matters which are non-recurring in nature. For example, the COVID-19 outbreak has been contained in China with its negative impact on pharmaceutical sales gradually diminishing. In addition, attributable to several new collaboration arrangements we entered into in 2020, we paid the upfront payments in nine figures in RMB in aggregate to the relevant external R&D partners, which were one-off in nature and are expected to greatly increase our research and development costs for the year ending December 31, 2020. We also expect to incur a significant amount of listing expenses in 2020 for the Global Offering.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenue

Our revenue decreased by 20.2% from RMB2,414.0 million for the six months ended June 30, 2019 to RMB1,925.4 million for the six months ended June 30, 2020, which was due to a decrease of RMB480.2 million in revenue from sales of pharmaceutical products and a decrease of RMB8.4 million in promotion service income.

Our revenue from sales of pharmaceutical products decreased by 21.0% from RMB2,283.6 million for the six months ended June 30, 2019 to RMB1,803.4 million for the six months ended June 30, 2020, primarily due to decreases in revenue from sales of oncology, central nervous system, cardiovascular and anti-infective products, which was partially offset by an increase in revenue from sales of autoimmune products.

Oncology Products. Our revenue from sales of oncology products decreased by 18.7% from RMB660.9 million for the six months ended June 30, 2019 to RMB537.6 million for the six months ended June 30, 2020, primarily driven by decreased revenue from sales of Endostar and Jiebaili. Our revenue generated from Endostar decreased by 15.1% from RMB457.5 million for the six months ended June 30, 2019 to RMB388.6 million for the six months ended June 30, 2020, primarily as a result of the decrease in its pricing level mainly attributable to the national medical insurance pricing negotiation process for renewing its inclusion in the NRDL, the latest version of which came into force on January 1, 2020. The decreased revenue from sales of Endostar was offset by its increased sales volume, which was mainly driven by (i) the continuing positive effects on demand for Endostar resulting from its inclusion in the NRDL in August 2017; and (ii) the rapid growth of the market for targeted therapy drugs for NSCLC in China during the same period. Our revenue generated from Jiebaili decreased by 73.8% from RMB70.1 million for the six months ended June 30, 2019 to RMB18.4 million for the six months ended June 30, 2020, which was due to (i) the decrease in its sales volume as it was ineligible for bidding under the centralized volume-based drug procurement schemes because it had yet to pass the consistency evaluation; and (ii) the decrease in its pricing level primarily attributable to downward pricing pressure brought by the centralized volume-based drug procurement schemes.

Central Nervous System Products. Our revenue from sales of central nervous system products decreased by 68.9% from RMB572.8 million for the six months ended June 30, 2019 to RMB178.0 million for the six months ended June 30, 2020, primarily driven by decreased revenue from sales of Bicun. Our revenue generated from Bicun decreased by 68.9% from RMB572.8 million for the six months ended June 30, 2019 to RMB178.0 million for the six months ended June 30, 2020, primarily as a result of its decreased sales volume due to its exclusion from the latest version of the NRDL which came into force on January 1, 2020. Overall pricing level for Bicun remained relatively stable during the six months ended June 30, 2019 and 2020.

Autoimmune Products. Our revenue from sales of autoimmune products increased by 63.1% from RMB329.2 million for the six months ended June 30, 2019 to RMB537.0 million for the six months ended June 30, 2020, primarily driven by increased revenue from sales of Iremod. Our revenue generated from Iremod increased by 91.1% from RMB203.8 million for the six months ended June 30, 2019 to RMB389.5 million for the six months ended June 30, 2020, primarily as a result of its increased sales volume. The increase in the sales volume of Iremod was mainly driven by (i) the continuing positive effects on demand for Iremod resulting from its inclusion in the NRDL in August 2017; and (ii) the rapid growth of the conventional synthetic DMARD market in China during the same period. Overall pricing level for Iremod remained relatively stable during the six months ended June 30, 2019 and 2020.

Cardiovascular Products. Our revenue from sales of cardiovascular products decreased by 15.8% from RMB216.0 million for the six months ended June 30, 2019 to RMB181.9 million for the six months ended June 30, 2020, primarily driven by decreased revenue from sales of Softan. Our revenue generated from Softan decreased by 27.1% from RMB166.9 million for the six months ended June 30, 2019 to RMB121.6 million for the six months ended June 30, 2020, which was due to (i) the decrease in its sales volume as it did not win in the bidding process under the centralized volume-based drug procurement schemes; and (ii) the decrease in its pricing level primarily attributable to downward pricing pressure brought by the centralized volume-based drug procurement schemes.

Anti-Infective Products. Our revenue from sales of anti-infective products decreased by 31.0% from RMB305.9 million for the six months ended June 30, 2019 to RMB211.2 million for the six months ended June 30, 2020, primarily driven by decreased revenue from sales of Newanti and ZAILIN. Our revenue generated from Newanti decreased by 27.0% from RMB136.9 million for the six months ended June 30, 2019 to RMB99.9 million for the six months ended June 30, 2020, and our revenue generated from ZAILIN decreased by 41.9% from RMB93.9 million for the six months ended June 30, 2019 to RMB54.6 million for the six months ended June 30, 2020, primarily as a result of their decreased sales volumes caused by the COVID-19 outbreak. Overall pricing level for Newanti and ZAILIN remained relatively stable during the six months ended June 30, 2019 and 2020.

Our promotion service income decreased by 6.5% from RMB130.5 million for the six months ended June 30, 2019 to RMB122.0 million for the six months ended June 30, 2020, primarily due to the decrease in demand for certain third-party pharmaceutical products in medical institutions caused by the COVID-19 outbreak.

Cost of Sales

Our cost of sales decreased by 9.4% from RMB428.4 million for the six months ended June 30, 2019 to RMB388.1 million for the six months ended June 30, 2020, primarily due to (i) (a) a decrease in cost of raw materials of RMB39.4 million, (b) a decrease in direct labor of RMB11.6 million and (c) a decrease in taxes and surcharges of RMB11.1 million, which were mainly driven by our decreased sales volumes; and (ii) a decrease in cost of promotion services of RMB11.9 million mainly attributable to (a) a decrease in promotion service income and (b) reduced promotion activities in connection with the relevant third-party pharmaceutical products in the first half of 2020 in light of the COVID-19 outbreak. The decrease was partially offset by an increase in cost of distributed products of RMB24.5 million, which was in line with the increase in revenue derived from distribution of third-party pharmaceutical products, primarily due to an increase in demand for certain third-party pharmaceutical products in pharmacies as a result of the COVID-19 outbreak.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit decreased by 22.6% from RMB1,985.6 million for the six months ended June 30, 2019 to RMB1,537.3 million for the six months ended June 30, 2020. Our gross profit margin decreased from 82.3% for the six months ended June 30, 2019 to 79.8% for the six months ended June 30, 2020. Such decrease was primarily due to a decrease in the gross profit margin of sales of pharmaceutical products.

Gross profit margin of sales of pharmaceutical products decreased from 85.2% for the six months ended June 30, 2019 to 82.9% for the six months ended June 30, 2020, primarily due to (i) a lower proportion of sales of Bicun, a high gross profit margin product; and (ii) the decreased pricing level of Endostar.

Gross profit margin of promotion services increased from 30.0% for the six months ended June 30, 2019 to 34.9% for the six months ended June 30, 2020, primarily due to reduced promotion activities in connection with the relevant third-party pharmaceutical products in the first half of 2020 in light of the COVID-19 outbreak.

Other Revenue and Other Net (Loss)/Gain

Our other revenue remained relatively stable at RMB40.7 million for the six months ended June 30, 2019 and RMB43.1 million for the six months ended June 30, 2020.

We recorded other net loss of RMB6.4 million for the six months ended June 30, 2020, compared to other net gain of RMB10.3 million for the six months ended June 30, 2019, primarily due to an increase in net foreign exchange loss of RMB17.8 million mainly attributable to fluctuations in exchange rates of Euro against Renminbi.

Research and Development Costs

Our research and development costs increased by 79.8% from RMB252.5 million for the six months ended June 30, 2019 to RMB454.1 million for the six months ended June 30, 2020, primarily due to (i) an increase in outsourcing expenses of RMB71.2 million; (ii) an increase in staff costs of RMB60.1 million mainly attributable to increased headcount and compensation level; (iii) an increase in cost of materials of RMB30.7 million; and (iv) an increase in depreciation and amortization of RMB20.9 million mainly attributable to the completion of construction of our new R&D center in Boston, the United States and upgrading of our R&D

infrastructure. The increases in outsourcing expenses and cost of materials were mainly attributable to new R&D projects initiated and continued R&D efforts on innovative and high end generic pharmaceuticals in the first half of 2020.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 39.4% from RMB1,036.9 million for the six months ended June 30, 2019 to RMB628.5 million for the six months ended June 30, 2020, primarily due to (i) a decrease in marketing and promotion expenses of RMB356.0 million and (ii) a decrease in travelling expenses of RMB71.4 million, both of which were mainly attributable to reduced academic marketing efforts in the first half of 2020 in light of the COVID-19 outbreak.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased by 24.3% from RMB155.6 million for the six months ended June 30, 2019 to RMB193.5 million for the six months ended June 30, 2020, primarily due to (i) an increase in staff costs of RMB14.5 million mainly attributable to increased headcount and compensation level; and (ii) an increase in professional consulting fees of RMB11.9 million mainly attributable to listing expenses incurred in the first half of 2020.

Finance Income and Finance Costs

Our finance income decreased by 56.4% from RMB24.9 million for the six months ended June 30, 2019 to RMB10.9 million for the six months ended June 30, 2020, primarily due to a decrease in interest income from loans to related parties of RMB14.9 million mainly attributable to a decrease in average balance of loans to related parties.

Our finance costs increased by 22.8% from RMB64.8 million for the six months ended June 30, 2019 to RMB79.6 million for the six months ended June 30, 2020, primarily due to an increase in interest expenses on bank loans of RMB18.2 million mainly attributable to an increase in average bank borrowing balance.

Share of Losses of Associates

Share of losses of associates increased by 186.8% from RMB1.5 million for the six months ended June 30, 2019 to RMB4.4 million for the six months ended June 30, 2020, primarily due to increased losses incurred by Nanjing Bioheng Biotech Co., Ltd. (南京北恒生物科技有限公司).

Income Tax Expense

Our income tax expense decreased by 55.2% from RMB89.1 million for the six months ended June 30, 2019 to RMB39.9 million for the six months ended June 30, 2020, primarily due to (i) a decrease in provision for PRC EIT mainly attributable to the decrease in profit before taxation; and (ii) a decrease in provision of withholding tax recognized in previous years on undistributed profits of our PRC subsidiaries as we obtained the approval from Hong Kong tax authorities in the second half of 2019, which has confirmed that our Company is entitled to a reduced withholding tax rate of 5% on dividends received from our PRC subsidiaries that are PRC resident enterprises.

Our effective income tax rate remained relatively stable at 16.2% for the six months ended June 30, 2019 and 17.8% for the six months ended June 30, 2020.

Profit for the Period

As a result of the foregoing, our profit for the period decreased by 59.9% from RMB461.0 million for the six months ended June 30, 2019 to RMB184.8 million for the six months ended June 30, 2020. Our net profit margin, which represents profit for the period as a percentage of revenue, decreased from 19.1% for the six months ended June 30, 2019 to 9.6% for the six months ended June 30, 2020.

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

Revenue

Our revenue increased by 11.6% from RMB4,514.2 million in 2018 to RMB5,036.7 million in 2019, which was due to an increase of RMB491.2 million in revenue from sales of pharmaceutical products and an increase of RMB31.3 million in promotion service income.

Our revenue from sales of pharmaceutical products increased by 11.4% from RMB4,309.1 million in 2018 to RMB4,800.3 million in 2019, primarily due to increases in revenue from sales of oncology, autoimmune, cardiovascular and anti-infective products, which was offset by a decrease in revenue from sales of central nervous system products.

Oncology Products. Our revenue from sales of oncology products increased by 22.6% from RMB1,279.8 million in 2018 to RMB1,568.9 million in 2019, primarily driven by increased revenue from sales of Endostar. Our revenue generated from Endostar increased by 32.6% from RMB856.8 million in 2018 to RMB1,136.5 million in 2019, primarily as a result of its increased sales volume. The increase in the sales volume of Endostar was mainly driven by (i) the continuing positive effects on demand for Endostar resulting from its inclusion in the NRDL in August 2017; and (ii) the rapid growth of the market for targeted therapy drugs for NSCLC in China during the same period. Overall pricing level for Endostar remained relatively stable from 2018 to 2019.

