You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I of this prospectus. Our consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this prospectus, including but not limited to the sections headed "Risk Factors" and "Business."

Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a biopharmaceutical company with an integrated platform for product development and commercialization. We strategically focus on some of the largest and fast-growing therapeutic areas with significant unmet medical needs in China, primarily including oncology and severe infection. Leveraging our integrated platform, we strive to develop and commercialize a portfolio of high-quality marketed products, including our proprietary product, Zadaxin, and pipeline drugs in our focused therapeutic areas.

We primarily focus on the therapeutic areas of oncology and severe infection. According to Frost & Sullivan, oncology is expected to become the largest therapeutic area in China in 2024, with the oncology drug market estimated to reach RMB367.2 billion then, accounting for 16.5% of China's pharmaceutical market. Oncology is also the fastest-growing major therapeutic area in China. The size of oncology drug market is expected to grow at a CAGR of 15.0% from 2019 to 2024, significantly higher than that of 6.4% for China's pharmaceutical market in the same period. According to Frost & Sullivan, infectious diseases are currently the second largest therapeutic area in China. The increasingly challenging treatment of complex severe infection diseases has generated unmet medical needs, leading to promising market potentials.

We have a high-quality portfolio of marketed products, including our proprietary product, Zadaxin. Over the past decades, Zadaxin has gained recognition among doctors and patients as a trusted branded product, especially for its potential benefits in treating SARS and COVID-19. Zadaxin has demonstrated market potential, evidenced by its sustainable revenue growth through challenges, including generic competition, changes in reimbursement policies and changes in provincial tender processes. Our in-licensed products include Angiomax and Zometa. We also sell promotion products for our partner pharmaceutical companies, such as Pfizer and Baxter. In addition, we have built a pipeline of in-licensed early- to late-stage drug candidates.

We have achieved strong financial results during the Track Record Period. In 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, our revenue was RMB1,213.0 million, RMB1,408.9 million, RMB1,708.1 million, RMB1,290.8 million and RMB1,584.2 million, respectively, representing a CAGR of 18.7% from 2017 to 2019, while our profit was RMB19.6 million, RMB535.1 million, RMB614.6 million, RMB487.2 million and RMB689.8 million, respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which may be beyond our control. A discussion of the key factors is set out below.

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

We generated most of our revenue from Mainland China during the Track Record Period, and expect to continue to focus on Mainland China in the future. The PRC pharmaceutical market witnessed steady growth in recent years, and is expected to continue such growth trend in the near future, which also creates increasing demand for our marketed products. According to Frost & Sullivan, the total size of pharmaceutical market in China reached RMB1,633.0 billion in 2019, representing a CAGR of 7.5% from 2015 to 2019, and is expected to reach RMB2,228.8 billion in 2024, representing a CAGR of 6.4% from 2019 to 2024, mainly driven by the aging trend of the Chinese population, the rising healthcare expenditure, and the improving public medical insurance system.

In addition to the overall pharmaceutical market growth, the therapeutic areas we strategically focus on, primarily including oncology and severe infection, also demonstrate strong potential. According to Frost & Sullivan, among all major therapeutic areas in the PRC pharmaceutical market, oncology is the fastest growing one, with a CAGR of 13.5% from 2015 to 2019, and a CAGR of 15.0% from 2019 to 2024; oncology is also expected to be the largest therapeutic area in China in 2024, with a market size of RMB367.2 billon and accounting for 16.5% of the total pharmaceutical market in China in 2024. Infectious diseases are currently the second largest therapeutic area in China, with a market size of RMB225.5 billion and accounting for 13.8% of the total PRC pharmaceutical market in 2019, according to Frost & Sullivan. Within the infectious disease therapeutic area, severe infection particularly demonstrates promising market potentials, as the increasingly challenging treatment of complex severe infection diseases has generated unmet medical needs and created abundant commercial opportunities.

We benefit from the growth of China's pharmaceutical industry, and specifically the therapeutic areas we focus on. We believe we could see our growth in operations, revenue and profitability along with the industry growth. See "Industry Overview" for further details of the anticipated growth of the China's pharmaceutical industry and the therapeutic areas we focus on.

Our ability to commercialize and increase market share of our products

We have strong and proven commercialization capabilities, which distinguish us from our competitors and drive our long-term profitability. We market and sell our proprietary and in-licensed products, as well as promotion products for business partners, through an effective in-house sales force covering an extensive geographic scope. Sales of our commercialized and marketed products significantly increased during the Track Record Period. Revenue from Zadaxin increased at a CAGR of 10.1% from 2017 to 2019. According to Frost & Sullivan, in terms of revenue, Zadaxin's market share in the thymalfasin market in China increased from 50.8% in 2017 to 57.5% in 2019, demonstrating our strong performance in the thymalfasin market in China and our strong capabilities to consistently outperform our generic drug competitors in recent years. Revenue from promotion products for business partners increased significantly from 2017 to 2019. According to Frost & Sullivan, the market share of Methotrexate, which we sell for Pfizer, in the methotrexate injection market in China grew from 37.3% in 2015 to 81.9% in 2019, in terms of sales revenue. We intend to maintain our revenue growth and strong cash flow from our portfolio of marketed products through effective lifecycle management, developing potential new clinical adoptions or indications for our proprietary and in-licensed products, expanding hospital coverage and enhancing collaboration with our commercial partners.

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.

Our ability to develop or acquire new pharmaceutical products

Our diversified product pipeline, which currently includes seven product candidates primarily focusing on oncology and severe infection, the therapeutic areas we focus on, is enabled by a combination of our strong product development capabilities and clear portfolio construction strategy. We have a business development team capable of making efficient and quick decisions to identify potential candidates globally with high value of synergy with our current product portfolio. We also rely on both our in-house product development capabilities for late-stage candidate development and collaboration with clinical trial partners for early-stage candidate development. Our ability to license in best-in-class products in the therapeutic areas we focus on from innovative biotech companies globally, together with our capabilities to efficiently navigate the registration process by effectively communicating with the regulatory authorities and successful petition for fast-track designation and clinical waivers, ensure that we can bring the candidates with potential of commercial success to the market in a relatively short time frame. We expect to further diversify our product mix by licensing in best-in-class products with relatively high profit margins, which could increase our sources of revenue and enable us to maintain or improve our current profit margin.

See "Business — Product Development" for further details on the status of our current product pipeline, our product development focus and process, and our in-house development capacity and collaboration with partners.

Our ability to effectively control our costs and expenses

Our profitability has benefited from our effective control of cost of revenue. Our cost of revenue primarily includes product cost, warehouse cost, freight and others. We have devoted significant efforts to continuously improving our operation efficiency. Our cost of revenue as a percentage of revenue was 14.9%, 21.5%, 23.0%, 22.7% and 21.8% in 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, respectively. The increase in 2018 was in line with the change in our product mix as we started to engage in distribution for Baxter products in addition to the promotion services we provide, and derive more revenue from the sales of such products, which incurred higher cost of revenue as percentages of their revenues.

Compared to our ability to control our cost of revenue, our ability to effectively control our operating expenses, particularly our sales and marketing expenses, has a greater impact on our profitability. Our operating expenses include sales and marketing expenses, administrative expenses, research and development expenses, other expenses and finance costs. Sales and marketing expenses are the largest component of our operating expenses, accounting for 32.6%, 27.6%, 27.0%, 24.5% and 18.8% of our revenue in 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, respectively. Administrative expenses, as the second largest component of our operating expenses, accounted for 27.4%, 10.2%, 6.9%, 7.1% and 9.2% of our revenue in 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020.

In the future, we intend to continue to control our costs and expenses while also enhancing our operation productivity.

PRC government policies and pharmaceutical regulations

Our business is subject to extensive government regulation and supervision. Government policies and regulations and their implementation and enforcement have historically had, and are expected to continue to have, a significant impact on the supply, demand and pricing of pharmaceutical products and distribution services in the PRC, the competitive environment and the cost of compliance.

According to applicable PRC laws and regulations, the procurement of substantially all pharmaceutical products is subject to a centralized tender process through which only successful bidders may sell their products to public hospitals and other public medical institutions. Therefore, winning the centralized tender is crucial to our sales through the public hospital and other public medical institution channels in China. We participate in such tender processes regularly and the successful bidding prices are the supply prices at which distributors sell the products to the public hospitals and other public medical institutions. The prices at which we sell to our distributors are determined in part by the successful bidding prices. Our sales volume and market share depend on our ability to win purchase contracts through the centralized tender process. Our bidding and pricing strategy in the centralized tender process generally focuses on differentiating the products we sell instead of competing solely based on price. As we construct our product portfolio based on the strategy of positioning in high-value and high-growth sectors, we believe that we have developed a competitive advantage and are generally able to command a relatively high margin.

See "Regulatory Overview" for further details of the applicable laws and regulations affecting the PRC pharmaceutical industry and the therapeutic areas we focus on and "Business — Pricing for Products and Services — Regulatory Regimes Affecting Prices of Pharmaceutical Products" for further details of effect of centralized tender process and pricing regulation affecting pharmaceutical products on our pricing in China.

The implementation and expansion of the volume-based procurement for sales of drugs to PRC public medical institutions

On November 15, 2018, the Joint Procurement Office led by the National Healthcare Security Administration published the Papers on Centralized Drug Procurement in "4+7 Cities" (the "**Papers**"), which launched the volume-based procurement of public hospitals. The Papers listed 31 drugs for this pilot scheme together with an intended quantity commitment for each drug. The manufacturers and importers of the drugs are invited to bid to supply the drugs to public medical institutions in the "4+7 Cities." The move is aimed at reducing drug prices and may potentially impact how drugs are priced and procured in China. On January 1, 2019, the General Office of the State Council also published the Notice of Issuing Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State (國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知), which provides additional detailed measures in the implementation of the volume-based procurement in the "4+7 Cities." See "Regulatory Overview — The Volume-based Procurement in '4+7 Cities' and Wider Areas."

As of the Latest Practicable Date, none of our products are currently involved in the volume-based procurement for sales to PRC public medical institutions. These regulations embody a PRC regulatory aim to significantly reduce the drug prices and reduce the burden of pharmaceutical costs on patients. Since we focus on the development and commercialization of the best-in-class drugs and do not engage in the sales and distribution of generic drugs, we believe we can differentiate our marketed products by promoting our competitive advantages including brand recognition, safety profile and quality assurance. We will continue to monitor the potential impact caused by the envisioned expansion of the pilot scheme.