Central Nervous System Products. Our revenue from sales of central nervous system products decreased by 22.1% from RMB1,202.0 million in 2018 to RMB936.9 million in 2019, primarily driven by decreased revenue from sales of Bicun. Our revenue generated from Bicun decreased by 21.8% from RMB1,198.6 million in 2018 to RMB936.9 million in 2019, primarily as a result of its decreased sales volume due to its inclusion in the "First Batch of National Key Drug List for Monitoring and Prescription Control (Chemical and Biological Products)" (《第一批國家重點監控合理用藥藥品目錄(化藥和生物製品)》) in June 2019. Please see "Risk Factors – Risks Relating to Our Business and Industry – If our products are excluded or removed from national, provincial or other government-sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be materially and adversely affected." Overall pricing level for Bicun remained relatively stable from 2018 to 2019.

Autoimmune Products. Our revenue from sales of autoimmune products increased by 51.3% from RMB537.8 million in 2018 to RMB813.8 million in 2019, primarily driven by increased revenue from sales of Iremod. Our revenue generated from Iremod increased by 78.3% from RMB291.7 million in 2018 to RMB520.2 million in 2019, primarily as a result of its increased sales volume. The increase in the sales volume of Iremod was mainly driven by (i) the continuing positive effects on demand for Iremod resulting from its inclusion in the NRDL in August 2017; and (ii) the rapid growth of the conventional synthetic DMARD market in China during the same period. Overall pricing level for Iremod remained relatively stable from 2018 to 2019.

Cardiovascular Products. Our revenue from sales of cardiovascular products increased by 26.2% from RMB353.1 million in 2018 to RMB445.5 million in 2019, primarily driven by increased revenue from sales of Softan. Our revenue generated from Softan increased by 20.6% from RMB277.7 million in 2018 to RMB334.9 million in 2019, primarily as a result of its increased sales volume. The increase in the sales volume of Softan was mainly driven by (i) the rapid growth of cardiovascular drug market in China during the same period; and (ii) Softan's passing of the consistency evaluation in October 2018 and March 2019. Overall pricing level for Softan decreased slightly from 2018 to 2019, primarily due to price reductions resulting from increased competition in the centralized tender processes.

Anti-Infective Products. Our revenue from sales of anti-infective products increased by 9.7% from RMB579.5 million in 2018 to RMB635.7 million in 2019, primarily driven by increased revenue from sales of Newanti and ZAILIN. Our revenue generated from Newanti increased by 10.0% from RMB258.2 million in 2018 to RMB283.9 million in 2019, and our revenue generated from ZAILIN increased by 6.6% from RMB187.4 million in 2018 to RMB199.7 million in 2019.

Our promotion service income increased by 15.2% from RMB205.1 million in 2018 to RMB236.3 million in 2019, primarily due to increased revenue from promoting OLMETEC PLUS developed and manufactured by Daiichi Sankyo, which was mainly attributable to increased market share of such product.

Cost of Sales

Our cost of sales increased by 15.2% from RMB771.2 million in 2018 to RMB888.5 million in 2019, primarily due to (i) an increase in manufacturing costs of RMB43.1 million, which was mainly due to our increased sales volumes and completion of our relocation of one of production facilities in 2019 which resulted in increases in depreciation expenses and utility expenses; (ii) an increase in cost of raw materials of RMB42.9 million, which was mainly driven by our increased sales volumes; (iii) an increase in direct labor of RMB22.7 million mainly attributable to increased headcount and compensation level; and (iv) an increase in cost of promotion services of RMB15.8 million, which was in line with the increase in promotion service income.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 10.8% from RMB3,743.0 million in 2018 to RMB4,148.2 million in 2019. Our gross profit margin remained relatively stable at 82.9% in 2018 and 82.4% in 2019.

Gross profit margin of sales of pharmaceutical products remained relatively stable at 85.5% in 2018 and 84.9% in 2019.

Gross profit margin of promotion services increased from 28.3% in 2018 to 31.2% in 2019, primarily due to greater economies of scale we achieved in line with the increase in promotion service income during the same period.

Other Revenue and Other Net Gain

Our other revenue increased by 35.6% from RMB67.5 million in 2018 to RMB91.5 million in 2019, primarily due to an increase in government grants of RMB18.9 million.

Our other net gain decreased by 82.4% from RMB90.5 million in 2018 to RMB15.9 million in 2019, primarily due to (i) a decrease in net realized and unrealized gains on financial assets at fair value through profit or loss of RMB61.4 million mainly attributable to disposal of certain investments as well as the decreases in the fair value of certain investments in unlisted equity securities and units in investment funds; and (ii) net foreign exchange loss of RMB1.6 million in 2019, compared to net foreign exchange gain of RMB9.8 million in 2018, mainly attributable to the fluctuations in exchange rates of the U.S. dollars, Euro and Great British pounds against Renminbi.

Research and Development Costs

Our research and development costs increased by 60.2% from RMB447.1 million in 2018 to RMB716.4 million in 2019, primarily due to (i) an increase in staff costs of RMB101.2 million mainly attributable to increased headcount and compensation level; (ii) an increase in clinical trial costs of RMB66.3 million; (iii) an increase in cost of materials of RMB42.6

million; and (iv) an increase in outsourcing expenses of RMB31.7 million. The increases in clinical trial costs, cost of materials and outsourcing expenses were mainly attributable to new R&D projects initiated and continued R&D efforts on innovative and high end generic pharmaceuticals in 2019.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 9.3% from RMB2,221.8 million in 2018 to RMB2,016.2 million in 2019, primarily due to (i) a decrease in marketing and promotion expenses of RMB238.7 million and (ii) a decrease in travelling expenses of RMB126.2 million, both of which were mainly attributable to (i) significant increased sales volumes and market penetration of Endostar and Iremod, our category I innovative pharmaceuticals, as a result of their inclusion in the NRDL in August 2017, which reduced our need to incur expenses for the promotion of such products; and (ii) improved efficiency of our in-house sales and marketing team. The decrease was partially offset by an increase in staff costs of RMB161.0 million mainly attributable to increased compensation level.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased by 21.2% from RMB290.2 million in 2018 to RMB351.7 million in 2019, primarily due to (i) an increase in staff costs of RMB36.4 million mainly attributable to increased headcount and compensation level; and (ii) an increase in depreciation and amortization of RMB12.2 million mainly attributable to increased office spaces to support the growth of our business.

Finance Income and Finance Costs

Our finance income decreased by 4.4% from RMB36.3 million in 2018 to RMB34.7 million in 2019, primarily due to a decrease in interest income from loans to related parties of RMB8.9 million mainly attributable to a decrease in average balance of loans to related parties. This was partially offset by an increase in interest income from bank deposits of RMB7.5 million mainly attributable to an increase in average bank deposit balance.

Our finance costs increased by 143.9% from RMB47.5 million in 2018 to RMB116.0 million in 2019, primarily due to an increase in interest expenses on bank loans of RMB68.1 million mainly attributable to an increase in average bank borrowing balance.

Share of Losses of Associates

Share of losses of associates increased significantly from RMB1.6 million in 2018 to RMB8.1 million in 2019, primarily due to our investment in BCY Pharm and Xuancheng Menovo in 2019. We subsequently disposed of our 49% interest in Xuancheng Menovo to an Independent Third Party in July 2020.

Income Tax Expense

Our income tax expense decreased by 60.0% from RMB195.4 million in 2018 to RMB78.2 million in 2019, primarily due to (i) a reversal of withholding tax recognized in previous years on undistributed profits of our PRC subsidiaries as we obtained the approval from Hong Kong tax authorities in 2019, which has confirmed that our Company is entitled to a reduced withholding tax rate of 5% on dividends received from our PRC subsidiaries that are PRC resident enterprises; (ii) a change in dividend policy on distribution of retained earnings from our PRC subsidiaries in 2019, which resulted in a decrease in provision for withholding tax on undistributed profits; and (iii) an increase in research and development costs that were qualified for an additional 75% deduction for EIT purpose in accordance with the relevant PRC regulations. This decrease was partially offset by an increase in provision for PRC EIT, which was primarily due to the increase in profit before taxation.

Our effective income tax rate decreased from 21.0% in 2018 to 7.2% in 2019, primarily due to the same reasons.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 36.8% from RMB733.7 million in 2018 to RMB1,003.6 million in 2019. Our net profit margin, which represents profit for the year as a percentage of revenue, increased from 16.3% in 2018 to 19.9% in 2019.

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

Revenue

Our revenue increased by 16.7% from RMB3,867.9 million in 2017 to RMB4,514.2 million in 2018, which was due to an increase of RMB472.2 million in revenue from sales of pharmaceutical products and an increase of RMB174.1 million in promotion service income.

Our revenue from sales of pharmaceutical products increased by 12.3% from RMB3,837.0 million in 2017 to RMB4,309.1 million in 2018, primarily due to increases in revenue from sales of oncology, autoimmune and cardiovascular products.

Oncology Products. Our revenue from sales of oncology products increased by 27.4% from RMB1,004.9 million in 2017 to RMB1,279.8 million in 2018, primarily driven by increased revenue from sales of Endostar. Our revenue generated from Endostar increased by 27.9% from RMB669.7 million in 2017 to RMB856.8 million in 2018, primarily as a result of its increased sales volume. The increase in the sales volume of Endostar was mainly driven by (i) increased demand for Endostar resulting from its inclusion in the NRDL in August 2017; and (ii) the rapid growth of the market for targeted therapy drugs for NSCLC in China during the same period. The increased revenue from sales of Endostar was offset by price reductions resulting from its entering into the NRDL through pricing negotiation in 2017.

Central Nervous System Products. Our revenue from sales of central nervous system products remained relatively stable at RMB1,276.1 million in 2017 and RMB1,202.0 million in 2018.

Autoimmune Products. Our revenue from sales of autoimmune products increased by 27.1% from RMB423.2 million in 2017 to RMB537.8 million in 2018, primarily driven by increased revenue from sales of Iremod. Our revenue generated from Iremod increased by 83.5% from RMB159.0 million in 2017 to RMB291.7 million in 2018, primarily as a result of its increased sales volume. The increase in the sales volume of Iremod was mainly driven by (i) increased demand for Iremod resulting from its inclusion in the NRDL in August 2017; and (ii) the rapid growth of conventional synthetic DMARD market in China during the same period. Overall pricing level for Iremod remained relatively stable from 2017 to 2018.

Cardiovascular Products. Our revenue from sales of cardiovascular products increased by 45.1% from RMB243.4 million in 2017 to RMB353.1 million in 2018, primarily driven by increased revenue from sales of Softan. Our revenue generated from Softan increased by 55.0% from RMB179.2 million in 2017 to RMB277.7 million in 2018, primarily as a result of its increased sales volume. The increase in the sales volume of Softan was mainly driven by (i) the rapid growth of cardiovascular drug market in China; and (ii) increased coverage and penetration of county-level, community and rural hospitals and other medical institutions. Overall pricing level for Softan decreased slightly from 2017 to 2018, primarily due to price reductions resulting from increased competition in the centralized tender processes.

Anti-Infective Products. Our revenue from sales of anti-infective products remained relatively stable at RMB564.7 million in 2017 and RMB579.5 million in 2018.

Our revenue from promotion services increased significantly from RMB30.9 million in 2017 to RMB205.1 million in 2018, primarily due to gradual implementation of "dual invoicing system" across China from early 2017. Since then, we started to provide promotion services to certain pharmaceutical companies. Please see "Regulatory Overview – Major Regulatory Reforms in the Pharmaceutical Industry – Dual Invoicing System" for more details about the "dual invoicing system."

Cost of Sales

Our cost of sales increased by 31.5% from RMB586.3 million in 2017 to RMB771.2 million in 2018, primarily due to (i) an increase in cost of promotion services of RMB122.9 million, which was in line with the increase in promotion service income; and (ii) (a) an increase in cost of raw materials of RMB54.6 million and (b) an increase in manufacturing costs of RMB15.6 million, both of which were mainly driven by our increased sales volumes. This increase was partially offset by a decrease in cost of distributed products of RMB17.1 million.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 14.1% from RMB3,281.6 million in 2017 to RMB3,743.0 million in 2018. Our gross profit margin decreased from 84.8% in 2017 to 82.9% in 2018. Such decrease was due to a higher proportion of revenue generated from promotion services, whose gross profit margin was lower than the gross profit margin of sales of pharmaceutical products.