BASIS OF PREPARATION

Our Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") issued by the International Accounting

Standards Board ("IASB"). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss or through other comprehensive income which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information, are set forth in Note 6 of the Accountant's Report in Appendix I of this prospectus.

The Historical Financial Information has been prepared based on the consolidated financial statements of the Group. Inter-company transactions, balances and unrealized gains or losses on transactions between group companies are eliminated on consolidation.

We early adopted a full retrospective application of IFRS 9, IFRS 15 and IFRS 16, which have been applied on a consistent basis throughout the Track Record Period. We believe that the adoption of IFRS 9, IFRS 15 and IFRS 16, as compared to the requirements of IAS 39, IAS 18 and IAS 17, does not have a significant impact on our financial position and performance during the Track Record Period.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in details in Notes 2 and 6 of the Accountant's Report in Appendix I of this prospectus.

Significant Accounting Policies

Revenue recognition

We principally derive revenue from sales of pharmaceutical products and provision of promotion services. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. We recognize revenue when the specific criteria have been met for each of our activities, as described below.

(a) Product sales

We recognize product revenue at the point in time when the performance obligation under the terms of a contract with the customer is satisfied and control of the product has been transferred to the customer. We recognize product revenue from selling Zadaxin at the shipping point and recognize product revenue from selling promotion products for business partners and in-licensed products when the products have been delivered to the customers.

Our contractual arrangement with our exclusive China importer and distributor for Zadaxin, contains variable considerations in connection with the price mechanism that if the provincial tender price is below or above a reference price (baseline price), we may owe price compensation payable to or is due price compensation receivable from the distributor. The provincial tender price is the ultimate end-point sales price approved by provincial authorities in China. We estimate the variable consideration using the expected value method and take into consideration the tender price as of the report date as well as the recent market trend. The variable consideration (whether price compensation payable or receivable), under the principles of IFRS 15, is recognized at the time when the underlying originating sale is recognized.

(b) Promotion service revenue

We generated promotion service revenue during the Track Record Period from the provision of promotion services to Baxter products. We recognize promotion service revenue for designated pharmaceutical products over time in the period in which its customers simultaneously receive and consume the benefits provided by the promotion and marketing services as specified in promotion service contract. Considerations received for the promotion services are considered to be in exchange for distinct services, and revenues generated from promotion services are recognized on a gross basis and presented as service revenue. Due to the adjustment in business model in relation to this revenue stream, we started to engage in the distribution of Baxter products in addition to provision of promotion services in 2018. Since then, considerations received in relation to the promotion services were recognized as reduction of the cost of revenue for the distribution of Baxter products. Throughout the Track Record Period, we were also engaged in the distribution of Pfizer products in addition to provision of promotion services, and considerations received in relation to the promotion services were recognized as reduction of the cost of revenue for the distribution of Pfizer products.

See Note 2.24 "Summary of Significant Accounting Policies — Revenue Recognition" of the Accountant's Report in Appendix I of this prospectus for further details of our revenue recognition accounting policy.

Intangible assets

Research and development expenditures

Research expenditure on research activities is recognized as an expense as incurred. An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

- it is technically feasible to complete the intangible assets so that it will be available for use;
- management intends to complete the intangible assets and use or sell it;
- there is an ability to use or sell the intangible assets;
- it can be demonstrated how the intangible assets will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible assets are available; and
- the expenditure attributable to the intangible assets during its development can be reliably measured.

During the Track Record Period, our research and development expenditures incurred did not meet the capitalization principle above and were expensed as incurred.

Licenses

Payments made to third parties to in-license or acquire intellectual property rights, compounds and products include initial non-refundable upfront payments, subsequent milestone payments and royalty payments. Upfront and milestone payments are capitalized as intangible assets when incurred, unless these payments are for outsourced research and development work which follow the capitalization principle above. Royalty payments incurred along with the underlying sales are expensed as incurred and charged to cost of revenue.

Additional payments for purchase of intangible assets contingent on future events are not considered on initial recognition of the assets, but are added to the costs of the assets initially recorded when incurred, or when related liabilities are remeasured for changes in cash flows, if such payments are related to the costs of the assets.

Subsequent internal research and development expenses in relation to in-license intellectual property rights, compounds and products are expensed or capitalized in accordance with the accounting policy as mentioned above. During the Track Record Period, our research and development expenditures incurred did not meet the capitalization principle for any products and were expensed as incurred.

Intangible assets associated with in-license arrangements that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets recognized related to in-license arrangements are amortized on the straight-line basis over their useful economic lives when they become available for use.

Critical Accounting Estimates and Judgments

Fair value of measurement

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results.

Share-based compensation expenses

The fair values of share options granted are measured on the respective grant dates based on the fair value of the underlying shares. In addition, we are required to estimate the expected percentage of grantees that will remain in employment with us or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. We only recognize an expense for those share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

Current and deferred income taxes

We are subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, we assess the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on our estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

Variable arrangement in contract with customers

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The table below sets forth our consolidated statements of comprehensive income, with line items in absolute amounts and as percentages of our revenue for the periods indicated:

	For the year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Revenue	1,212,966	100.0	1,408,869	100.0	1,708,068	100.0	1,290,771	100.0	1,584,173	100.0
Cost of revenue	(181,178)	(14.9)	(302,999)	(21.5)	(393,141)	(23.0)	(292,745)	(22.7)	(346,063)	(21.8)
Gross profit	1,031,788	85.1	1,105,870	78.5	1,314,927	77.0	998,026	77.3	1,238,110	78.2
Sales and marketing expenses	(395,965)	(32.6)	(389,046)	(27.6)	(460,332)	(27.0)	(316,009)	(24.5)	(298,430)	(18.8)
Administrative expenses	(332,170)	(27.4)	(143,491)	(10.2)	(118,385)	(6.9)	(92,052)	(7.1)	(146,243)	(9.2)
Research and development ("R&D") expenses	(82,665)	(6.8)	(77,463)	(5.5)	(87,688)	(5.1)	(59,370)	(4.6)	(48,717)	(3.1)
Other income	13,313	1.1	37,085	2.6	6,795	0.4	6,755	0.5	65,624	4.1
Other expenses	—	—	—	—	—	—	—	—	(55,310)	(3.5)
Other gains/(losses) — net	26,459	2.2	(38,599)	(2.7)	(5,128)	(0.3)	(17,535)	(1.4)	7,979	0.5
Operating profit	260,760	21.5	494,356	35.1	650,189	38.1	519,815	40.3	763,013	48.2
Finance income	1,498	0.1	2,659	0.2	12,171	0.7	8,211	0.6	9,189	0.5
Finance costs	(1,744)	(0.1)	(1,742)	(0.1)	(1,189)	(0.1)	(1,101)	(0.1)	(17,381)	(1.1)
Finance (costs)/income, net	(246)	(0.0)	917	0.1	10,982	0.6	7,110	0.5	(8,192)	(0.6)
Profit before income tax	260,514	21.5	495,273	35.2	661,171	38.7	526,925	40.8	754,821	47.6
Income tax (expense)/credit	(240,932)	(19.9)	39,809	2.8	(46,567)	(2.7)	(39,747)	(3.1)	(65,065)	(4.1)
Profit for the year/period attributable to owners of the Company	19,582	1.6	535,082	38.0	614,604	36.0	487,178	37.7	689,756	43.5

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We generate substantially all of our revenue from sales of pharmaceutical products and provision of promotion services during the Track Record Period. Our revenue represents the amounts received or receivable for goods sold or services performed, net of discounts, returns and value-added taxes. We generated promotion service revenue during the Track Record Period from the provision of promotion services for the Baxter products. In 2018, due to adjustment in business model in relation to this revenue stream, we started to engage in distribution for the Baxter products in addition to provision of promotion services. Since then, we have recognized product sales revenue for our distribution of Baxter products, and the promotion service fees were used to offset our cost of revenue for Baxter products. Therefore, we no longer recognize promotion service revenue since the business model adjustment for Baxter products. Throughout the Track Record Period, we also engaged in the distribution of Pfizer products in addition to provision of promotion services, and considerations received in relation to the promotion services were recognized as reduction of the cost of revenue for the distribution of Pfizer products.

Our revenue generated during the Track Record Period were mainly from the sales of our proprietary product, Zadaxin, and promotion products for business partners, including Farlutal, Methotrexate, Estracyt, Holoxan, Mesna and Endoxan. We also generated revenue from the sales of our in-licensed product DC Bead during the Track Record Period, and the sales of DC Bead was discontinued on April 30, 2020 pursuant to the termination agreement we entered into with Boston Scientific. We recognized other income from Zometa through our licensing arrangement with Novartis to receive profit transferred from Novartis for the sales of Zometa until the transfer of IDL for Zometa was completed. We also started recognizing revenue from our sales of Zometa since December 2020 as we began distributing Zometa in certain provinces in China. In January 2021, we completed the transfer of IDL for Zometa, and became the MAH of Zometa in the PRC. The following table sets forth a breakdown of our revenue, both in absolute amounts and as percentages of our revenue, from the sales of the products mentioned above and provision of promotion services for the periods indicated:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Product sales										
Zadaxin	1,112,610	91.7	1,168,816	83.0	1,349,309	79.0	1,035,089	80.2	1,326,337	83.7
Promotion products for business partners	56,687	4.7	208,720	14.8	314,333	18.4	222,632	17.2	250,892	15.8
DC Bead	15,846	1.3	28,680	2.0	44,426	2.6	33,050	2.6	6,944	0.5
Promotion service revenue	27,823	2.3	2,653	0.2	—	—	—	—	—	—
Total	**1,212,966**	**100.0**	**1,408,869**	**100.0**	**1,708,068**	**100.0**	**1,290,771**	**100.0**	**1,584,173**	**100.0**

Our sales volume for Zadaxin amounted to 3.1 million units, 3.3 million units, 3.6 million units, 2.9 million units and 3.7 million units in 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, respectively, and our average selling price for Zadaxin for the same periods was RMB355, RMB349, RMB375, RMB362 and RMB360, respectively.

We generated most of our revenue from Mainland China during the Track Record Period. The following table sets forth a breakdown of our revenue, both in absolute amounts and as percentages of our revenue, from Mainland China and others, primarily South Korea:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Mainland China	1,141,200	94.1	1,306,123	92.7	1,611,835	94.4	1,228,706	95.2	1,501,932	94.8
Others	71,766	5.9	102,746	7.3	96,233	5.6	62,065	4.8	82,241	5.2
Total	**1,212,966**	**100.0**	**1,408,869**	**100.0**	**1,708,068**	**100.0**	**1,290,771**	**100.0**	**1,584,173**	**100.0**

Cost of Revenue

Our cost of revenue primarily consists of: (i) product costs, which primarily consist of raw material costs and product costs for Zadaxin and procurement costs for promotion products for business partners; (ii) warehouse costs for storage of the products; (iii) freight costs for transportation of the raw materials and products; and (iv) others.

The following table sets forth a breakdown of our cost of revenue, by absolute amounts and as percentages of our total cost of revenue, for the periods indicated:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Product costs	148,594	82.0	261,562	86.3	322,644	82.1	247,594	84.6	288,362	83.3
Warehouse costs	15,579	8.6	19,431	6.4	20,242	5.1	10,316	3.5	13,664	3.9
Freight	14,016	7.7	19,886	6.6	28,416	7.2	20,655	7.1	30,624	8.8
Others	2,989	1.7	2,120	0.7	21,839	5.6	14,180	4.8	13,413	4.0
Total	**181,178**	**100.0**	**302,999**	**100.0**	**393,141**	**100.0**	**292,745**	**100.0**	**346,063**	**100.0**

Gross Profit and Gross Margin

Gross profit represents our revenue less cost of revenue. Gross margin represents gross profit as a percentage of revenue. In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, our gross profit was RMB1,031.8 million, RMB1,105.9 million, RMB1,314.9 million, RMB998.0 million and RMB1,238.1 million, respectively, and our gross margin was 85.1%, 78.5%, 77.0%, 77.3% and 78.2%, respectively.

The following table sets forth our gross profit and gross profit margin for Zadaxin and promotion products for business partners for the periods indicated:

	Year ended December 31,						Nine months ended September 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	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Zadaxin	977,445	87.9	1,004,579	85.9	1,164,625	86.3	891,672	86.1	1,138,149	85.8
Promotion products for business partners	16,526	29.2	81,338	39.0	123,420	39.3	84,806	38.1	100,050	39.9

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of: (i) staff costs, which primarily consist of the salaries, wages, bonus and other compensation and benefits for our in-house sales and marketing staff, as well as our expenses related to securities issued to our in-house sales and marketing staff under our ESOPs; (ii) market development and business promotion expenses, which primarily consist of the expenses associated with participation in academic conferences, clinical studies and other promotion activities; (iii) travel and meeting expenses of our in-house sales and marketing staff; (iv) right-of-use assets ("ROU") amortization; and (v) others, which primarily consist of office expenses and certain rents and depreciations that are directly related to our marketing and promotion activities.

In general, our sales and marketing expenses increase when our selling and distribution activities increase.

The following table sets forth a breakdown of our sales and marketing expenses, by absolute amounts and as percentages of our total sales and marketing expenses, for the periods indicated:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Staff costs	204,124	51.6	196,057	50.4	239,346	52.0	174,651	55.3	186,010	62.3
Market development and business promotion expenses	126,260	31.9	135,633	34.9	157,749	34.3	99,388	31.5	81,682	27.4
Travel and meeting expenses	45,181	11.4	39,195	10.1	49,167	10.7	33,586	10.6	21,874	7.3
ROU amortization	7,703	1.9	6,375	1.6	3,089	0.7	2,336	0.7	2,269	0.8
Others	12,697	3.2	11,786	3.0	10,981	2.3	6,048	1.9	6,595	2.2
Total	**395,965**	**100.0**	**389,046**	**100.0**	**460,332**	**100.0**	**316,009**	**100.0**	**298,430**	**100.0**

Administrative Expenses

Our administrative expenses primarily consist of: (i) staff costs, which primarily consist of compensation for our management and administrative staff and our expenses related to securities issued to our management and administrative staff under our ESOPs; (ii) professional service fees, which primarily consist of service and consultation fees paid to professional service providers including financial advisors and tax advisors; (iii) non-deductible value-added taxes from inter-company charges; (iv) utilities and office expenses; (v) ROU amortization; (vi) travel and meeting expenses; and (vii) others.

The table below sets forth a breakdown of our administrative expenses in absolute amounts and as percentages of our total administrative expenses for the periods indicated:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Staff costs	133,450	40.2	59,784	41.7	52,648	44.5	39,498	42.9	52,963	36.2
Professional service fees	131,156	39.5	38,583	26.9	18,192	15.4	12,924	14.0	20,949	14.3
Non-deductible value-added taxes	26,079	7.9	26,444	18.4	24,589	20.8	23,627	25.7	11,003	7.5
Utilities and office expenses	10,427	3.1	6,570	4.6	6,945	5.9	4,932	5.4	5,681	3.9
ROU amortization	4,555	1.4	2,389	1.7	4,886	4.1	3,728	4.0	3,440	2.4
Travel and meeting expenses	7,181	2.2	3,975	2.8	5,764	4.9	3,474	3.8	1,636	1.1
Listing expenses	—	—	—	—	—	—	—	—	23,400	16.1
Impairment losses of intangible assets	—	—	—	—	—	—	—	—	20,968	14.3
Others	19,322	5.7	5,746	3.9	5,361	4.4	3,869	4.2	6,203	4.2
Total	**332,170**	**100.0**	**143,491**	**100.0**	**118,385**	**100.0**	**92,052**	**100.0**	**146,243**	**100.0**

Research and Development Expenses

Our research and development expenses comprise expenses incurred in performing research and development activities, including (i) testing and clinical trial fees; (ii) staff costs, which primarily consist of compensation for our research and development staff and our expenses related to securities issued to our research and development staff under our ESOPs; (iii) travel and meeting expenses; (iv) ROU amortization; and (v) others.

The table below sets forth a breakdown of our research and development expenses in absolute amounts and as percentages of our total research and development expenses for the periods indicated:

	Year ended December 31,						Nine months ended September 30,			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Testing and clinical trial fees	57,053	69.0	44,238	57.1	45,380	51.8	28,656	48.3	17,308	35.5
Staff costs	21,543	26.1	22,838	29.5	29,930	34.1	22,038	37.1	25,233	51.8
Travel and meeting expenses	1,778	2.2	3,492	4.5	4,820	5.5	3,855	6.5	2,429	5.0
ROU amortization	1,517	1.8	2,370	3.1	2,255	2.6	1,701	2.9	1,661	3.4
Others	774	0.9	4,525	5.8	5,303	6.0	3,120	5.2	2,086	4.3
Total	**82,665**	**100.0**	**77,463**	**100.0**	**87,688**	**100.0**	**59,370**	**100.0**	**48,717**	**100.0**

Other Income and Other Expenses

Other income primarily comprises government grants, licensing income, refund of upfront payment, and interest income from loan receivables. Other expenses comprise amortization of intangible assets associated with licensing. The following tables set forth a breakdown of our other income and other expenses for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Government grants	7,289	8,342	6,795	6,755	9,754
Licensing income	—	—	—	—	55,870
Refund of upfront payment	—	25,177	—	—	—
Interest income from loan receivables	6,024	3,566	—	—	—
Total	**13,313**	**37,085**	**6,795**	**6,755**	**65,624**

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Amortization of intangible assets associated with licensing	—	—	—	—	55,310

Our licensing income and amortization of intangible assets associated with licensing are in relation to our acquisition of Zometa from Novartis. Before the earlier of our obtaining of the IDL for Zometa in China and February 24, 2021, we derive licensing income from our licensing arrangement with Novartis.

Our interest income from loan receivables was derived from the loans we provided to Zensun (Shanghai) Science & Technology Co., Ltd. ("Zensun"), an Independent Third Party, from 2014 to 2015 which were pledged with Zensun's entire equity interest in one of its subsidiaries. These borrowings bore interest at a fixed rate of 7.5% per annum payable annually in arrears at each interest payment date. In 2018, pursuant to the agreement with Zensun to early terminate the loan arrangement, Zensun repaid all of the outstanding secured loans to us. The loan financing provided by us to Zensun from 2014 to 2015 consisted of (i) offshore loan financing provided by us directly to Zensun, and (ii) onshore loan financing by the way of entrustment loan, under which our PRC subsidiary entrusted CITIC Bank, Shanghai Branch to provide the Renminbi loan to Zensun. As advised by our PRC Legal Advisor, the onshore loan financing by the way of entrustment loan complied with relevant PRC rules and regulations.

Other Gains or Losses

Other gains or losses primarily comprise gains on sales of raw materials, gains or losses on disposal of property, plant and equipment and software, net fair value gains or losses on financial assets at fair value through profit or loss, net foreign exchange gains or losses and others. The following table sets forth a breakdown of our other gains or losses for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Gain on sales of raw materials	—	—	2,206	2,193	—
Loss on disposal of property, plant and equipment and software	(52)	(93)	(192)	(192)	(107)
Change in fair value of financial assets at FVPL — money market fund	758	145	94	84	6
Change in fair value of financial assets at FVPL — equity investments	(70)	(3,294)	1,458	218	839
Change in fair value of financial assets at FVPL — structured deposits	—	—	1,954	1,041	2,022
Change in fair value of financial assets at FVPL — debt investments	—	61	405	192	14
Net foreign exchange gains/(losses)	25,825	(35,727)	(10,883)	(20,762)	4,495
Others	(2)	309	(170)	(309)	710
Total	**26,459**	**(38,599)**	**(5,128)**	**(17,535)**	**7,979**

Finance income and costs

Our finance income and costs primarily consist of the interest we generate from our bank deposits and our interest expenses on borrowings and lease liabilities. The following table sets forth a breakdown of our finance income and costs for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Finance income:					
Interest income from bank deposits	1,498	2,659	12,171	8,211	9,189
Finance costs:					
Interest expenses on borrowings	—	—	—	—	(16,586)
Interest expenses on lease liabilities	(1,744)	(1,742)	(1,189)	(1,101)	(795)
Finance costs	(1,744)	(1,742)	(1,189)	(1,101)	(17,381)
Finance income, net	**(246)**	**917**	**10,982**	**7,110**	**(8,192)**

Income Tax Expenses or Credits

Our income tax expenses or credits consist of current income tax and deferred income tax. We have paid all relevant taxes in accordance with tax regulations and do not have any disputes or unresolved tax issues with the relevant tax authorities.