Gross profit margin of sales of pharmaceutical products remained relatively stable at 85.3% in 2017 and 85.5% in 2018.

Gross profit margin of promotion services increased from 22.3% in 2017 to 28.3% in 2018, primarily due to greater economies of scale we achieved in line with the significant increase in promotion service income during the same period.

Other Revenue and Other Net (Loss)/Gain

Our other revenue decreased by 4.1% from RMB70.4 million in 2017 to RMB67.5 million in 2018, primarily due to (i) gains on transfer of technology know-how of RMB9.9 million we recognized in 2017, while we did not record such gains in 2018; and (ii) a decrease in government grants of RMB5.2 million. This decrease was partially offset by an increase in rental income of RMB7.0 million.

We recorded other net loss of RMB175.9 million in 2017, compared to other net gain of RMB90.5 million in 2018, primarily due to (i) net realized and unrealized gains on financial assets at fair value through profit or loss of RMB81.7 million in 2018, compared to net realized and unrealized losses on financial assets at fair value through profit or loss of RMB166.5 million in 2017, mainly attributable to fluctuations in the fair value of certain investments in unlisted equity securities and units in investment funds; and (ii) net foreign exchange gain of RMB9.8 million in 2018, compared to net foreign exchange loss of RMB10.3 million in 2017, mainly attributable to the fluctuations in exchange rates of the United States dollars, Euro and Great British pounds against Renminbi.

Research and Development Costs

Our research and development costs increased by 110.6% from RMB212.3 million in 2017 to RMB447.1 million in 2018, primarily due to (i) an increase in staff costs of RMB68.7 million mainly attributable to increased headcount and compensation level; and (ii) an increase in outsourcing expenses of RMB78.3 million mainly attributable to new R&D projects initiated, R&D advancement of innovative and high end generic pharmaceuticals and continued efforts on consistency evaluation of generic pharmaceuticals in 2018.

Selling and Distribution Expenses

Our selling and distribution expenses remained relatively stable at RMB2,155.7 million in 2017 and RMB2,221.8 million in 2018.

Administrative and Other Operating Expenses

Our administrative and other operating expenses remained relatively stable at RMB277.5 million in 2017 and RMB290.2 million in 2018.

Finance Income and Finance Costs

Our finance income increased by 44.6% from RMB25.1 million in 2017 to RMB36.3 million in 2018, primarily due to an increase in interest income from loans to related parties of RMB10.2 million mainly attributable to an increase in average balance of loans to related parties.

Our finance costs decreased by 18.7% from RMB58.4 million in 2017 to RMB47.5 million in 2018, primarily due to a decrease in interest expenses on bank loans of RMB12.6 million mainly attributable to a decrease in average bank borrowing balance.

Share of Losses of Associates

Share of losses of associates increased from nil in 2017 to RMB1.6 million in 2018, primarily due to our investment in Nanjing Bioheng Biotech Co., Ltd. (南京北恒生物科技有限公司) in 2018.

Income Tax Expense

Our income tax expense increased by 33.0% from RMB146.9 million in 2017 to RMB195.4 million in 2018, primarily due to an increase in provision for PRC EIT mainly attributable to the increase in profit before taxation. Our effective income tax rate decreased from 29.5% in 2017 to 21.0% in 2018, primarily because (i) in accordance with the relevant PRC regulations, in 2017, our research and development costs were only qualified for an additional 50% deduction for EIT purpose, while in 2018, our research and development costs were qualified for an additional 75% deduction for EIT purpose; and (ii) our research and development costs that were qualified for such additional deduction for EIT purpose increased in 2018.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 109.4% from RMB350.4 million in 2017 to RMB733.7 million in 2018. Our net profit margin, which represents profit for the year as a percentage of revenue, increased from 9.1% in 2017 to 16.3% in 2018.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our capital expenditure and working capital requirements mainly through cash generated from operating activities and bank borrowings. As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had cash and cash equivalents of RMB572.6 million, RMB1,187.6 million, RMB354.8 million and RMB595.9 million, respectively.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
			(RMB'000)		
				(Unaudited)	
Operating profit before changes in working capital	817,604	985,937	1,328,540	653,722	414,050
Changes in working capital	244,946	(55,437)	(290,880)	190,821	(498,433)
Tax paid	(123,474)	(154,683)	(264,857)	(190,191)	(143,275)
Net cash generated from/(used in) operating activities	939,076	775,817	772,803	654,352	(227,658)
Net cash used in/generated from investing activities	(508,390)	(472,401)	(592,928)	(200,954)	496,173
Net cash (used in)/generated from financing activities	(347,317)	311,285	(1,012,950)	(1,029,062)	(26,805)
Net increase/(decrease) in cash and cash equivalents	83,369	614,701	(833,075)	(575,664)	241,710
Cash and cash equivalents at the beginning of the year/period	489,333	572,584	1,187,647	1,187,647	354,804
Effect of foreign exchange rate changes	(118)	362	232	(246)	(598)
Cash and cash equivalents at the end of the year/period	572,584	1,187,647	354,804	611,737	595,916

Operating Activities

During the Track Record Period, we derived our cash inflow from operating activities primarily through the sales of pharmaceutical products, while cash outflow from operating activities primarily comprised payments for purchases of raw materials, staff costs, income tax, research and development costs, selling and distribution expenses, administrative and other operating expenses. Our cash generated from operating activities reflects our profit before taxation, adjusted for non-cash and non-operating items, such as depreciation and amortization, net finance costs and net realized and unrealized gains/losses on financial assets at fair value through profit or loss, and the changes in working capital, such as increases or decreases in inventories, trade and other receivables, trade and other payables and pledged deposits and restricted deposits.

Our net cash used in operating activities for the six months ended June 30, 2020 was RMB227.7 million. This cash outflow was primarily attributable to (i) an increase in trade and bills receivables of RMB322.2 million mainly due to the prolonged settlement of trade receivables by our customers in light of the COVID-19 outbreak; (ii) income tax paid of RMB143.3 million; (iii) a decrease in other payables and accruals of RMB86.6 million mainly attributable to a decrease in payables for staff related costs as a result of payment of 2019 annual bonus; and (iv) an increase in inventories of RMB52.7 million mainly due to the unanticipated decrease in demand for certain of our products caused by the COVID-19 outbreak. This cash outflow was partially offset by (i) profit before taxation of RMB224.7 million, as adjusted to reflect non-cash and non-operating items, which principally included depreciation of property, plant and equipment of RMB97.8 million and net finance costs of RMB68.7 million. In conclusion, our operating cash outflow for the six months ended June 30, 2020 was primarily due to (i) a decrease in profit before taxation mainly attributable to (a) a decrease in our sales and (b) increased research and development costs to support our continued R&D efforts; and (ii) the prolonged settlement of trade receivables by our customers in light of the COVID-19 outbreak. We expect to improve our operating cash flow position through (i) increases in our sales and profitability (please see "– Recent Developments on Our Financial Performance" for more details), which are expected to further enhance our operating efficiency and create greater economies of scale; and (ii) strengthening our credit management and collection efforts as the COVID-19 outbreak has been contained in China.

Our net cash generated from operating activities for the six months ended June 30, 2019 was RMB654.4 million. This cash inflow was primarily attributable to (i) profit before taxation of RMB550.1 million, as adjusted to reflect non-cash and non-operating items, which principally included depreciation of property, plant and equipment of RMB59.0 million and net finance costs of RMB39.9 million; (ii) an increase in other payables and accruals of RMB138.6 million mainly attributable to an increase in accrued expenses generally in line with the growth of our business; and (iii) an increase in trade and bills payables of RMB100.4 million mainly attributable to our increased purchases in line with the growth of our business. This cash inflow was partially offset by income tax paid of RMB190.2 million.

Our net cash generated from operating activities in 2019 was RMB772.8 million. This cash inflow was primarily attributable to (i) profit before taxation of RMB1,081.8 million, as adjusted to reflect non-cash and non-operating items, which principally included depreciation of property, plant and equipment of RMB146.9 million and net finance costs of RMB81.2 million; (ii) an increase in other payables and accruals of RMB174.2 million mainly attributable to (a) an increase in accrued expenses generally in line with the growth of our business and (b) an increase in payables for staff related costs of primarily due to increased headcount and compensation level; and (iii) a decrease in pledged deposits for issuance of bill payables and letters of credit and restricted deposits of RMB51.0 million. This cash inflow was partially offset by (i) an increase in trade and bills receivables of RMB386.4 million generally in line with the increase in our sales; (ii) income tax paid of RMB264.9 million; (iii) a decrease in trade and bills payables of RMB52.7 million mainly because a larger amount of bank acceptance notes remained outstanding at 2018 year end; and (iv) an increase in prepayments, deposits and other receivables of RMB39.8 million mainly attributable to (a) an increase in value added tax recoverable mainly due to our increased expenditures on property, plant and equipment and (b) an increase in prepayment for research and development costs as a result of new R&D projects initiated in 2019.

Our net cash generated from operating activities in 2018 was RMB775.8 million. This cash inflow was primarily attributable to (i) profit before taxation of RMB929.0 million, as adjusted to reflect non-cash and non-operating items, which principally included depreciation of property, plant and equipment of RMB103.4 million and net realized and unrealized gains on financial assets at fair value through profit or loss of RMB81.7 million; (ii) an increase in other payables and accruals of RMB207.1 million mainly attributable to an increase in accrued expenses generally in line with the growth of our business; and (iii) an increase in trade and bills payables of RMB92.5 million mainly because a larger amount of bank acceptance notes remained outstanding at 2018 year end. This cash inflow was partially offset by (i) an increase in trade and bills receivables of RMB254.6 million generally in line with the increase in our sales; (ii) income tax paid of RMB154.7 million; (iii) an increase in inventories of RMB49.2 million mainly attributable to increase in our production volume in an effort to accommodate increased demand for our products, which was in line with the increase in our sales; and (iv) an increase in pledged deposits for issuance of bill payables and letters of credit and restricted deposits of RMB39.7 million.

Our net cash generated from operating activities in 2017 was RMB939.1 million. This cash inflow was primarily attributable to (i) profit before taxation of RMB497.3 million, as adjusted to reflect non-cash and non-operating items, which principally included net realized and unrealized losses on financial assets at fair value through profit or loss of RMB166.5 million, depreciation of property, plant and equipment of RMB87.1 million and net finance costs of RMB33.3 million; (ii) an increase in other payables and accruals of RMB209.1 million mainly attributable to an increase in accrued expenses generally in line with the growth of our business; and (iii) an increase in trade and bills payables of RMB45.3 million mainly attributable to our increased purchases in line with the growth of our business. This cash inflow was partially offset by (i) income tax paid of RMB123.5 million; and (ii) an increase in trade and bills receivables of RMB26.4 million generally in line with the increase in our sales.

Investing Activities

During the Track Record Period, our cash used in investing activities mainly reflected our cash used in payment for acquisition of financial assets measured at fair value through profit or loss, payment for acquisition of property, plant and equipment and loans to related parties, while our cash generated from investing activities primarily comprised proceeds from disposal of financial assets measured at fair value through profit or loss, repayment of loans to related parties and asset-related government grants.

Our net cash generated from investing activities for the six months ended June 30, 2020 was RMB496.2 million. This cash inflow was primarily attributable to (i) proceeds from disposal of financial assets measured at fair value through profit or loss of RMB637.9 million; and (ii) proceeds from disposal of financial assets at fair value through other comprehensive income of RMB77.9 million. This cash inflow was partially offset by (i) payment for the acquisition of property, plant and equipment of RMB168.4 million, which were primarily related to expenditures on construction in progress and purchase of machinery and equipment; and (ii) payment for acquisition of financial assets measured at fair value through profit or loss of RMB85.5 million.

Our net cash used in investing activities for the six months ended June 30, 2019 was RMB201.0 million. This cash outflow was primarily attributable to (i) payment for the acquisition of property, plant and equipment of RMB245.6 million, which were primarily related to expenditures on construction in progress and purchase of machinery and equipment; (ii) new loans to related parties of RMB245.0 million; and (iii) payment for acquisition of financial assets measured at fair value through profit or loss of RMB135.8 million. This cash outflow was partially offset by proceeds from disposal of financial assets measured at fair value through profit or loss of RMB419.7 million.

Our net cash used in investing activities in 2019 was RMB592.9 million. This cash outflow was primarily attributable to (i) payment for acquisition of financial assets measured at fair value through profit or loss of RMB1,273.0 million; (ii) payment for acquisition of property, plant and equipment of RMB507.7 million, which were primarily related to expenditures on construction in progress and purchase of machinery and equipment; (iii) new loans to related parties of RMB416.6 million; (iv) payments for deposits for investment in 3D Medicines and TCRCure Beijing of RMB260.4 million; (v) payment for acquisition of interest in BCY Pharm and Xuancheng Menovo of RMB149.1 million; and (vi) payment for acquisition of financial assets measured at fair value through other comprehensive income of RMB137.1 million. This cash outflow was partially offset by (i) proceeds from disposal of financial assets measured at fair value through profit or loss of RMB973.0 million; (ii) repayment of loans to related parties of RMB900.3 million; (iii) an increase in asset-related government grants of RMB166.5 million; and (iv) interest received of RMB109.9 million.

Our net cash used in investing activities in 2018 was RMB472.4 million. This cash outflow was primarily attributable to (i) new loans to related parties of RMB940.7 million; (ii) payment for acquisition of financial assets measured at fair value through profit or loss of RMB896.7 million; (iii) payment for acquisition of property, plant and equipment of RMB335.2 million, which were primarily related to expenditures on construction in progress and purchase of machinery and equipment; and (iv) a decrease in asset-related government grants of RMB260.6 million. This cash outflow was partially offset by (i) proceeds from disposal of financial assets measured at fair value through profit or loss of RMB1,154.0 million; and (ii) repayment of loans to related parties of RMB783.4 million.

Our net cash used in investing activities in 2017 was RMB508.4 million. This cash outflow was primarily attributable to (i) payment for acquisition of financial assets measured at fair value through profit or loss of RMB1,407.8 million; (ii) payment for acquisition of property, plant and equipment of RMB292.2 million, which were primarily related to expenditures on construction in progress and purchase of machinery and equipment; and (iii) new loans to related parties of RMB263.7 million. This cash outflow was partially offset by (i) proceeds from disposal of financial assets measured at fair value through profit or loss of RMB804.6 million; (ii) an increase in asset-related government grants of RMB527.1 million; and (iii) repayment of loans to related parties of RMB119.8 million.

Financing Activities

During the Track Record Period, our cash inflow from financing activities mainly comprised proceeds from bank loans, while we used cash in financing activities primarily for repayment of bank loans, payment of dividends, pledged deposits for banking facilities and deemed distribution upon the Reorganization and business combination under common control.

Our net cash used in financing activities for the six months ended June 30, 2020 was RMB26.8 million. This cash outflow was primarily attributable to (i) repayment of bank loans of RMB858.0 million; and (ii) an increase in pledged deposits for banking facilities of RMB613.0 million. This cash outflow was partially offset by proceeds from new bank loans of RMB1,544.8 million.

Our net cash used in financing activities for the six months ended June 30, 2019 was RMB1,029.1 million. This cash outflow was primarily attributable to (i) dividends paid of RMB912.1 million; (ii) repayment of bank loans of RMB888.5 million; and (iii) an increase in pledged deposits for banking facilities of RMB390.0 million. This cash outflow was partially offset by proceeds from new bank loans of RMB1,276.4 million.

Our net cash used in financing activities in 2019 was RMB1,013.0 million. This cash outflow was primarily attributable to (i) repayment of bank loans of RMB1,883.5 million; (ii) dividends paid of RMB912.1 million; (iii) deemed distribution upon the Reorganization and business combination under common control of RMB464.6 million; (iv) repayment of loans from related parties of RMB141.8 million; and (v) interest paid of RMB141.2 million. This cash outflow was partially offset by proceeds from new bank loans of RMB2,605.6 million. Simcere Shanghai Pharmaceutical became a subsidiary of Hainan BioSciKin as part of the spin-off arrangement of Hainan BioScikin in 2015 and we acquired the entire equity interest in Simcere Shanghai Pharmaceutical from BioSciKin Medical, a wholly-owned subsidiary of Hainan BioSciKin for a consideration of RMB464.6 million in 2019, which was presented as deemed distribution upon the Reorganization and business combination under common control as Simcere Shanghai Pharmaceutical has been under common control. Please see "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization – Acquisition of Subsidiaries from BioSciKin Medical – Simcere Shanghai Pharmaceutical" for more details.

Our net cash generated from financing activities in 2018 was RMB311.3 million. This cash inflow was primarily attributable to (i) proceeds from new bank loans of RMB1,646.8 million; and (ii) proceeds from new loans from related parties of RMB296.9 million. This cash inflow was partially offset by (i) repayment of bank loans of RMB743.5 million; (ii) dividends paid of RMB549.1 million; and (iii) repayment of loans from related parties of RMB238.6 million.

Our net cash used in financing activities in 2017 was RMB347.3 million. This cash outflow was primarily attributable to (i) repayment of bank loans of RMB843.1 million; and (ii) an increase in pledged deposits for banking facilities of RMB193.9 million. This cash outflow was partially offset by proceeds from new bank loans of RMB774.5 million.

NET CURRENT ASSETS/(LIABILITIES)

The following table sets forth our current assets, current liabilities and net current assets/(liabilities) as of the dates indicated:

	As of December 31,			As of June 30,	As of August 31,
	2017	2018	2019	2020	2020
			(RMB'000)		
					(unaudited)
Current Assets					
Financial assets at fair value through profit or loss	506,283	261,062	543,938	–	–
Trading securities	2,858	2,286	3,058	2,956	3,395
Inventories	187,241	233,869	248,174	294,944	279,240
Trade and bills receivables	697,975	951,310	1,336,916	1,651,492	1,864,945
Prepayments, deposits and other receivables	80,993	80,555	119,483	123,926	139,523
Taxation recoverable	2,442	18,958	306	30,737	25,014
Loans to related parties and third parties	527,443	678,003	–	–	–
Pledged deposits	194,068	240,569	290,962	904,477	926,180
Restricted deposits	12,134	11,369	–	1,501	1,500
Cash and cash equivalents	572,584	1,187,647	354,804	595,916	371,166
Total current assets	2,784,021	3,665,628	2,897,641	3,605,949	3,610,963
Current Liabilities					
Bank loans	855,580	1,979,321	1,643,978	2,279,197	2,227,333
Loans from related parties	138,855	203,852	–	–	–
Lease liabilities	19,955	13,678	26,206	37,975	37,834
Trade and bills payables	215,100	307,557	254,851	220,459	215,136
Other payables and accruals	1,262,628	1,506,967	1,417,945	1,325,363	1,325,600
Taxation payable	39,673	100,025	85,525	137	28
Total current liabilities	2,531,791	4,111,400	3,428,505	3,863,131	3,805,931
Net current assets/(liabilities)	252,230	(445,772)	(530,864)	(257,182)	(194,968)

We had net current liabilities of RMB195.0 million as of August 31, 2020, consisting of current assets of RMB3,611.0 million and current liabilities of RMB3,805.9 million, which represented a decrease of RMB62.2 million from our net current liabilities of RMB257.2 million as of June 30, 2020. This decrease was primarily due to an increase in trade and bills receivables of RMB213.5 million, which was partially offset by a decrease in cash and cash equivalents of RMB224.8 million.

We had net current liabilities of RMB257.2 million as of June 30, 2020, consisting of current assets of RMB3,605.9 million and current liabilities of RMB3,863.1 million, which represented a decrease of RMB273.7 million from our net current liabilities of RMB530.9 million as of December 31, 2019. This decrease was primarily due to (i) an increase in pledged deposits of RMB613.5 million mainly to secure our bank loans; (ii) an increase in trade and bills receivables of RMB314.6 million mainly due to the prolonged settlement of trade receivables by our customers in light of the COVID-19 outbreak; and (iii) an increase in cash and cash equivalents of RMB241.1 million. This decrease was partially offset by (i) an increase in bank loans of RMB635.2 million; and (ii) a decrease in financial assets at fair value through profit or loss of RMB543.9 million.

We had net current liabilities of RMB530.9 million as of December 31, 2019, consisting of current assets of RMB2,897.6 million and current liabilities of RMB3,428.5 million, which represented an increase of RMB85.1 million from our net current liabilities of RMB445.8 million as of December 31, 2018. This increase was primarily due to (i) a decrease in cash and cash equivalents of RMB832.8 million; and (ii) a decrease in loans to related parties and third parties of RMB678.0 million. This increase was partially offset by (i) an increase in trade and bills receivables of RMB385.6 million generally in line with the increase in our sales; (ii) a decrease in bank loans of RMB335.3 million; (iii) an increase in financial assets at fair value through profit or loss of RMB282.9 million; and (iv) a decrease in loans from related parties of RMB203.9 million.

We had net current liabilities of RMB445.8 million as of December 31, 2018, consisting of current assets of RMB3,665.6 million and current liabilities of RMB4,111.4 million, compared to our net current assets of RMB252.2 million as of December 31, 2017. This was primarily due to (i) an increase in bank loans of RMB1,123.7 million; (ii) a decrease in financial assets at fair value through profit or loss of RMB245.2 million; and (iii) an increase in other payables and accruals of RMB244.3 million, mainly attributable to (a) an increase in dividends payable as a result of dividends declared in 2018 and (b) an increase in accrued expenses generally in line with the growth of our business. This was partially offset by (i) an increase in cash and cash equivalents of RMB615.1 million; (ii) an increase in trade and bills receivables of RMB253.3 million generally in line with the increase in our sales; and (iii) an increase in loans to related parties and third parties of RMB150.6 million.

As of December 31, 2017, we had net current assets of RMB252.2 million, consisting of current assets of RMB2,784.0 million and current liabilities of RMB2,531.8 million.

We plan to further improve our net current liabilities position through (i) cash generated from our business operations, (ii) net proceeds from the Global Offering and (iii) debt restructuring to reduce the percentage of short-term bank loans.

Working Capital Sufficiency

Our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus in light of the following:

- net cash generated from operating activities;
- strong and long-term relationship with major commercial banks and financial institutions in China, which provide us with additional support of working capital; and
- the estimated net proceeds from the Global Offering.

CERTAIN BALANCE SHEET ITEMS

Inventories

The table below sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(RMB'000)		
Raw materials	51,782	71,695	82,364	91,413
Semi-finished goods	30,160	29,886	40,070	62,017
Finished goods	111,915	139,902	131,342	151,329
Write down of inventories	(6,616)	(7,614)	(5,602)	(9,815)
Total	187,241	233,869	248,174	294,944

Our inventories increased by 24.9% from RMB187.2 million as of December 31, 2017 to RMB233.9 million as of December 31, 2018, reflecting an increase in finished goods of RMB28.0 million and an increase in raw materials of RMB19.9 million, primarily due to increase in our production volume in an effort to accommodate increased demand for our products, which were in line with the increase in our sales.

Our inventories increased by 6.1% from RMB233.9 million as of December 31, 2018 to RMB248.2 million as of December 31, 2019, reflecting an increase in semi-finished goods of RMB10.2 million and an increase in raw materials of RMB10.7 million, primarily due to increase in our production volume in an effort to accommodate increased demand for our products, which were in line with the increase in our sales. This increase was partially offset by a decrease in finished goods of RMB8.6 million.

Our inventories increased by 18.8% from RMB248.2 million as of December 31, 2019 to RMB294.9 million as of June 30, 2020, reflecting an increase in raw materials of RMB9.0 million, an increase in semi-finished goods of RMB21.9 million and an increase in finished goods of RMB20.0 million, primarily due to the unanticipated decrease in demand for certain of our products caused by the COVID-19 outbreak.

We made provisions to write down our inventories to the net realizable value if their expected net realizable value is lower than the cost of the inventories. Specifically, we make provision for finished goods primarily with a shelf life of less than six months.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our inventory turnover days were 122.6 days, 99.7 days, 99.0 days and 127.3 days, respectively. We calculate the inventory turnover days using the average of the opening and ending inventory balances for the period, net of write down of inventories, divided by cost of sales for the relevant period, multiplied by the number of days for the relevant period (365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020). Inventory turnover days decreased from 122.6 days in 2017 to 99.7 days in 2018, primarily because we maintained a higher inventory level at the year-end of 2016 in anticipation of our relocation of a production workshop and production transfer of one of our products between our production facilities commencing from 2017. Inventory turnover days remained relatively stable at 99.7 days in 2018 and 99.0 days in 2019. Inventory turnover days increased from 99.0 days in 2019 to 127.3 days in the six months ended June 30, 2020, primarily due to the unanticipated decrease in demand for certain of our products caused by the COVID-19 outbreak.

As of August 31, 2020, RMB126.8 million, or approximately 41.6%, of our gross inventories as of June 30, 2020 had been utilized or sold.