The following table sets forth a breakdown of our income tax expenses or credits for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current income tax	240,831	(41,772)	45,265	38,320	63,016
Deferred income tax	101	1,963	1,302	1,427	2,049
Income tax expenses/(credits)	**240,932**	**(39,809)**	**46,567**	**39,747**	**65,065**

Pursuant to the rules and regulations of Cayman Islands, we are not subject to any income tax in Cayman Islands.

Our subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess.

The provision for China income tax is based on the statutory rate of 25% of the assessable profits of certain of our PRC subsidiaries as determined in accordance with the PRC Enterprise Income Tax Law which was approved and became effective on January 1, 2008, except for certain of our subsidiaries in China which are taxed at preferential tax rates.

Net Profit and Net Margin

In 2017, 2018, 2019 and the nine months ended September 30, 2019 and 2020, our net profit was RMB19.6 million, RMB535.1 million, RMB614.6 million, RMB487.2 million and RMB689.8 million, respectively, and our net margin was 1.6%, 38.0%, 36.0%, 37.7% and 43.5%, respectively.

In 2017, we incurred other comprehensive loss through currency translation differences of RMB72.9 million due to the appreciation of the Renminbi against other currencies, including, in particular, the U.S. dollar, which adversely affected our results of operations in 2017.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

Revenue

Our revenue increased by 22.7% from RMB1,290.8 million in the nine months ended September 30, 2019 to RMB1,584.2 million in the nine months ended September 30, 2020, primarily due to the increase in revenue from sales of our proprietary product Zadaxin and promotion products for business partners.

- ***Zadaxin.*** Revenue from sales of Zadaxin increased by RMB291.2 million, or 28.1%, from RMB1,035.1 million in the nine months ended September 30, 2019 to RMB1,326.3 million in the nine months ended September 30, 2020, due to a significant increase in demand and usage of Zadaxin in the first half of 2020, primarily for the prevention and clinical treatment of COVID-19 in China. Such significant increase was a one-off event, and the demand for Zadaxin for the treatment of COVID-19 decreased significantly in the second half of 2020 and may experience a further drop in the future.
- ***Promotion Products for Business Partners.*** Revenue from sales of promotion products for business partners increased by RMB28.3 million, or 12.7% from RMB222.6 million in the nine months ended September 30, 2019 to RMB250.9 million in the nine months ended September 30, 2020, primarily due to increases in sales revenue from Methotrexate 50mg and Methotrexate 1g products.

Cost of revenue

Our cost of revenue increased by RMB53.4 million, or 18.2%, from RMB292.7 million in the nine months ended September 30, 2019 to RMB346.1 million in the nine months ended September 30, 2020, primarily due to (i) an increase in product cost of RMB40.8 million, or 16.5% from RMB247.6 million to RMB288.4 million, corresponding with our product sales growth, and (ii) an increase in freight costs of RMB9.9 million, or 48.3% from RMB20.7 million to RMB30.6 million, resulting from increased transportation price caused by COVID-19 and increased transportation volume of Zadaxin.

Gross profit and gross margin

Our gross profit increased by 24.1% from RMB998.0 million in the nine months ended September 30, 2019 to RMB1,238.1 million in the nine months ended September 30, 2020 which was in line with our revenue growth. Our gross margin increased from 77.3% in the nine months ended September 30, 2019 to 78.2% in the nine months ended September 30, 2020, primarily due to an increase in sales of Zadaxin during the period which has higher profit margin compared to other products.

Sales and marketing expenses

Our sales and marketing expenses decreased by 5.6% from RMB316.0 million in the nine months ended September 30, 2019 to RMB298.4 million in the nine months ended September 30, 2020, primarily due to (i) a decrease in marketing and promotion expenses of RMB17.7 million, or 17.8% from RMB99.4 million to RMB81.7 million, resulting from suspension of certain marketing and promotion activities due to the impact of COVID-19, and (ii) a decrease in travel and meeting expenses of RMB11.7 million, or 34.9% from RMB33.6 million to RMB21.9 million, resulting from reduction in business travels due to the impact of COVID-19. Our sales and marketing expenses as a percentage of revenue decreased from 24.5% in the nine months ended September 30, 2019 to 18.8% in the nine months ended September 30, 2020.

Administrative expenses

Our administrative expenses increased by 58.9% from RMB92.1 million in the nine months ended September 30, 2019 to RMB146.2 million in the nine months ended September 30, 2020, primarily due to (i) a significant increase in listing expenses of RMB23.4 million in connection with the Global Offering and (ii) an increase in impairment losses of RMB21.0 million in connection with the impairment of intangible assets related to SGX-942, one of our potential drug candidates which failed to achieve its Phase III clinical endpoint in December 2020. Our administrative expenses as a percentage of our revenue increased from 7.1% in the nine months ended September 30, 2019 to 9.2% in the nine months ended September 30, 2020.

Research and development expenses

Our research and development expenses decreased by 17.9% from RMB59.4 million in the nine months ended September 30, 2019 to RMB48.7 million in the nine months ended September 30, 2020, primarily due to reduced research and development activities due to the impact of COVID-19.

Other income and other expenses

Our other income increased significantly from RMB6.8 million in the nine months ended September 30, 2019 to RMB65.6 million in the nine months ended September 30, 2020, primarily due to an increase in licensing income of RMB55.9 million, resulting from our licensing arrangement with Novartis.

Our other expenses of RMB55.3 million in the nine months ended September 30, 2020 represented amortization of intangible assets in relation to Zometa.

Other gains or losses

Our net other gains or losses increased significantly from a net loss of RMB17.5 million in the nine months ended September 30, 2019 to a net gain of RMB8.0 million in the nine months ended September 30, 2020, primarily due to a significant increase in net foreign exchange gains or losses from a loss of RMB20.8 million to a gain of RMB4.5 million, resulting from fluctuations in the value of USD against RMB in the nine months ended September 30, 2020.

Net finance income or cost

Our net finance income or cost decreased significantly from a net finance income of RMB7.1 million in the nine months ended September 30, 2019 to a net finance cost of RMB8.2 million in the nine months ended September 30, 2020, primarily due to a significant increase in interest expenses on borrowings of RMB16.6 million resulting from interests accrued on the loan borrowed from China Minsheng Banking Corp., Ltd. Hong Kong Branch in relation to the repayment of loans for our privatization.

Income tax expenses

Our income tax expenses increased significantly from RMB39.7 million in the nine months ended September 30, 2019 to RMB65.1 million in the nine months ended September 30, 2020 which was in line with our revenue growth during the period. See Note 14 “Income Tax Expense/(Credit)” to the Accountant’s Report included in Appendix I of this prospectus for a reconciliation of our income tax expenses and credits applicable to profit before income tax.

Profit for the period

As a result of the foregoing, our profit for the period increased significantly by 41.6% from RMB487.2 million in the nine months ended September 30, 2019 to RMB689.8 million in the nine months ended September 30, 2020.

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

Revenue

Our revenue increased by 21.2% from RMB1,408.9 million in 2018 to RMB1,708.1 million in 2019, primarily due to the increases in revenue from sales of our proprietary product Zadaxin and promotion products for business partners.

- ***Zadaxin***. Revenue from sales of Zadaxin increased by RMB180.5 million, or 15.4%, from RMB1,168.8 million in 2018 to RMB1,349.3 million in 2019. According to Frost & Sullivan, in terms of revenue, Zadaxin's market share in the thymalfasin market in China increased from 51.4% in 2018 to 57.5% in 2019. The increase in our revenue from sales of Zadaxin was primarily due to increases in sales volume and average selling price of Zadaxin.
- ***Promotion Products for Business Partners***. Revenue from sales of promotion products for business partners increased by RMB105.6 million, or 50.6%, from RMB208.7 million in 2018 to RMB314.3 million in 2019, primarily due to the launch of the Methotrexate 50mg product at the end of 2018 and its increased sales volume in 2019, along with the increases in sales volume of Endoxan, Holoxan and Methotrexate 1g products.

Cost of revenue

Our cost of revenue increased by 29.7% from RMB303.0 million in 2018 to RMB393.1 million in 2019, primarily due to an increase in product costs of RMB61.0 million, or 23.3% from RMB261.6 million to RMB322.6 million, corresponding with our product sales growth.

Gross profit and gross margin

Our gross profit increased by 18.9% from RMB1,105.9 million in 2018 to RMB1,314.9 million in 2019, which was in line with our revenue growth. Our gross margin remained stable at 77.0% in 2019 as compared to 78.5% in 2018 as our product mix remained relatively stable during the period.

Sales and marketing expenses

Our sales and marketing expenses increased by 18.3% from RMB389.0 million in 2018 to RMB460.3 million in 2019, primarily due to (i) an increase in staff costs by RMB43.3 million, or

22.0% from RMB196.1 million in 2018 to RMB239.3 million in 2019, resulting from an increase in our sales and marketing staff, and (ii) an increase in our market development and business promotion expenses by RMB22.1 million, or 16.3% from RMB135.6 million in 2018 to RMB157.8 million in 2019, resulting from an increase in sales and marketing activities, which was in line with the increase of our revenue during the period. Our sales and marketing expenses as a percentage of revenue remained stable at 27.0% in 2019 as compared to 27.6% in 2018.

Administrative expenses

Our administrative expenses decreased by 17.5% from RMB143.5 million in 2018 to RMB118.4 million in 2019, primarily due to a decrease in our professional service expenses by RMB20.4 million, or 52.9% from RMB38.6 million in 2018 to RMB18.2 million in 2019. Our administrative expenses as a percentage of revenue decreased from 10.2% in 2018 to 6.9% in 2019.