Trade and Bills Receivables

The following tables set forth a breakdown of our trade and bills receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
		(RMB'000)		
Trade receivables	286,232	554,059	985,117	1,284,758
Bills receivable	422,477	409,249	364,585	387,130
	708,709	963,308	1,349,702	1,671,888
Less: loss allowance	(10,734)	(11,998)	(12,786)	(20,396)
Total	697,975	951,310	1,336,916	1,651,492

Our trade receivables represent the outstanding amounts due from our customers for our products and services. We typically grant our direct sales customers credit terms of 60 days and grant our distributors credit terms of 30 to 90 days, with longer terms granted to selected distributors with whom we have built a strong business and financial track record. We seek to maintain strict credit control over our outstanding receivables, and overdue balances are reviewed regularly and actively monitored by senior management to minimize credit risk.

Our bills receivable represents short-term bank acceptance notes received from our customers in lieu of cash payments. Our bills receivable generally ranges from three to 12 months from the date of issuance.

Our trade and bills receivables increased by 36.3% from RMB698.0 million as of December 31, 2017 to RMB951.3 million as of December 31, 2018, and further increased by 40.5% to RMB1,336.9 million as of December 31, 2019, which was generally in line with the increase in our sales.

Our trade and bills receivables increased by 23.5% from RMB1,336.9 million as of December 31, 2019 to RMB1,651.5 million as of June 30, 2020, primarily due to the prolonged settlement of trade receivables by our customers in light of the COVID-19 outbreak, which, to the best knowledge of the Company, was mainly attributable to delay in payment by public medical institutions to our distributors caused by the COVID-19 outbreak. We are not aware of any of our major customers and trade debtors having financial difficulties as a result of the COVID-19 outbreak, and we do not have any material disputes or litigations with our major trade debtors as of June 30, 2020.

The following table sets forth an aging analysis of our trade and bills receivables, based on invoice date and net of loss allowance, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(RMB'000)			
Within 3 months	504,533	814,415	1,072,544	909,645
Over 3 months but within 12 months	191,542	136,663	264,272	737,286
Over 12 months	1,900	232	100	4,561
Total	697,975	951,310	1,336,916	1,651,492

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade receivables turnover days were 27.4 days, 33.1 days, 54.9 days and 105.7 days, respectively. We calculate the trade receivables turnover days using the average of the opening and ending trade receivable balances for the period, net of loss allowance, divided by revenue for the relevant period, multiplied by the number of days for the relevant period (365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020). Trade receivables turnover days increased from 27.4 days in 2017 to 33.1 days in 2018, and further increased to 54.9 days in 2019, primarily because after taking into consideration of our solid cash flow position, we required our distributors to satisfy more stringent requirements on credit terms and payment method before certain discounts were granted, resulting in prolonged payment cycle of some of our distributors. According to Frost & Sullivan, our trade receivables turnover days for the years ended December 31, 2017, 2018 and 2019 are in line with those of our market peers. Trade receivables turnover days increased from 54.9 days in 2019 to 105.7 days for the six months ended June 30, 2020, primarily due to (i) a decrease in our sales; and (ii) the prolonged settlement of trade receivables by our customers in light of the COVID-19 outbreak.

As of August 31, 2020, RMB523.1 million, or approximately 31.7% of our trade and bills receivables as of June 30, 2020 had been subsequently settled. In particular, as of August 31, 2020, RMB412.1 million, or approximately 32.1% of our trade receivables as of June 30, 2020 had been subsequently settled.

Prepayments, Deposits and Other Receivables

The following tables set forth a breakdown of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(RMB'000)		
Current portion				
Prepayments for raw materials and expenses	31,027	31,772	52,215	52,033
Value added tax recoverable	11,945	9,576	30,337	27,084
Other deposits and receivables	40,949	42,485	41,078	49,008
Less: loss allowance	(2,928)	(3,278)	(4,147)	(4,199)
Sub-total	80,993	80,555	119,483	123,926
Non-current portion				
Prepayments for property, plant and equipment	10,772	21,653	64,739	77,781
Deposits for investments	–	–	260,351	50,000
Sub-total	10,772	21,653	325,090	127,781
Total	91,765	102,208	444,573	251,707

Prepayments for raw materials and expenses mainly comprise prepayment for research and development costs, prepayment for procurement of raw materials and prepayment for other operating costs and expenses. Value added tax recoverable represent value added taxes paid with respect to our procurement that can be credited against future value added tax payables. Other deposits and receivables primarily comprise staff advances, deposits and interest receivable.

Current portion of prepayments, deposits and other receivables remained relatively stable at RMB81.0 million as of December 31, 2017 and RMB80.6 million as of December 31, 2018. Current portion of prepayments, deposits and other receivables increased by 48.3% from RMB80.6 million as of December 31, 2018 to RMB119.5 million as of December 31, 2019, primarily due to (i) an increase in value added tax recoverable of RMB20.8 million, mainly attributable to our increased expenditures on property, plant and equipment; and (ii) an increase in prepayments for raw materials and expenses of RMB20.4 million, mainly attributable to an increase in prepayment for research and development costs as a result of new R&D projects initiated in 2019. Current portion of prepayments, deposits and other receivables remained relatively stable at RMB119.5 million as of December 31, 2019 and RMB123.9 million as of June 30, 2020.

Non-current portion of prepayments, deposits and other receivables increased by 101.0% from RMB10.8 million as of December 31, 2017 to RMB21.7 million as of December 31, 2018, reflecting an increase in prepayments for property, plant and equipment of RMB10.9 million, mainly attributable to prepayment for purchases of production and R&D equipment. Non-current portion of prepayments, deposits and other receivables increased significantly from RMB21.7 million as of December 31, 2018 to RMB325.1 million as of December 31, 2019, reflecting (i) an increase in deposits for investments of RMB260.4 million, as a result of amounts we prepaid for investment in 3D Medicines and TCRCure Beijing; and (ii) an increase in prepayments for property, plant and equipment of RMB43.1 million, mainly attributable to prepayment for the construction of our new R&D center in Boston, the United States. Non-current portion of prepayments, deposits and other receivables decreased by 60.7% from RMB325.1 million as of December 31, 2019 to RMB127.8 million as of June 30, 2020, primarily due to a decrease in deposits for investments of RMB210.4 million as a result of the completion of investment in 3D Medicines.

Loans to Related Parties and Third Parties

We recorded loans to related parties and third parties with an aggregate amount of RMB527.4 million, RMB678.0 million, nil and nil as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Please see "– Related Party Transactions" for details about loans to related parties and "– Description of Key Statements of Profit or Loss Items – Finance Income/(Costs)" for details about loans to third parties. Pursuant to the "Provisions of the Supreme People's Court on the Application of Laws to the Hearing of Private Lending Cases" (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "**Provisions**"), which became effective on September 1, 2015, when a private lending contract is necessary for the purposes of production and business operations between legal persons, unless circumstances under the Article 52 of the Contract Law of the PRC (《中華人民共和國合同法》) and Article 14 of the Provisions exist, if the party claims that the private lending contract is valid, the People's Court shall uphold such claim. As our loans to related parties and third parties were necessary for production and business operation purposes and did not contravene Article 52 of the Contract Law of the PRC or Article 14 of the Provisions, our PRC Legal Advisors have advised us that the private lending contracts in connection with such loans are valid.

Pledged Deposits and Restricted Deposits

The table below sets forth a breakdown of our pledged deposits and restricted deposits as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Pledged deposits for				
– issuance of bill payables and letters of credit	68	40,569	962	1,477
– banking facilities	194,000	200,000	290,000	903,000
Total	194,068	240,569	290,962	904,477
Restricted deposits for				
– research and development projects	12,134	11,369	–	1,501
Total	12,134	11,369	–	1,501

Our pledged deposits represent deposits pledged to the banks to guarantee our bank acceptance notes and letters of credit or secure bank loans granted to us, which will be released upon settlement of the relevant bank acceptance notes and letters of credit or repayment of the relevant banking loans.

Our restricted deposits represent government subsidies we received which are restricted for use to fund certain research and development projects.

Financial Assets at Fair Value through Profit or Loss and Trading Securities

The following tables set forth a breakdown of our financial assets at fair value through profit or loss and trading securities as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
		(RMB'000)		
Current portion of financial assets at fair value through profit or loss				
Structured deposits and wealth management products	506,283	261,062	543,938	–
	506,283	261,062	543,938	–
Non-current portion of financial assets at fair value through profit or loss				
Unlisted investments	36,219	50,249	64,115	85,741
Unlisted units in investment funds	733,488	809,415	837,726	811,833
	769,707	859,664	901,841	897,574
Total	1,275,990	1,120,726	1,445,779	897,574
Trading securities – current				
Listed equity securities	2,858	2,286	3,058	2,956

Current portion of financial assets at fair value through profit or loss represents investments in short-term structured deposits and wealth management products issued by commercial banks in China.

Non-current portion of financial assets at fair value through profit or loss represents investments in equity securities of private companies and units in investment funds. Such investment funds and private companies are incorporated in the PRC, the United States, the Cayman Islands and Singapore and primarily invest in or engage in healthcare and pharmaceutical sectors.

Trading securities represent investments in listed equity securities, whose fair value is determined based on the closing prices quoted in active markets.

The investment business department (投資業務部) and business development department (業務發展部) at our headquarters are responsible for managing our investment in financial assets, including formulating annual investment plans for the following year at each year end. Annual investment plans covering details of the proposed investment projects are required to be submitted to the heads of investment business department and business development department for review and approval.

We have established internal procedures to manage our investment in financial assets, including:

- ***Selection and initiation of investment projects***: Our investment business department and business development department select investment projects with due and careful consideration based on industry research, product research and recommendations from our senior sales and marketing personnel or reliable third parties. Our investment business department and business development department prepare project proposal, which assesses the value and potential of the investment projects. A selected investment project will be formally initiated after being approved by our chief executive officer and heads of various business departments;

- ***Due diligence***: When an investment project obtains the initiation approval, a due diligence team consisting of personnel from finance, legal, sales and marketing, R&D and/or production departments will be formed to conduct due diligence investigations on it. Heads of our investment business department and business development department, together with other team members, will review, analyze and approve the due diligence report; and

- ***Investment decisions***: Our chief executive officer and heads of various business departments will review the due diligence report and make final decisions on whether to invest in a project. Once an investment decision is made, our finance department and legal department will proceed to review the specific investment agreement in accordance with our internal policies.

Interest in Associates

We record interest in associates of nil, RMB18.4 million, RMB159.4 million and RMB330.1 million, respectively, as of December 31, 2017, 2018 and 2019 and June 30, 2020. We assess whether this is any objective evidence that our interest in the associates are impaired at the end of each reporting period by considering the associates' business development process, any significant financial difficulty, default or bankruptcy encountered by the associates and adverse change in technological, market, economic or legal environment. Based on such assessment, we have concluded that no impairment indicator was identified at the end of each reporting period and no impairment loss of interest in associates is considered necessary to be recognized in our consolidated statements of profit or loss.

In particular, we completed the investment in 3D Medicines on June 17, 2020. 3D Medicines was loss making for the six months ended June 30, 2020 as it was still in the stage of research and development of innovative biopharmaceutical products and immune-oncology therapies, which is in line with other pre-revenue biotechnology companies. Having considered the relevant factors, no impairment indicator was identified for our investment in 3D Medicines as of June 30, 2020 and no impairment loss was recognized.

Trade and Bills Payables

The following tables set forth a breakdown of our trade and bills payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
		(RMB'000)		
Trade payables	93,815	79,818	93,165	66,172
Bills payables	121,285	227,739	161,686	154,287
Total	215,100	307,557	254,851	220,459

Our trade payables primarily comprise the outstanding amounts due to our suppliers, including raw material suppliers and manufacturers of third-party pharmaceutical products. Credit terms granted by our suppliers vary. Certain of our raw materials suppliers generally provide us credit terms of at least 20 days.

Our bills payables represent short-term bank acceptance notes issued to our suppliers in lieu of cash payments, with maturity dates typically ranging from 30 days to 180 days.

Our trade and bills payables increased by 43.0% from RMB215.1 million as of December 31, 2017 to RMB307.6 million as of December 31, 2018, and decreased by 17.1% from RMB307.6 million as of December 31, 2018 to RMB254.9 million as of December 31, 2019, primarily because a larger amount of bank acceptance notes remained outstanding at 2018 year end. Our trade and bills payables decreased by 13.5% from RMB254.9 million as of December 31, 2019 to RMB220.5 million as of June 30, 2020, primarily due to a decrease in our purchases.