Research and development expenses

Our research and development expenses increased by 13.2% from RMB77.5 million in 2018 to RMB87.7 million in 2019, primarily due to an increase in staff costs by RMB7.1 million, or 31.1% from RMB22.8 million in 2018 to RMB29.9 million in 2019, resulting from an increase in research and development staff during the period for lifecycle management of our marketed products and development of our pipeline in-licensed products.

Other income

Our net other income decreased by 81.7% from RMB37.1 million in 2018 to RMB6.8 million in 2019, primarily due to (i) receipts of RMB25.2 million from refund of upfront payments in 2018 in relation to the termination of our cooperation with Independent Third Parties for in-licensing drug candidates, (ii) the discontinuation of loan interest in 2019 resulting from repayment of the secured loans by Zensun in 2018 pursuant to the termination agreement we entered into with Zensun, and (iii) a decrease in government grants recognized by RMB1.5 million, or 18.1% from RMB8.3 million in 2018 to RMB6.8 million in 2019, resulting from changes in the timing of distribution and acceptance of government grants.

Net other losses

Our net other losses decreased by 86.7% from RMB38.6 million in 2018 to RMB5.1 million in 2019, primarily due to (i) a significant decrease in net foreign exchange losses from RMB35.7 million to RMB10.9 million, resulting from fluctuations in the value of USD against RMB in 2018, (ii) an increase in fair value of our equity investments in the listed common stock of Soligenix, Inc., our licensing partner, by RMB4.8 million from a loss of RMB3.3 million in 2018 to a gain of RMB1.5 million in 2019, and (iii) an increase of RMB2.0 million in fair value of our structured deposits primarily due to an increase in interests generated from our structured deposits during the period.

Net finance income

Our net finance income increased significantly from RMB0.9 million in 2018 to RMB11.0 million in 2019, primarily due to an increase in interest income from bank deposits by RMB9.5 million, a significant increase from RMB2.7 million in 2018 to RMB12.2 million in 2019, resulting from an increase in bank deposits during the period.

Income tax expenses or credits

Our income tax expenses or credits changed from credits of RMB39.8 million in 2018 to expenses of RMB46.6 million in 2019, primarily due to adjustments made in 2018 to the U.S. repatriation tax estimate recorded in 2017, taking into consideration the use of our remaining tax credits to offset certain U.S. tax liabilities. Our effective income tax rate, calculated as income tax expenses divided by profit before income tax, changed from net income tax credits in 2018 to 7.0% in 2019. See Note 14 "Income Tax Expense/(Credit)" to the Accountant's Report included in Appendix I of this prospectus for a reconciliation of our income tax expenses or credits applicable to profit before income tax.

Profit for the year

As a result of the foregoing, our profit for the year increased by 14.9% from RMB535.1 million in 2018 to RMB614.6 million in 2019.

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

Revenue

Our revenue increased by 16.2% from RMB1,213.0 million in 2017 to RMB1,408.9 million in 2018, primarily attributable to the increases in revenue from sales of our proprietary product Zadaxin and promotion products for business partners.

- ***Zadaxin.*** Revenue from sales of Zadaxin increased by RMB56.2 million, or 5.1% from RMB1,112.6 million in 2017 to RMB1,168.8 million in 2018. According to Frost & Sullivan, Zadaxin's market share in the thymalfasin market in China increased from 50.8% in 2017 to 51.4% in 2018. The increase in our revenue from sales of Zadaxin was primarily due to the increase in sales volume of Zadaxin.
- ***Promotion Products for Business Partners***. Revenue from sales of promotion products for business partners increased by RMB152.0 million, a significant increase from RMB56.7 million in 2017 to RMB208.7 million in 2018, primarily due to the adjustment of our business model for Baxter products from providing promotion services only to also engaging in the product distribution.

Cost of revenue

Our cost of revenue increased by RMB121.8 million, or 67.2% from RMB181.2 million in 2017 to RMB303.0 million in 2018, primarily due to an increase in product costs by RMB114.7 million, or 78.1% from RMB146.9 million to RMB261.6 million, resulting from the adjustment of our business model for Baxter products from providing promotion services only to also engaging in the product distribution and corresponding recognition of cost of revenue for distribution of Baxter products.

Gross profit and gross margin

Our gross profit increased by 7.2% from RMB1,031.8 million in 2017 to RMB1,105.9 million in 2018. Our gross margin decreased from 85.1% in 2017 to 78.5% in 2018, primarily due to a change in our product mix as we started to engage in distribution and sales for Baxter products in 2018 and derived more revenue from such products, which incurred higher cost of revenue as percentages of their revenues.

Sales and marketing expenses

Our sales and marketing expenses decreased by 1.7% from RMB396.0 million in 2017 to RMB389.0 million in 2018, primarily due to (i) a decrease in staff costs by RMB8.1 million, or 4.0% from RMB204.1 million in 2017 to RMB196.1 million in 2018, resulting from severances paid in connection with the privatization in 2017 and decreased ESOP distribution, and (ii) a decrease in travel expenses by RMB6.0 million, or 13.3% from RMB45.2 million in 2017 to RMB39.2 million in 2018, offset by an increase in market development and business promotion expenses by RMB9.4 million, or 7.4% from RMB126.3 million in 2017 to RMB135.6 million in 2018, resulting from an increase in sales and marketing activities which was in line with the increase of our revenue during the period. Our sales and marketing expenses as a percentage of revenue decreased from 32.6% in 2017 to 27.6% in 2018.

Administrative expenses

Our administrative expenses decreased by 56.8% from RMB332.2 million in 2017 to RMB143.5 million in 2018, primarily due to (i) a decrease in professional service fees by RMB92.6 million, or 70.6% from RMB131.2 million in 2017 to RMB38.6 million in 2018, and (ii) a decrease in staff costs by RMB73.7 million, or 55.2% from RMB133.5 million in 2017 to RMB59.8 million in 2018, resulting from discontinued U.S. operations and a corresponding decrease in staff. Our administrative expenses as a percentage of revenue decreased from 27.4% in 2017 to 10.2% in 2018.

Research and development expenses

Our research and development expenses decreased by 6.3% from RMB82.7 million in 2017 to RMB77.5 million in 2018, primarily due to a decrease in testing and clinical trial fees of RMB12.8 million, or 22.4% from RMB57.1 million in 2017 to RMB44.2 million in 2018, resulting from termination of certain projects in 2018.

Other income

Our other income increased significantly from RMB13.3 million in 2017 to RMB37.1 million in 2018, primarily due to receipts of RMB25.2 million from refund of upfront payments in 2018 in relation to the termination of our cooperation with Independent Third Parties for in-licensing drug candidates, partially offset by a decrease in loan interest from Zensun in 2018 resulting from repayment of secured loans by Zensun.

Net other gains or losses

Our net other gains or losses changed from a gain of RMB26.5 million in 2017 to a loss of RMB38.6 million in 2018, primarily due to (i) changes in net foreign exchange gains or losses from a gain of RMB25.8 million in 2017 to a loss of RMB35.7 million in 2018, resulting from appreciation of USD against RMB during the period, and (ii) a decrease in fair value of our equity investments in the listed common stock of Soligenix, Inc., our licensing partner, by RMB3.2 million from a loss of RMB0.1 million in 2017 to a loss of RMB3.3 million in 2018.

Net finance costs or income

Our net finance costs or income changed from costs of RMB0.2 million in 2017 to income of RMB0.9 million in 2018, primarily due to an increase in interest income from bank deposits by RMB1.2 million, or 77.5% from RMB1.5 million in 2017 to RMB2.7 million in 2018, resulting from an increase in bank deposits during the period.

Income tax expenses or credits

Our income tax expenses or credits changed from expenses of RMB240.9 million in 2017 to credits of RMB39.8 million in 2018, primarily due to adjustments made in 2018 to the U.S. repatriation tax estimate recorded in 2017, taking into consideration the use of our remaining tax credits to offset certain U.S. tax liabilities. Our effective income tax rate, calculated as income tax expenses divided by profit before income tax, changed from 92.5% in 2017 to net income tax credits in 2018. See Note 14 "Income Tax Expense/(Credit)" to the Accountant's Report included in Appendix I of this prospectus for a reconciliation of our income tax expenses or credits applicable to profit before income tax.

Profit for the year

As a result of the foregoing, our profit for the year increased significantly from RMB19.6 million in 2017 to RMB535.1 million in 2018.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our operations primarily through cash generated from operating activities. Our primary uses of cash were to fund working capital and other recurring expenses. We do not anticipate any changes to the availability of financing to fund our operations in the future, although there is no assurance that we will be able to access any financing on favorable terms or at all. Taking into account the financial resources available to us, including cash flow from operations and the estimated net proceeds of the Global Offering, our Directors are of the opinion that we have sufficient working capital for our requirements within at least the next 12 months from the date of this prospectus.

Cash Flows

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

	Year ended December 31,			Nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash generated from operating activities	153,827	167,441	1,031,626	867,773	809,887
Net cash (used in)/generated from investing activities	(4,704)	174,711	(152,490)	(77,495)	(511,026)
Net cash used in financing activities	(476,526)	(542,629)	(234,589)	(17,345)	(47,229)
Net (decrease)/increase in cash and cash equivalents	(327,403)	(200,477)	644,547	772,933	251,632
Effects of exchange rate changes on cash and cash equivalents	13,399	(5,190)	(1,019)	(169)	(19,155)
Cash and cash equivalents at beginning of year/period	795,633	481,629	275,962	275,962	919,490
Cash and cash equivalents at end of year/period	481,629	275,962	919,490	1,048,726	1,151,967

Net Cash Generated from Operating Activities

Net cash generated from operating activities primarily comprises our profit before income tax for the period adjusted by: (i) income tax paid, non-operating items and non-cash items; and (ii) changes in working capital.

Our net cash generated from operating activities in the nine months ended September 30, 2020 was RMB809.9 million, which was primarily attributable to our profit before income tax of RMB754.8 million, as adjusted by: (i) the add-back of non-cash items, primarily comprising amortization of intangible assets of RMB63.0 million and share-based compensation of RMB40.8 million; and (ii) changes in working capital, which primarily comprised an increase in trade receivables of RMB65.4 million due to sales and revenue increase. This cash inflow was partially offset by income tax paid of RMB29.5 million.

Our net cash generated from operating activities in 2019 was RMB1,031.6 million, which was primarily attributable to our profit before income tax of RMB661.2 million, as adjusted by: (i) the add-back of non-cash items, primarily comprising share-based compensation of RMB34.0 million and amortization of right-of-use assets of RMB22.9 million; and (ii) changes in working capital, which primarily comprised a decrease in trade receivables of RMB265.4 million primarily due to the delayed receipt of payment for the settlement of certain receivables from certain customer in the amount of RMB321.6 million caused by prolonged wire transfer process at the end of 2018. This cash inflow was partially offset by income tax paid of RMB25.7 million.

Our net cash generated from operating activities in 2018 was RMB167.4 million. This cash inflow was primarily attributable to our profit before income tax of RMB495.3 million, as adjusted by (i) the add-back of non-cash items, primarily comprising amortization of right-of-use assets of RMB24.7 million and depreciation of property, plant and equipment of RMB8.8 million; and (ii) changes in working capital, which primarily comprised an increase in trade receivables of RMB193.3 million primarily due to the delayed receipt of payment for the settlement of certain receivables from certain customer in the amount of RMB321.6 million caused by prolonged wire transfer process at the end of 2018. This cash inflow was partially offset by income tax paid of RMB182.7 million.

Our net cash generated from operating activities in 2017 was RMB153.8 million. This cash inflow was primarily attributable to our profit before income tax of RMB260.5 million, as adjusted by (i) the add-back of non-cash items, primarily comprising share-based compensation of RMB54.6 million and amortization of right-of-use assets of RMB24.8 million; and (ii) changes in working capital, which primarily comprised an increase in trade receivables of RMB129.1 million primarily due to our sales growth. This cash inflow was partially offset by income tax paid of RMB12.6 million.

Net Cash Used in or Generated from Investing Activities

Our net cash used in investing activities in the nine months ended September 30, 2020 was RMB511.0 million. This cash outflow was primarily attributable to (i) investment in structured deposits of RMB887.0 million, (ii) payments for intangible assets of RMB314.6 million, and (iii) an increase in restricted cash for the bank guarantee provided for our acquisition of intangible assets. This cash outflow was partially offset by proceeds from disposal of structured deposits of RMB909.3 million.

Our net cash used in investing activities in 2019 was RMB152.5 million. This cash outflow was primarily attributable to (i) investment in structured deposits of RMB620.0 million, and (ii) payments for intangible assets of RMB30.7 million. This cash outflow was partially offset by proceeds from disposal of structured deposits of RMB501.6 million.

Our net cash generated from investing activities in 2018 was RMB174.7 million. This cash inflow was primarily attributable to (i) proceeds from disposal of money market funds of RMB127.5 million, and (ii) cash received from repayment of loan receivables of RMB82.2 million. This cash inflow was partially offset by (i) acquisition of debt investments of RMB13.7 million, and (ii) payments for property, plant and equipment of RMB12.4 million.

Our net cash used in investing activities in 2017 was RMB4.7 million. This cash outflow was primarily attributable to (i) payments for property, plant and equipment of RMB6.3 million, and (ii) payments for intangible assets of RMB4.4 million. This cash outflow was partially offset by interest received from loan receivables of RMB6.0 million.

Net Cash Used in Financing Activities

Our net cash used in financing activities in the nine months ended September 30, 2020 was RMB47.2 million. This cash outflow was primarily attributable to dividend payments of RMB2,173.8 million and lease payment of RMB16.9 million. This cash outflow was partially offset by the proceeds from bank loans of RMB2,123.9 million for dividend payment in relation to the repayment of loans for our privatization. See "— Indebtedness and Contingencies" for further details of our borrowings.

Our net cash used in financing activities in 2019 was RMB234.6 million. This cash outflow was primarily attributable to (i) dividend payments of RMB211.6 million, and (ii) principal elements of lease payments of RMB23.0 million.

Our net cash used in financing activities in 2018 was RMB542.6 million. This cash outflow was primarily attributable to (i) dividend payments of RMB563.4 million, and (ii) principal elements of lease payments of RMB24.6 million. This cash outflow was partially offset by the contributions from shareholders of RMB45.3 million.

Our net cash used in financing activities in 2017 was RMB476.5 million. This cash outflow was primarily attributable to (i) repurchase of common stock of SciClone US of RMB471.7 million due to the privatization, and (ii) principal elements of lease payments of RMB23.9 million. This cash outflow was partially offset by net issuance of common stock from exercise of stock options, restricted stock units, and employee stock purchase plan of SciClone US of RMB19.2 million.

NET CURRENT ASSETS

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

	As of December 31,			As of September 30,	As of December 31,
	2017	2018	2019	2020	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	143,795	145,401	140,199	123,837	172,124
Trade receivables	351,349	603,169	362,900	410,081	322,994
Other current assets	36,747	22,599	25,666	75,837	95,551
Financial assets at fair value through profit or loss	129,488	8,698	123,761	100,102	70,013
Deferred tax assets	—	—	—	—	13,336
Cash and cash equivalents	481,629	275,962	919,490	1,151,967	1,118,986
Restricted cash	—	—	—	170,253	163,123
Total current assets	**1,143,008**	**1,055,829**	**1,572,016**	**2,032,077**	**1,956,127**
Current liabilities					
Trade and other payables	171,679	165,744	224,321	504,548	536,517
Lease liabilities	19,140	22,206	19,466	8,895	6,402
Borrowings	—	—	—	408,460	391,494
Current tax liabilities	253,738	42,364	62,812	81,699	86,854
Total current liabilities	**444,557**	**230,314**	**306,599**	**1,003,602**	**1,021,267**
Net current assets	**698,451**	**825,515**	**1,265,417**	**1,028,475**	**934,860**

We had net current assets of RMB934.9 million as of December 31, 2020, as compared to net current assets of RMB1,028.5 million as of September 30, 2020. This change was primarily attributable to a decrease in trade receivables of RMB87.1 million primarily due to settlement of such receivables.

We had net current assets of RMB1,028.5 million as of September 30, 2020, as compared to net current assets of RMB1,265.4 million as of December 31, 2019. This change was primarily attributable to an increase in borrowings of RMB408.5 million due to the loan borrowed from China Minsheng Banking Corp., Ltd. Hong Kong Branch, partially offset by an increase in cash and cash equivalents of RMB232.5 million.

We had net current assets of RMB1,265.4 million as of December 31, 2019, as compared to net current assets of RMB825.5 million as of December 31, 2018. This change was primarily attributable to an increase in cash and cash equivalents of RMB643.5 million due to our increased sales, partially offset by a decrease in trade receivables of RMB240.3 million primarily due to settlement of such receivables.

We had net current assets of RMB825.5 million as of December 31, 2018, as compared to net current assets of RMB698.5 million as of December 31, 2017. This change was primarily attributable to (i) an increase in trade receivables of RMB251.8 million primarily due to our sales growth, and (ii) a decrease in current tax liabilities of RMB211.4 million primarily due to U.S. tax payment. This was partially offset by (i) a decrease in cash and cash equivalents of RMB205.7 million primarily due to payment of dividends, and (ii) a decrease in financial assets at fair value through profit or loss of RMB120.8 million due to redemption of money market funds.

As of January 1, 2017, we brought forward from 2016 accumulated loss of RMB721.7 million, which was subsequently reduced to RMB702.8 million and RMB171.3 million as of December 31, 2017 and 2018, respectively, mainly resulting from our Group's accumulated losses before our privatization in October 2017 caused by redundant costs and expenses associated with our previous U.S. operations. We recorded retained earnings of RMB229.0 million as of December 31, 2019 as we discontinued our U.S. operations and continued generating profits and cash inflows during the Track Record Period.

CERTAIN BALANCE SHEET ITEMS

Inventories

Our inventories include raw materials we purchase from suppliers, our finished goods and work in progress. See Note 2.9 "Summary of significant accounting policies — Inventories" of Accountant's Report in Appendix I of this prospectus for further details of our accounting policies on inventories. The table below sets forth a breakdown of our inventories as of the dates indicated:

	As at December 31,			As at September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	42,523	68,501	57,290	51,362
Finished goods	95,743	73,757	82,493	72,472
Work in progress	5,529	3,143	416	3
	143,795	145,401	140,199	123,837

We formulate annual plans for inventories, sales and procurement of raw materials and supplies. We actively monitor the sales performance, production progress, inventory level and projected sales of each of our products, and adjust our sales and purchase plans accordingly every month, to minimize the risk of inventory shortage or accumulation. In 2017, we had an increase in finished goods primarily due to loaded inventory of Zadaxin in 2017 in anticipation of renewal of its IDL and corresponding changes to its packaging which may affect its supply. Apart from that, we did not experience any material shortage or accumulation of inventory during the Track Record Period.

Our inventory balance decreased by 11.7% from RMB140.2 million as of December 31, 2019 to RMB123.8 million as of September 30, 2020, primarily attributable to acceleration of inventory clearance and turnover.

Our inventory balance decreased by 3.6% from RMB145.4 million as of December 31, 2018 to RMB140.2 million as of December 31, 2019, primarily attributable to a decrease in raw materials of RMB11.2 million.

Our inventory balance increased by 1.1% from RMB143.8 million as of December 31, 2017 to RMB145.4 million as of December 31, 2018.

The following table sets forth the average turnover days of our inventories for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2017	**2018**	**2019**	**2020**
Average turnover days of inventories[(1)]	260.7	174.2	132.6	104.5

Note:

(1) Calculated using the average of the beginning and ending inventory balances of the period, divided by cost of revenue for the period and multiplied by 365 days for a year in respect of the periods indicated

Our average turnover days decreased in the nine months ended September 30, 2020, primarily due to improved management of our inventories. Our average turnover days decreased in 2019 primarily due to acceleration of inventory clearance and turnover. Our average turnover days decreased significantly in 2018 primarily due to accelerated release of the loaded inventory of Zadaxin.

Approximately RMB74.1 million, or 59.8%, of our inventories as of September 30, 2020 had been subsequently used or sold as of December 31, 2020.

Trade receivables

Our trade receivables primarily represent the balances due from our distributors. We generally grant our distributors credit terms of 45 days to 90 days. We take into consideration a number of factors in determining the credit term of a distributor, including its cash flow conditions and credit worthiness. See "Business — Sales, Marketing and Distribution — Distribution in China" in this prospectus for more details of our distributor management. We seek to maintain strict control over our outstanding receivables and minimize credit risk. We have long-term relationship with our distribution partner Sinopharm and believe we do not have substantial credit risks arising from our trade receivables. We do not hold any collateral or other credit enhancements over our trade receivable balances and our trade receivables are non-interest-bearing.