The following table sets forth an aging analysis of our trade and bills payables, based on invoice date, as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Within three months	136,096	173,228	172,961	89,650
Three to 12 months	77,334	132,350	79,838	128,910
Over 12 months	1,670	1,979	2,052	1,899
Total	215,100	307,557	254,851	220,459

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, our trade payables turnover days were 82.1 days, 41.1 days, 35.5 days and 37.4 days, respectively. We calculate the trade payables turnover days using the average of the opening and closing trade payable balances for the period, divided by cost of sales for the relevant period, multiplied by the number of days for the relevant period (365 days for 2017, 2018 and 2019 and 182 days for the six months ended June 30, 2020). Trade payables turnover days decreased from 82.1 days in 2017 to 41.1 days in 2018, primarily due to increased use of bills payables to settle payments with suppliers. Trade payables turnover days decreased from 41.1 days in 2018 to 35.5 days in 2019, primarily due to shortened credit terms granted by certain suppliers in exchange for more favorable purchase prices. Trade payables turnover days remained relatively stable at 35.5 days in 2019 and 37.4 days in the six months ended June 30, 2020.

As of August 31, 2020, RMB50.9 million, or approximately 76.9% of our trade payables as of June 30, 2020 had been subsequently settled.

Other Payables and Accruals

The following tables set forth a breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
		(RMB'000)		
Accrued expenses	567,810	686,037	782,754	787,878
Contract liabilities	21,392	18,340	16,675	14,759
Payable for employee reimbursements	83,334	111,008	83,558	92,753
Payables for staff related costs	68,257	87,147	191,223	154,647
Payables for purchase of property, plant and equipment	105,280	24,438	66,020	58,173
Cash received under share incentive scheme	54,270	68,119	112,029	112,029
Payables for government grants received on behalf of a fellow subsidiary	262,595	–	–	–
Dividends payable	–	350,944	–	–
Other tax payables	30,024	73,275	60,099	44,910
Others[1]	69,666	87,659	105,587	60,214
Total	1,262,628	1,506,967	1,417,945	1,325,363

Note:

(1) Primarily comprise payables to certain related parties for lease of properties and related property management, deposits, such as rental deposits received from tenants, bidding deposits received from suppliers and retention money in relation to purchase of fixed assets, as well as other miscellaneous expense payables.

Accrued expenses primarily comprise accrued marketing and promotion expenses, research and development costs and other expenses.

Payable for employee reimbursements are primarily related to travel, accommodation and other reimbursable expenses incurred by our employees, including sales and marketing personnel, research and development personnel, manufacturing personnel and administrative personnel.

Payables for staff related costs mainly represent salary and bonus payables. Payables for purchase of property, plant and equipment primarily comprise payables for the construction of our production facilities. Cash received under share incentive scheme represents cash received from the participants of the Pre-IPO Share Incentive Scheme on behalf of SPHL as such participants were unable to pay SPHL directly due to foreign exchange control in China. For details, please see "Appendix V – Statutory and General Information – D. Pre-IPO Share Incentive Scheme." Such payables have been fully settled.

Payables for government grants received on behalf of a fellow subsidiary represent eminent domain compensation we received on behalf of Nanjing BioSciKin Technology. In 2014, Nanjing BioSciKin Technology was spun off from Simcere Pharmaceutical and established as wholly owned by SGG. Please see "History, Reorganization and Corporate Structure – Corporate Development – Subsequent Development following the De-listing from the NYSE – Spin-off of BioSciKin Business." As part of the spin-off arrangement, Simcere Pharmaceutical agreed to transfer the ownership of certain properties to Nanjing BioSciKin Technology. Before completion of the ownership transfer procedures, some of these properties were seized by the local government due to eminent domain. While Nanjing BioSciKin Technology is entitled to the relevant compensation according to the spin-off arrangement, the local government paid such amounts to Simcere Pharmaceutical as the then owner of these properties. Save as such government grants we received on behalf of Nanjing BioSciKin Technology, we did not receive any other government grants on behalf of our connected persons or related parties during the Track Record Period.

Other payables and accruals increased by 19.4% from RMB1,262.6 million as of December 31, 2017 to RMB1,507.0 million as of December 31, 2018, primarily due to (i) an increase in dividends payable of RMB350.9 million as a result of dividends declared in 2018; and (ii) an increase in accrued expenses of RMB118.2 million, which was generally in line with the growth of our business. This increase was partially offset by a decrease in payables for government grants received on behalf of a fellow subsidiary of RMB262.6 million.

Other payables and accruals decreased by 5.9% from RMB1,507.0 million as of December 31, 2018 to RMB1,417.9 million as of December 31, 2019, primarily due to a decrease in dividends payable of RMB350.9 million as a result of settlement of dividends declared in 2018. This decrease was partially offset by (i) an increase in accrued expenses of RMB96.7 million, which was generally in line with the growth of our business; and (ii) an increase in payables for staff related costs of RMB104.1 million mainly attributable to increased headcount and compensation level.

Other payables and accruals decreased by 6.5% from RMB1,417.9 million as of December 31, 2019 to RMB1,325.4 million as of June 30, 2020, primarily due to a decrease in payables for staff related costs of RMB36.6 million as a result of payment of 2019 annual bonus.

Save as disclosed in this prospectus, there were no other payments or receipts paid or received by us on behalf of other related parties or third parties during the Track Record Period. Our Directors confirm that we had no material defaults in our trade payables or other payables during the Track Record Period and up to the Latest Practicable Date.

Lease Liabilities

We are the lessee in respect of certain properties held under operating leases for our offices, employee dormitories and laboratories during the Track Record Period. For any lease with a term of more than 12 months, unless the underlying asset is of low value, we recognize a right-of-use asset representing our right to use the underlying leased asset and a lease liability representing our obligation to make lease payments. Please see "– Critical Accounting Policies and Estimates – Adoption of HKFRS 9, HKFRS 15 and HKFRS 16" for more details.

The table below sets forth our future minimum lease payments under these operating leases which fall due as of the dates as indicated:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
		(RMB'000)		
Minimum lease payments:				
Within one year	20,490	15,816	32,505	47,815
After one but within two years	5,655	9,350	31,801	46,782
After two but within five years	134	26,864	94,068	128,735
After five years	81	11,848	19,369	72,222
Less: future finance charges	(665)	(7,210)	(19,936)	(38,049)
Present value of lease liabilities	25,695	56,668	157,807	257,505
Within one year	19,955	13,678	26,206	37,975
After one but within two years	5,546	7,646	26,696	38,580
After two but within five years	117	23,829	86,135	114,176
After five years	77	11,515	18,770	66,774
Total	25,695	56,668	157,807	257,505

INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

During the Track Record Period, our indebtedness mainly consisted of bank loans, loans from related parties and lease liabilities. The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of August 31,
	2017	2018	2019	2020	2020
			(RMB'000)		
					(unaudited)
Included in current liabilities					
Bank loans					
– Short-term bank loans	635,580	1,745,616	1,508,765	2,035,282	1,983,444
– Current portion of long-term bank loans	220,000	233,705	135,213	243,915	243,889
	855,580	1,979,321	1,643,978	2,279,197	2,227,333
Loans from related parties	138,855	203,852	–	–	–
Current portion of lease liabilities	19,955	13,678	26,206	37,975	37,834
Sub-total	1,014,390	2,196,851	1,670,184	2,317,172	2,265,167
Included in non-current liabilities					
Bank loans					
– Non-current portion of long-term bank loans	297,477	78,019	1,139,171	1,201,228	1,216,053
Non-current portion of lease liabilities	5,740	42,990	131,601	219,530	208,214
Sub-total	303,217	121,009	1,270,772	1,420,758	1,424,267
Total	1,317,607	2,317,860	2,940,956	3,737,930	3,689,434

The following table sets forth the maturity profile of our bank loans as of the dates indicated:

	As of December 31, 2017	2018	2019	As of June 30, 2020	As of August 31, 2020
			(RMB'000)		*(unaudited)*
Within one year or on demand	855,580	1,979,321	1,643,978	2,279,197	2,227,333
After one year but within two years	226,079	14,093	222,608	1,026,573	1,045,987
After two years but within five years	38,039	40,735	903,902	161,689	156,994
After five years	33,359	23,191	12,661	12,966	13,072
Total	1,153,057	2,057,340	2,783,149	3,480,425	3,443,386

The following table sets forth the interest rate profile of our indebtedness as of the dates indicated:

	As of December 31, 2017		2018		2019		As of June 30, 2020	
	Effective Interest rate	Amount	Effective Interest rate	Amount	Effective Interest rate	Amount	Effective Interest rate	Amount
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Fixed rate borrowings:								
Bank loans	0.85%-4.9%	1,153,057	1.2%-5.22%	1,883,816	0.37%-4.90%	2,783,149	0.37%-4.90%	3,302,661
Lease liabilities	4.54%	25,695	4.54%	56,668	4.54%	157,807	3.97%-4.54%	257,505
Loans from related parties	4.35%	138,855	4.35%	203,852		–		–
		1,317,607		2,144,336		2,940,956		3,560,166
Variable rate borrowings:								
Bank loans		–	LIBOR+1.3%	173,524		–	LIBOR+1.1%	177,764
Total borrowings		1,317,607		2,317,860		2,940,956		3,737,930

The following table sets forth a breakdown of our secured and unsecured bank loans as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Secured	382,395	373,371	1,523,149	1,521,883
Unsecured	770,662	1,683,969	1,260,000	1,958,542
Total	1,153,057	2,057,340	2,783,149	3,480,425

The table below sets forth our assets pledged to secure certain bank loans as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Leasehold land	15,263	14,910	53,991	53,293
Plants and buildings	185,825	176,480	224,935	220,923
Financial assets at fair value through profit or loss	–	–	400,000	–
Pledged deposits	194,000	200,000	290,000	903,000
Total	395,088	391,390	968,926	1,177,216

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our bank loans amounting to RMB100.5 million, RMB100.5 million, RMB783.5 million and RMB672.5 million, respectively, were guaranteed by Mr. Ren, Ms. Wang Xi (spouse of Mr. Ren) and Nanjing BioSciKin Technology, and pledged by the equity interest in Simcare Jiangsu held by Nanjing Huasheng. Please see "Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Financial Independence."

Certain of our bank loan agreements require that we maintain or satisfy financial covenants. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, except for bank borrowings, we did not have plans for other material external debt financing. As of August 31, 2020, we had unutilized credit facilities of RMB1,712.0 million (including certain unutilized facilities conditionally granted upon the pledge of deposits or bank acceptance bills which amounted to approximately RMB994.0 million). We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

Our Directors confirm that there has been no material change in our indebtedness position since August 31, 2020, being the latest practicable date for the purpose of the indebtedness statement.

Contingent Liabilities

Except as disclosed above, we did not have, as of August 31, 2020, any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interest and classified as owners' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures were RMB292.2 million, RMB335.2 million, RMB507.7 million, RMB245.6 million and RMB178.9 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively. The following table sets out our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2017	**2018**	**2019**	**2020**
		(RMB'000)		
Leasehold land	51,861	–	22,890	116
Plant and buildings	377	6,925	64,594	35,094
Machinery and equipment	62,714	39,384	112,359	49,190
Furniture, fixtures and office equipment	7,019	12,213	18,671	28,537
Motor vehicles	1,392	1,919	1,385	655
Construction in progress	208,055	183,054	286,255	44,614
Changes in prepayments and payables for purchases of property, plant and equipment	(39,218)	91,721	1,504	20,740
Total	292,200	335,216	507,658	178,946

Our capital expenditures during the Track Record Period were primarily related to the construction and upgrading of our production and R&D infrastructure. We expect to incur approximately RMB369.0 million in the year ending December 31, 2020, primarily consisting of expenditures on purchases of machinery and equipment as well as construction in progress. We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering as well as cash generated from operating activities.