The following tables set forth a summary of our trade receivables as of the dates indicated and the average trade receivables turnover days for the periods indicated:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	351,349	603,169	362,900	410,081
Less: allowance for impairment of trade receivables	—	—	—	—
Trade receivables — net	**351,349**	**603,169**	**362,900**	**410,081**

	Year ended December 31,			Nine months ended September 30,
	2017	2018	2019	2020
Average turnover days of trade receivables(1)	96.2	123.6	103.2	66.8

Note:

(1) Turnover days of trade receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant period by revenue and multiplying by 365 days or the numbers of days for the given period.

Our net trade receivables as of December 31, 2017, 2018, 2019 and September 30, 2020 were RMB351.3 million, RMB603.2 million, RMB362.9 million and RMB410.1 million, respectively. The increase in the nine months ended September 30, 2020 was primarily due to an increase in sales revenue. The decrease from 2018 to 2019 and increase from 2017 to 2018 was primarily due to the delayed receipt of payment for the settlement of certain receivables from certain customer in the amount of RMB321.6 million caused by prolonged wire transfer process at the end of 2018.

Our average trade receivables turnover days were 96.2 days, 123.6 days, 103.2 days and 66.8 days in 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively. Our average trade receivables turnover days decreased in the nine months ended September 30, 2020 and 2019 as we continued to optimize our trade receivable management. Our average trade receivables turnover days increased in 2018 primarily due to the delayed receipt of payment for the settlement of certain receivables from certain customer in the amount of RMB321.6 million caused by prolonged wire transfer process at the end of 2018.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 6 months	351,349	603,169	362,900	394,028
6 to 12 months	—	—	—	16,053
Total	**351,349**	**603,169**	**362,900**	**410,081**

Approximately RMB390.7 million, or 95.3%, of our trade receivables as of September 30, 2020 had been subsequently settled as of December 31, 2020.

Trade and other payables

Our trade and other payables primarily consist of trade payables, payables for marketing and promotion expenses, salaries and bonus payable, payables for professional service fee and others. The following table sets forth a summary of our trade and other payables as of the dates indicated:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	38,252	52,576	66,047	83,670
Payables for marketing and promotion expenses	52,505	45,966	71,633	55,124
Salaries and bonus payable	63,062	55,645	65,238	60,858
Payables for professional service fee	12,662	10,186	8,278	2,596
Payables for listing expenses	—	—	—	19,972
Payables for purchase of a license	—	—	—	170,253
Termination compensation received in advance	—	—	—	34,168
Dividends payable	—	—	—	54,481
Others	5,198	1,371	13,125	23,426
Total	**171,679**	**165,744**	**224,321**	**504,548**

Our trade and other payables were RMB171.7 million, RMB165.7 million, RMB224.3 million and RMB504.5 million as of December 31, 2017, 2018, 2019 and September 30, 2020, respectively. Our trade and other payables increased in the nine months ended September 30, 2020, primarily due to (i) an increase in payables for purchase of a license of RMB170.3 million resulting from milestone payment for in-licensing of Zometa from Novartis, (ii) an increase in dividends payable of RMB54.5 million, (iii) termination compensation received in advance of RMB34.2 million resulting from the termination of the sales of DC Bead, and (iv) payables for listing expenses of RMB20.0 million. Our trade and other payables increased in 2019 primarily due to (i) an increase in trade payables of RMB13.5 million resulting from uniform management of our credit terms since 2019, and (ii) an increase in payables for marketing and promotion expenses of RMB25.7 million. Our trade and other payables decreased in 2018 primarily due to a decrease in other payables resulting from settlement of payables for marketing and promotion expenses from 2017.

The following table sets forth the average turnover days of our trade payables for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2017	2018	2019	2020
Average turnover days of trade payables[1]	64.0	54.7	55.1	59.3

Note:

(1) Turnover days of trade payables is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of revenue and multiplying by 365 days or the numbers of days for the given period.

For 2017, 2018, 2019 and the nine months ended September 30, 2020, our average trade payables turnover days were 64.0 days, 54.7 days, 55.1 days and 59.3 days, respectively. The average trade payables turnover days remained relatively stable during the Track Record Period.

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

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 1 year	38,252	52,576	66,047	83,670
Total	**38,252**	**52,576**	**66,047**	**83,670**

Approximately RMB79.8 million, or 95.3%, of our trade payables as of September 30, 2020 had been subsequently settled as of December 31, 2020.

Other current assets

Our other current assets primarily comprise receivables from licensing income, purchase rebate receivables, rental deposits, interest receivables, prepaid raw material costs, prepaid clinical trial fee, prepaid insurance, advance to employee and prepaid listing expenses. The following table sets forth our other current assets as of the dates indicated:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Financial instruments at amortized costs:				
Receivables from licensing income	—	—	—	43,198
Purchase rebate receivables	12,735	10,261	16,120	16,834
Rental deposits	2,473	775	1,254	1,098
Interest receivables	—	—	207	2,126
Others:				
Prepaid raw material costs	8,429	—	—	—
Prepaid clinical trial fee	7,397	6,424	5,695	2,971
Prepaid insurance	2,142	1,235	1,255	926
Advance to employee	1,069	408	229	51
Prepaid listing expenses	—	—	—	7,487
Others	2,502	3,496	906	1,146
Total	**36,747**	**22,599**	**25,666**	**75,837**

Our other current assets were RMB36.7 million, RMB22.6 million, RMB25.7 million and RMB75.8 million as of December 31, 2017, 2018, 2019 and September 30, 2020, respectively.

Financial assets at fair value through profit or loss/other comprehensive income

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss comprise equity investments in listed securities, debt investments, money market funds and structured deposits. The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Equity investments in listed securities	5,120	2,084	3,571	4,302
Debt investments	—	13,787	21,400	20,907
	5,120	15,871	24,971	25,209
Current assets				
Short-term investments measured at fair value through profit or loss				
Money market funds	129,488	8,698	3,397	—
Structured deposits	—	—	120,364	100,102
	129,488	8,698	123,761	100,102

The following table sets forth our fair value changes in financial assets at fair value through profit or loss:

	For the year ended December 31,			For the nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fair value changes on equity investments	(70)	(3,294)	1,458	218	839
Fair value changes on debt investments	—	61	405	192	14
Fair value changes on short-term investments measured at fair value through profit or loss					
Money market funds	758	145	94	84	6
Structured deposits	—	—	1,954	1,041	2,022

Financial assets at fair value through other comprehensive income

Our financial assets at fair value through other comprehensive income comprise equity investments in listed securities and equity investments in unlisted securities. The following table sets forth our financial assets at fair value through other comprehensive income as of the dates indicated:

	As of December 31,			As of September 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments in listed securities	—	—	—	118,309
Equity investments in unlisted securities	17,538	19,285	37,491	47,671
	17,538	19,285	37,491	165,980

The following table sets forth our fair value changes in financial assets at fair value through other comprehensive income:

	For the year ended December 31,			For the nine months ended September 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fair value changes on equity investments measured at fair value through other comprehensive income	3,914	835	17,679	17,554	83,860

Level 3 of fair value measurement

During the Track Record Period, we had certain financial assets at fair value through profit or loss/other comprehensive income categorized within level 3 of fair value measurement ("Level 3 Financial Assets"). Our Group has a team that manages the valuation of Level 3 Financial Assets for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of our Group's Level 3 Financial Assets. External valuation experts are involved when necessary.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 5 of the Accountant's Report in Appendix I which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on page I-2 of Appendix I to this prospectus.

In relation to the valuation of the Level 3 Financial Assets, our management has carefully reviewed the valuation related policies, the financial statements prepared in accordance with IFRS and other supporting documents, and has had sufficient understanding of the valuation model, methodologies and techniques. Based on the above, our management is of the view that the valuation analysis performed during the Track Record Period is fair and reasonable, and our financial statements are properly prepared. Our management is satisfied with the valuation work for the Level 3 Financial Assets performed during the Track Record Period.

In relation to the valuation of the Level 3 Financial Assets, the Joint Sponsors have conducted, among others, the following due diligence work: (i) reviewing the relevant notes in the Accountant's Report contained in Appendix I to this prospectus; (ii) discussing with the management to understand the internal policies and procedures for the management of the Level 3 Financial Assets and the key basis, methodology and assumptions for the valuation of the Level 3 Financial Assets; (iii) obtaining and reviewing the relevant underlying agreements concerning the corresponding Level 3 Financial Assets during the Track Record Period; (iv) obtaining and reviewing the relevant valuation reports prepared by external valuation experts; (v) interviewing the relevant external valuation experts about the key basis, methodology and assumptions for their valuation of the Level 3 Financial Assets; and (vi) discussing with the Reporting Accountant to understand the work they have performed in relation to the valuation of the Level 3 Financial Assets for the purpose of reporting on the Historical Financial Information of the Group as a whole.

Based on the due diligence work conducted as described above, and having taken into account the work performed by the Company's management and the unqualified opinion on the Historical Financial Information of the Group as a whole issued by the Reporting Accountant included in Appendix I to this prospectus, nothing has come to the attention of the Joint Sponsors that would cause them to disagree with the valuation of the Level 3 Financial Assets.

Intangible assets

Impairment test

Intangible assets not yet available for use are tested annually based on the recoverable amount of the cash-generating unit ("CGU") to which the intangible asset is related. The appropriate CGU is at the product level. The annual impairment test is performed for each pipeline product by engaging an independent appraiser to estimate fair value less cost to sell as the recoverable amount of each pipeline product. The fair value is based on the multi-period excess earnings method and our Group estimates the forecast period for each pipeline product based on the timing of clinical development and regulatory approval, commercial ramp up to reach expected peak revenue potential, and the length of exclusivity for each pipeline product. The estimated revenue of each pipeline product is based on management's expectations of timing of commercialization. The costs and operating expenses are estimated as a percentage over the revenue forecast period based on the current margin levels of comparable companies with adjustments made to reflect the expected future price changes. The discount rates used are post-tax and reflect specific risks relating to the relevant products that would be considered by market participants.