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC and changes in the regulatory environment in the PRC. In addition, we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

Capital Commitments

The following table sets out our capital commitments as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(RMB'000)		
Contracted for, but not provided for				
– Construction of plant and buildings	89,031	160,436	219,672	110,978
– Acquisition of machinery and equipment	41,112	78,872	65,394	39,531
Total	130,143	239,308	285,066	150,509

RELATED PARTY TRANSACTIONS

The table below sets forth our material related party transactions for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Purchase of goods					
Jiangsu Simcare Pharmaceutical(1)	1,449	6,892	7,292	4,031	8,070
Simcare Jiangsu(1)	104	119	665	179	35
Beijing Sanroad(2)	2,460	770	–	–	–
Nanjing Fuantang Pharmaceutical Co., Ltd.(2)	92	62	–	–	–
Yoai Technology(2)	–	352	367	367	–
Xiangxiang Wuxian(2)	98	–	9	5	–
Xuancheng Menovo(2)	–	–	753	–	570
	4,203	8,195	9,086	4,582	8,675

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Purchase of services					
BioSciKin Medical(3)	59	100	9	9	–
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	–	–	–	–	64
Nanjing Medway(4)	100	–	1,075	–	75
Nanjing BioSciKin Asset Management Co., Ltd.(3)	1	1	1	–	–
Jiangsu Simcere Diagnostics(5)	–	–	480	–	60
	160	101	1,565	9	199
Sales of goods					
Jiangsu Simcare Pharmaceutical(6)	13,847	8,311	9,099	5,199	7,989
Simcare Jiangsu(6)	–	–	1,549	1,291	1,154
	13,847	8,311	10,648	6,490	9,143
Rendering of services					
BioSciKin Medical(7)	–	5	87	39	47
Beijing Sanroad(8)	–	26,425	42,618	20,276	19,374
Jiangsu Simcere Diagnostics(8)	–	15,835	488	184	203
BioSciKin Innovative Pharmaceutical(9)	–	–	–	–	105
	–	42,265	43,193	20,449	19,729

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Disposal of equity interest in other investment					
Mr. Ren	500	–	–	–	–
Acquisition of equity interest in subsidiaries under common control, an associate, a joint venture and other investments					
Nanjing BioSciKin Pharmaceutical Industrial Co., Ltd.(10)	–	50,000	–	–	–
SPHL(11)	93,000	–	–	–	–
BioSciKin Medical(12)	3,176	–	649,412	649,412	–
	96,176	50,000	649,412	649,412	–
Receiving rental, property management and other related services					
Nanjing BioSciKin Technology(13)	3,923	3,923	2,942	1,961	–
BioSciKin Medical(13)	15,005	30,068	52,096	17,143	23,525
Nanjing BioSciKin Asset Management Co., Ltd.(13)	1,588	3,166	3,221	1,415	1,343
BioSciKin Innovative Pharmaceutical(13)	–	–	750	–	704
	20,516	37,157	59,009	20,519	25,572
Provision of rental, property management and other related services					
Shanghai Youxu(14)	–	–	–	–	8

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Sales of property, plant and equipment					
BioSciKin Medical	274	–	–	–	–
Purchase of property, plant and equipment					
Simcare Jiangsu	239	–	–	–	–
BioSciKin Medical	5,113	–	21	21	–
Nanjing BioSciKin Asset Management Co., Ltd.	–	52	–	–	–
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	827	–	–	–	–
	6,179	52	21	21	–
Payments made on behalf of the Group					
BioSciKin Medical(15)	–	–	2,117	1,236	–
Jiangsu Pharmaceutical Industrial Co., Ltd.(15)	1,013	452	16	–	–
	1,013	452	2,133	1,236	–
Payments made on behalf of related parties					
Simcare Jiangsu(16)	408	460	357	–	–
Jiangsu Simcere Diagnostics(16)	494	886	1,160	714	–
SPHL(16)	4,390	3,251	390	–	–
	5,292	4,597	1,907	714	–

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
Government grants received on behalf of a related party					
Nanjing BioSciKin Technology	262,595	–	175,063	–	–
Advances to an associate					
BCY Pharm(17)	–	–	4,000	–	–
Cash received under share incentive scheme					
SPHL	–	17,100	44,300	–	–
New loans from related parties(18)					
SPHL	32,696	241,323	11,791	–	35,506
SGG	1,361	55,572	5	–	–
	34,057	296,895	11,796	–	35,506
Interest expenses on loans from related parties(18)					
SPHL	124	1,400	1,901	384	298
SGG	395	1,852	2,160	1,429	–
Nanjing BioSciKin Technology	3,493	3,493	2,545	1,732	–
	4,012	6,745	6,606	3,545	298

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
			(RMB'000)		
				(Unaudited)	
New loans to related parties(19)					
Jiangsu Simcere Diagnostics	–	20,000	–	–	–
BioSciKin Medical	263,748	920,722	227,615	88,560	–
SPHL	–	–	189,013	156,409	–
Simcere Industrial Co., Limited	–	8	6	–	–
	263,748	940,730	416,634	244,969	–
Interest income on loans to related parties(19)					
Jiangsu Simcere Diagnostics	–	505	–	–	–
BCY Pharm	–	–	–	–	130
SPHL	–	–	3,816	675	–
BioSciKin Medical	9,185	18,844	9,639	8,920	–
Shanghai BioSciKin Investment Management Co., Ltd.	10,875	10,875	7,896	5,393	–
	20,060	30,224	21,351	14,988	130

Notes:

(1) Represented purchases of certain healthcare products from these related parties. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 4. Simcare Procurement Framework Agreement" for details.

(2) Represented purchases of certain API, pharmaceutical and healthcare products from these related parties.

(3) Represented provision of certain conference services by BioSciKin Medical and Nanjing BioSciKin Asset Management Co., Ltd. to us.

(4) Represented provision of certain media promotion services by Nanjing Medway to us. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 6. Medway Media Cooperation Framework Agreement" for details.

(5) Represented provision of certain information technology services by such related party to us.

(6) Represented sales of certain pharmaceutical products to Simcare Jiangsu and its subsidiary, Jiangsu Simcare Pharmaceutical. Please see "Connected Transactions – Partially-Exempt Continuing Connected Transactions – 11. Simcare Sales and Distribution Framework Agreement" for details.

(7) Represented provision of certain conference services to BioSciKin Medical.

(8) Represented provision of promotion and other related services to these related parties. Please see "Connected Transactions – Partially-Exempt Continuing Connected Transactions – 12. Sanroad Promotion Services Framework Agreement" and "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 5. Simcere Diagnostics Sample Services Agreement" for details.

(9) Represented sharing of utilities facilities with BioSciKin Innovative Pharmaceutical. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 8. Utility Charge Agreement" for details.

(10) Please see "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization – Acquisition of Subsidiaries from BioSciKin Medical – Simcere Biological Pharmaceutical" for details.

(11) Please see "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization – Transfer of Equity Interest in Shandong Simcere" for details.

(12) Please see "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization – Acquisition of Subsidiaries from BioSciKin Medical – Simcere Biology" and "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization – Acquisition of Subsidiaries from BioSciKin Medical – Simcere Shanghai Pharmaceutical" for details.

(13) Please see "Connected Transactions – Partially-Exempt Continuing Connected Transactions – 10. Property Lease and Comprehensive Services Framework Agreement" for details.

(14) Represented certain costs and expenses paid by these related parties on behalf of our Group.

(15) Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 3. Shanghai Youxu Property Lease Agreement" for details.

(16) Represented certain costs and expenses paid by us on behalf of these related parties.

(17) Represented payment for acquisition of interest in BCY Pharm.

(18) Represented loans from these related parties, which were unsecured, had no fixed repayment terms and subject to an interest rate of 4.35% per annum.

(19) Represented loans to these related parties, which were unsecured and had no fixed repayment terms. Other than certain loans to BioSciKin Medical in 2017 with an aggregate amount of RMB204.0 million bearing an interest rate of 6% per annum, our loans to related parties during the Track Record Period were subject to an interest rate of 4.35% per annum.

The following table sets forth a breakdown of our balances due from/to related parties as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(RMB'000)			
Trade in nature:				
Trade receivables				
Jiangsu Simcare Pharmaceutical[1]	1,755	2,394	620	2,120
Simcare Jiangsu[1]	–	–	66	515
Beijing Sanroad[2]	–	5,003	8,736	10,209
Jiangsu Simcere Diagnostics[2]	–	4,000	439	–
Shanghai Youxu[3]	–	–	–	9
	1,755	11,397	9,861	12,853
Prepayments, deposits and other receivables				
Nanjing Fuantang Pharmaceutical Co., Ltd.[4]	29	–	–	–
Yoai Technology[4]	–	–	26	93
Simcare Jiangsu[5]	1,909	2,370	–	–
Jiangsu Simcere Diagnostics[6]	494	111	–	112
Beijing Sanroad[7]	5,000	5,174	5,000	5,000
BioSciKin Medical[8]	2,893	–	–	–
Xuancheng Menovo[9]	–	–	–	356
Nanjing Medway[10]	–	–	–	66
Jiangsu Simcare Pharmaceutical[11]	100	1,418	–	100
	10,425	9,073	5,026	5,727
Trade payables				
Simcare Jiangsu[12]	847	970	–	–
Jiangsu Simcare Pharmaceutical[12]	–	–	1,637	1,549
Beijing Sanroad[13]	55	–	–	–
BioSciKin Medical[14]	3,549	–	–	–
Yoai Technology[13]	–	352	–	–
	4,451	1,322	1,637	1,549

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(RMB'000)		
Other payables and accruals				
Nanjing BioSciKin Technology(15)	–	1,030	–	–
BioSciKin Innovative Pharmaceutical	–	–	150	–
Jiangsu Simcere Diagnostics	–	–	480	–
Simcare Jiangsu	–	–	1	–
Nanjing Medway(16)	–	–	213	–
Jiangsu Simcare Pharmaceutical	–	–	74	–
Nanjing BioSciKin Asset Management Co., Ltd.	–	445	135	3
BioSciKin Medical(15)	–	3,889	10,424	1,682
SGG	17	17	–	–
Nanjing BioSciKin Pharmaceutical Industrial Co., Ltd.	600	–	–	–
	617	5,381	11,477	1,685
Non-trade in nature:				
Interest in associates				
BCY Pharm	–	–	4,000	–
Loans to related parties and third parties(17)				
BioSciKin Medical	236,065	397,525	–	–
Simcare Jiangsu	58	58	–	–
Shanghai BioSciKin Investment Management Co., Ltd.	268,324	279,199	–	–
Simcere Industrial Co., Limited	–	8	–	–
	504,447	676,790	–	–
Loans from related parties(18)				
Nanjing BioSciKin Technology	99,806	103,299	–	–
SPHL	27,904	31,984	–	–
SGG	11,145	68,569	–	–
	138,855	203,852	–	–

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(RMB'000)		
Other payables and accruals				
Nanjing BioSciKin Technology[19]	262,595	–	–	–
SPHL[20]	54,270	419,063	112,029	112,029
Hainan BioSciKin[21]	15,822	15,822	–	–
	332,687	434,885	112,029	112,029

Notes:

(1) Represented receivables due from these related parties for sales of certain pharmaceutical products. Please see "Connected Transactions – Partially-Exempt Continuing Connected Transactions – 11. Simcare Sales and Distribution Framework Agreement" for details.

(2) Represented receivables due from these related parties for our promotion services. Please see "Connected Transactions – Partially-Exempt Continuing Connected Transactions – 12. Sanroad Promotion Services Framework Agreement" and "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 5. Simcere Diagnostics Sample Services Agreement" for details.

(3) Represented receivables due from such related party for rents payable. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 3. Shanghai Youxu Property Lease Agreement" for details.

(4) Represented prepayments paid to these related parties for purchases of certain pharmaceutical and healthcare products.

(5) Represented receivables due from such related party for certain costs and expenses we paid on behalf of it.

(6) Represented prepayments paid to such related party for certain information technology services.

(7) Represented prepayments paid to such related party in connection with the distribution of its products and deposits paid to such related party in connection with our promotion services. Please see "Connected Transactions – Partially-Exempt Continuing Connected Transactions – 12. Sanroad Promotion Services Framework Agreement" for details.

(8) Represented prepayments paid to such related party for purchase of certain fixed assets.

(9) Represented prepayments paid to such related party for purchases of APIs.

(10) Mainly comprised prepayments paid to such related party for certain media promotion services. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 6. Medway Media Cooperation Framework Agreement" for details.

(11) Represented prepayments paid to such related party for purchases of certain healthcare products. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 4. Simcare Procurement Framework Agreement" for details.

(12) Represented payables due to these related parties for purchases of certain healthcare products. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 4. Simcare Procurement Framework Agreement" for details.

(13) Represented payables due to these related parties for purchases of certain healthcare products.

(14) Represented payables due to such related party for certain conference services.

(15) Represented payables to these related parties for lease of properties and related property management services. Please see "Connected Transactions – Partially-Exempt Continuing Connected Transactions – 10. Property Lease and Comprehensive Services Framework Agreement" for details.

(16) Represented payables to such related party for certain media promotion services. Please see "Connected Transactions – Fully-Exempt Continuing Connected Transactions – 6. Medway Media Cooperation Framework Agreement" for details.

(17) Represented loans to these related parties, which were unsecured, had no fixed repayment terms and subject to an interest rate ranging from 4.35% to 6% per annum.

(18) Represented loans from these related parties, which were unsecured, had no fixed repayment terms and subject to an interest rate of 4.35% per annum.

(19) Represented payables to such related party for government grants we received on behalf of it.

(20) Represented dividends payables to such related party and payables to such related party for cash received from the participants of the Pre-IPO Share Incentive Scheme on behalf of such related party.

(21) Represented payables for the dividend payable to Hainan BioSciKin, which is declared by Shanghai Simcere in 2011.

We have settled all non-trade amounts due from/to related parties. We will discontinue all non-trade in nature related party transactions after the Listing, except as in compliance with the Listing Rules.

It is the view of our Directors that each of the related party transactions set out in Note 36 of the Accountants' Report in Appendix I to this prospectus (i) was conducted on arm's length basis; and (ii) would not distort our Track Record Period results or make our historical results not reflective of future performance.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2017	2018	2019	2020
Profitability ratios				
Return on equity[1]	21.3%	43.9%	65.9%	N/A
Return on total assets[2]	7.5%	12.7%	15.3%	N/A

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Liquidity ratios				
Current ratio[(3)]	1.10	0.89	0.85	0.93
Quick ratio[(4)]	1.03	0.83	0.77	0.86
Capital adequacy ratio				
Gearing ratio[(5)]	74.0%	148.1%	198.7%	201.1%

Notes:

(1) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity and multiplied by 100%.

(2) Return on total assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets and multiplied by 100%.

(3) Current ratio is calculated based on total current assets divided by total current liabilities.

(4) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.

(5) Gearing ratio is calculated based on total borrowings divided by total equity.

Return on Equity

Our return on equity increased from 21.3% in 2017 to 43.9% in 2018, primarily due to an increase in net profit.

Our return on equity increased from 43.9% in 2018 to 65.9% in 2019, primarily due to an increase in net profit.

Return on Total Assets

Our return on total assets increased from 7.5% in 2017 to 12.7% in 2018, primarily because the increase in our net profit outpaced the increase in our total assets.

Our return on total assets increased from 12.7% in 2018 to 15.3% in 2019, primarily because the increase in our net profit outpaced the increase in our total assets.

Current Ratio

Our current ratio decreased from 1.10 as of December 31, 2017 to 0.89 as of December 31, 2018, primarily because the increase in our current liabilities outpaced the increase in our current assets.

Our current ratio decreased from 0.89 as of December 31, 2018 to 0.85 as of December 31, 2019, primarily because the decrease in our current assets outpaced the decrease in our current liabilities.

Our current ratio increased from 0.85 as of December 31, 2019 to 0.93 as of June 30, 2020, primarily because the increase in our current assets outpaced the increase in our current liabilities.

Quick Ratio

Consistent with the changes in our current ratio, our quick ratio decreased from 1.03 as of December 31, 2017 to 0.83 as of December 31, 2018, and further decreased to 0.77 as of December 31, 2019 and increased from 0.77 as of December 31, 2019 to 0.86 as of June 30, 2020.

Gearing ratio

Our gearing ratio increased from 74.0% as of December 31, 2017 to 148.1% as of December 31, 2018, primarily due to an increase in total borrowings.

Our gearing ratio increased from 148.1% as of December 31, 2018 to 198.7% as of December 31, 2019, primarily due to an increase in total borrowings.

Our gearing ratio remained relatively stable at 198.7% as of December 31, 2019 and 201.1% as of June 30, 2020.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2020

We have prepared the following profit forecast for the year ending December 31, 2020.

Forecast consolidated profit attributable to equity shareholders of the Company(1)	Not less than RMB480 million (equivalent to HK$542 million)(3)
Unaudited pro forma forecast earnings per Share(2)	Not less than RMB0.18 (equivalent to HK$0.21)(3)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2020 has been prepared are summarized in "Profit Forecast" in Appendix III to this prospectus. Our forecast consolidated profit attributable to equity shareholders of the Company for the year ending December 31, 2020 prepared by our Directors is based on (i) the audited consolidated financial information of our Group for the six months ended June 30, 2020; (ii) the unaudited consolidated results based on management accounts of our Group for the two months ended August 31, 2020; and (iii) a forecast of the consolidated results of our Group for the remaining four months ending December 31, 2020, in the absence of unforeseen circumstances. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarized in "Accountants' Report" as set out in Appendix I to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per Share for the year ending December 31, 2020 is based on the forecast consolidated profit attributable to equity shareholders of the Company for the year ending December 31, 2020, assuming the Global Offering had been completed on January 1, 2020 and a total of 2,605,686,618 Shares were in issue during the entire year, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The forecast consolidated profit attributable to the equity shareholders of the Company and unaudited pro forma forecast earnings per Share in RMB are converted to Hong Kong dollars at the rate of HK$1.00 to RMB0.8852. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including interest rate risk, credit risk, liquidity risk and currency risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. For further details, including relevant sensitivity analysis, see Note 37 in the Accountants' Report set out in Appendix I to this prospectus.

Interest Rate Risk

Our interest rate risk primarily arises from interest-bearing borrowings. Borrowings issued at fixed rates expose us to fair value interest rate risk. Borrowings issued at variable rates expose us to cash flow interest rate risk. We believe our exposure to interest rate risk is not significant.

Credit Risk

Our credit risk is primarily attributable to trade and other receivables. Our exposure to credit risk arising from cash and cash equivalents, restricted deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which we consider to have low credit risk.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As of December 31, 2017, 2018 and 2019 and June 30, 2020, 6%, 9%, 5% and 2%, respectively, of our trade receivables were due from our largest customer and 16%, 18%, 14% and 12%, respectively, of our trade receivables were due from our five largest customers. We perform individual credit evaluations on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. We do not obtain collateral from customers.

We measure loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As our historical credit loss experiences do not indicate significantly different loss patterns for different businesses, the loss allowance based on past due status is not further distinguished between our different customer bases.

The following table sets forth information about our exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

	As of December 31, 2017		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.5%	174,151	927
Less than 3 months past due	1.3%	95,548	1,212
More than 3 months but less than 12 months past due	12.3%	5,799	713
More than 12 months past due	73.4%	10,734	7,882
		286,232	10,734

	As of December 31, 2018		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.4%	362,129	1,309
Less than 3 months past due	1.0%	171,370	1,715
More than 3 months but less than 12 months past due	14.5%	8,562	1,243
More than 12 months past due	64.4%	11,998	7,731
		554,059	11,998

	As of December 31, 2019		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2%	522,956	1,183
Less than 3 months past due	0.4%	412,020	1,790
More than 3 months but less than 12 months past due	5.6%	37,355	2,074
More than 12 months past due	60.5%	12,786	7,739
		985,117	12,786

	As of June 30, 2020		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	0.2%	658,966	1,279
Less than 3 months past due	0.4%	224,795	899
More than 3 months but less than 12 months past due	3.2%	391,553	12,685
More than 12 months past due	58.6%	9,444	5,533
		1,284,758	20,396

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and our view of economic conditions over the expected lives of the receivables.

Liquidity Risk

We regularly monitor our liquidity requirements and our compliance with lending covenants to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements.

See Note 37(b) to the Accountants' Report included in Appendix I to this prospectus for further details of the liquidity risk we face.

Currency Risk

We principally operate in the PRC and are exposed to foreign currency risk primarily arising from cash balances and bank loans that are denominated in a foreign currency. The currencies giving rise to this risk are primarily United States dollars, Euro and Great British pounds.

For the years ended December 31, 2018 and 2019 and the six months ended June 30, 2020, had there been a 5% increase or decrease in the exchange rate of United States dollars against Renminbi, our profit after tax and retained profits would have increased or decreased by approximately RMB541,000, RMB2,000 and RMB2,000, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, had there been a 5% increase or decrease in the exchange rate of Euro against Renminbi, our profit after tax and retained profits would have decreased or increased by approximately RMB8.8 million, RMB9.0 million, RMB26.9 million and RMB34.8 million, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, had there been a 5% increase or decrease in the exchange rate of Great British pounds against Renminbi, our profit after tax and retained profits would have decreased or increased by approximately RMB7.3 million and RMB7.2 million and increased or decreased by approximately RMB1,000 and RMB5,000, respectively.

For further details, please see Note 37(d) to the Accountants' Report included in Appendix I to this prospectus.

DIVIDENDS

We declared dividends of approximately US$131.1 million (equivalent to RMB900.00 million) and approximately US$93.8 million (equivalent to RMB635.07 million) in 2018 and 2019, respectively, which have been fully settled. Other than that, no dividend has been proposed, paid or declared by us during the Track Record Period. We do not currently have a formal dividend policy or a fixed dividend payout ratio.

Our Board may declare dividends in the future after taking into account our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Ordinance, including the approval of our Shareholders.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2020, we had retained profits of RMB1,166.7 million, which were available for distribution to Shareholders.

LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, professional fees paid to legal advisers, the Reporting Accountants and other professional advisers for their services rendered in relation to the Listing and the Global Offering. The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised) for the Global Offering are approximately RMB150.5 million (equivalent to HK$170.1 million), representing 5.06% of the gross proceeds (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised) of the Global Offering. During the Track Record Period, we incurred listing expenses of RMB17.3 million (equivalent to HK$19.6 million), of which approximately RMB13.9 million (equivalent to HK$15.7 million) was charged to the consolidated statements of profit or loss for the six months ended June 30, 2020 as administrative and other operating expenses and approximately RMB3.5 million (equivalent to HK$3.9 million) was capitalized as prepayments, deposits and other receivables in the consolidated statements of financial position as of June 30, 2020 to be charged against equity upon successful Listing. We expect to incur additional listing expenses of approximately RMB133.2 million (equivalent to HK$150.5 million), of which approximately RMB24.5 million (equivalent to HK$27.6 million) is expected to be recognized as administrative and other operating expenses and approximately RMB108.7 million (equivalent to HK$122.8 million) is expected to be recognized as a deduction in equity directly upon the Listing.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out to show the effect of the Global Offering on our net tangible assets as of June 30, 2020, as if the Global Offering had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets had the Global Offering been completed as of June 30, 2020 or at any future date. The unaudited pro forma statement of adjusted net tangible assets is based on the unaudited consolidated total net tangible assets of the Group attributable to the owners of the Company as of June 30, 2020 derived from the Accountants' Report in set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets attributable to the equity shareholders of our Company as of June 30, 2020(1)	**Estimated net proceeds from the Global Offering(2)**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of our Company(3)**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of our Company per Share**	
		(in millions of RMB)		*RMB(4)*	*HK$(5)*
Based on an Offer Price of HK$12.1 per Share	1,561.2	2,654.3	4,215.5	1.62	1.83
Based on an Offer Price of HK$13.7 per Share	1,561.2	3,023.3	4,584.5	1.76	1.99

Notes:

(1) The audited consolidated net tangible assets of our Company attributable to equity shareholders of our Company as of June 30, 2020 have been calculated based on the audited consolidated total equity attributable to equity shareholders of our Company as of June 30, 2020 of RMB1,820.3 million, less intangible assets and goodwill of RMB86.3 million and RMB172.8 million, respectively, as of the same date, as set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the indicative offer prices of HK$12.1 (being the minimum Offer Price) and HK$13.7 (being the maximum Offer Price) per Share, respectively, after deduction of the estimated underwriting fees and other related expenses payable by our Company of RMB104.4 million and RMB32.3 million, respectively, payable by our Company (excluding listing expenses which have been expensed prior to June 30, 2020) and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. The pro forma adjusted consolidated net tangible assets and the pro forma consolidated net tangible asset per Share would be increased if we decide not to pay such incentive fee.

(3) No adjustment has been made to the unaudited pro forma adjusted net tangible assets attributable to equity shareholders of our Company to reflect our trading results or other transactions entered into subsequent to June 30, 2020.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 2,605,686,618 Shares in issue assuming that the Global Offering have been completed on June 30, 2020, but does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

(5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of HK$1.00 to RMB0.8852. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, save as otherwise disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2020, being the date of the latest audited consolidated financial position of our Group as set out in the Accountants' Report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm 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 in Chapter 13 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.