The key assumptions used for recoverable amount calculations as of December 31, 2017, 2018 and 2019 are as follows:

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	As of December 31,		
	2017	2018	2019
Discount rate	18%	18%	18%
Revenue growth rate	18.2-80.7%	18.2-80.7%	18.2-80.7%
Recoverable amount (RMB in thousands)	20,714	29,490	45,707
Carrying amount (RMB in thousands)	16,335	24,021	24,417

ABTL-0812

	As of December 31,		
	2017	2018	2019
Discount rate	18%	18%	18%
Revenue growth rate	1.0-36.7%	1.0-36.7%	1.0-36.7%
Recoverable amount (RMB in thousands)	37,823	60,176	70,950
Carrying amount (RMB in thousands)	14,854	17,317	17,602

SGX-942

	As of December 31,		
	2017	2018	2019
Discount rate	18%	18%	18%
Revenue growth rate	0.7-63.1%	0.7-63.1%	0.7-63.1%
Recoverable amount (RMB in thousands)	70,953	83,723	98,823
Carrying amount (RMB in thousands)	19,603	20,590	20,929

Vibativ

	As of December 31,		
	2017	2018	2019
Discount rate	18%	18%	18%
Revenue growth rate	0.7-23.2%	0.7-23.2%	0.7-23.2%
Recoverable amount (RMB in thousands)	308,491	363,482	428,821
Carrying amount (RMB in thousands)	19,603	20,590	20,929

Oravig

	As of December 31,		
	2017	**2018**	**2019**
Discount rate	18%	18%	18%
Revenue growth rate	3.4-47.3%	3.4-47.3%	3.4-47.3%
Recoverable amount (RMB in thousands)	68,441	78,845	91,513
Carrying amount (RMB in thousands)	6,534	6,863	6,976

Angiomax

	As of December 31,		
	2017	**2018**	**2019**[1]
Discount rate	18%	18%	N/A
Revenue growth rate	10.8-1111.9%	10.8-1111.9%	N/A
Recoverable amount (RMB in thousands)	182,659	214,029	N/A
Carrying amount (RMB in thousands)	45,739	48,042	N/A

Notes:

(1) Angiomax was approved by the NMPA for sales in China and became available for use in 2019. Our Group did not identify any indication that the intangible assets in relation to Angiomax would be impaired as of December 31, 2019.

(2) Discount rates represent our general business and market risk and are derived from capital asset pricing model by taking applicable market data into account, such as risk free rate, market premium, beta, company specific risk and size premium. The discount rates applied as of December 31, 2017, 2018 and 2019 were around 18% as the input to the model in determining the discount rate remained similar throughout the Track Record Period.

(3) Revenue growth rates were based on the key inputs, such as the estimated market penetration rate and market size after the expected commercialization of each drug candidate whose license was not yet available for use. As there were no significant changes noted in above key inputs, the revenue growth rates estimated as of December 31, 2017, 2018 and 2019 remained within the same range.

Based on the result of above assessment, there was no impairment for the intangible assets as of December 31, 2017, 2018 and 2019.

As of September 30, 2020, there was no impairment indicator for the above intangible assets except for SGX-942. We did not perform quantitative impairment test for the above intangible assets, as our policy is to perform impairment test annually as of December 31, or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with IAS 36 Impairment of Assets.

For SGX-942, it was reported that SGX-942 failed to achieve its Phase III clinical endpoint. As a result, we provided full impairment to related intangible assets with the amount of RMB21.0 million (USD3.0 million) as of September 30, 2020. The impairment losses were recognized as administrative expenses in the consolidated statements of comprehensive income for the nine months ended September 30, 2020.

Impairment test—sensitivity

We performed sensitivity test by increasing 1% of discount rate or decreasing 1% of revenue growth rate, which are the key assumptions determining the recoverable amount of each intangible asset, with all other variables held constant. The impacts on the amount by which the intangible asset's recoverable amount above its carrying amount (headroom) are as below:

PT-112

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Headroom	4,379	5,469	21,290
Impact by increasing discount rate	(2,601)	(2,862)	(4,095)
Impact by decreasing revenue growth rate	(1,189)	(1,407)	(2,184)

ABTL-0812

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Headroom	22,969	42,859	53,348
Impact by increasing discount rate	(3,973)	(5,696)	(6,174)
Impact by decreasing revenue growth rate	(1,562)	(2,416)	(2,853)

SGX-942

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Headroom	51,350	63,133	77,894
Impact by increasing discount rate	(6,469)	(6,987)	(7,478)
Impact by decreasing revenue growth rate	(2,522)	(2,979)	(3,516)

Vibativ

	As of December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Headroom	288,888	342,892	407,892
Impact by increasing discount rate	(23,647)	(25,037)	(26,161)
Impact by decreasing revenue growth rate	(12,350)	(14,571)	(17,196)

Oravig

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Headroom	61,907	71,982	84,537
Impact by increasing discount rate	(5,155)	(5,298)	(5,379)
Impact by decreasing revenue growth rate	(3,058)	(3,507)	(4,018)

Angiomax

	As at December 31,		
	2017	2018	2019(1)
	RMB'000	RMB'000	RMB'000
Headroom	136,920	165,987	N/A
Impact by increasing discount rate	(14,120)	(14,962)	N/A
Impact by decreasing revenue growth rate	(6,528)	(8,867)	N/A

Note:

(1) Angiomax was approved by the NMPA for sales in China and became available for use in 2019. Our Group did not identify any indication that the intangible assets in relation to Angiomax would be impaired as of December 31, 2019

Considering there was still sufficient headroom based on the assessment, we believe that a reasonably possible change in any of the key assumptions, on which we have based our determination of each intangible asset's recoverable amount, would not cause its carrying amount to exceed its recoverable amount.

INDEBTEDNESS AND CONTINGENCIES

Bank Borrowings

As of September 30, 2020, we had bank borrowings of RMB2,039.9 million.

In June 2020, we entered into a facility agreement with China Minsheng Banking Corp., Ltd. Hong Kong Branch, pursuant to which we may borrow up to US$300.0 million of bank loans with an effective interest rate of LIBOR plus 2.3% per annum. Such bank loans would be secured by substantially all of SPIL's (and its subsidiaries', as applicable) assets and common stocks. The facility agreement was to finance our dividend payment and operations.

As of December 31, 2020, being the latest practicable date for determining our indebtedness, we had total borrowings of RMB1,954 million. As of the same date, we had no committed unutilized banking facilities and none of our existing indebtedness included any material covenants or covenants that could potentially limit our ability to incur new indebtedness. Our Directors confirm that, during the Track Record Period and as of the Latest Practicable Date, we had not breached any financial covenant or defaulted in repayment of bank borrowings or other loan facilities.

Lease Liabilities

IFRS 16 introduced a single lessee accounting model, whereby assets and liabilities are recognized for all leases on the balance sheet, subject to certain exceptions. As of December 31, 2017, 2018 and 2019 and September 30 and December 31, 2020, our current and non-current lease liabilities were RMB38.8 million, RMB39.6 million, RMB26.5 million, RMB11.9 million and RMB8.5 million, respectively. These lease liabilities mainly consisted of rental of offices and warehouses.

Contingent liabilities and guarantees

As of December 31, 2020, there were no unrecorded significant contingent liabilities, guarantees or any litigation against us.

Except as discussed above, our Directors confirm that we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness issued and outstanding or agreed to be issued, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of December 31, 2020.

CAPITAL EXPENDITURES

Our capital expenditures principally comprise expenditures for purchases of property and equipment relating to office use and purchase of intangible assets. We funded our capital expenditure requirements during the Track Record Period mainly from our cash generated from operating activities. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Nine months ended September 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Purchases of property, plant and equipment	6,293	12,447	1,947	2,310
Purchases of intangible assets	4,435	12,324	30,695	314,643
Total capital expenditure	**10,728**	**24,771**	**32,642**	**316,953**

Our capital expenditures amounted to RMB10.7 million, RMB24.8 million, RMB32.6 million and RMB317.0 million in 2017, 2018 and 2019 and the nine months ended September 30, 2020, respectively. The capital expenditures in 2017, 2018 and 2019 and the nine months ended

September 30, 2020 were primarily related to the purchase of office equipment, purchase of software and payments for in-licensing agreements. The increase in the nine months ended September 30, 2020 was primarily due to the milestone payment of US$35.0 million for the in-licensing of Zometa from Novartis.

We expect that our expenditure for the development of existing early stage pipeline products will be approximately RMB415.0 million from 2021 to 2023, including RMB40.0 million for PT-112, RMB168.0 million for RRx-001, RMB196.0 million for PEN-866 and RMB11.0 million for others. We expect to fund these expenditures with (i) our cash inflows generated from operating activities, (ii) bank borrowings, and (iii) proceeds from the Global Offering.

KEY FINANCIAL RATIOS

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

	As of/For the year ended December 31,			As of/For the nine months ended September 30,
	2017	**2018**	**2019**	**2020**
Current ratio[(1)]	257.1%	458.4%	512.7%	202.5%
Return on equity (%)[(2)]	1.7%	53.4%	47.9%	81.6%
Return on total assets (%)[(3)]	1.3%	39.3%	39.1%	29.6%

Notes:

(1) Current assets divided by current liabilities.

(2) Profit for the year or period divided by average equity (the arithmetic mean of the opening and closing balance of equity) and multiplied by 100%.

(3) Profit for the year or period divided by average assets (the arithmetic mean of the opening and closing balance of assets) and multiplied by 100%.

Our current ratio as of September 30, 2020 decreased as compared to that of December 31, 2019, primarily attributable to an increase in borrowings due to the loan borrowed from China Minsheng Banking Corp. Ltd., Hong Kong Branch. Our current ratio as of December 31, 2019 increased as compared to that of December 31, 2018, primarily attributable to an increase in cash and cash equivalents, which was in line with the increases of our revenue and profit during the period. Our current ratio as of December 31, 2018 increased as compared to that of December 31, 2017, primarily attributable to an increase in trade receivables due to sales growth and a decrease in current tax liabilities due to U.S. tax payment.

Our return on equity increased in the nine months ended September 30, 2020, primarily attributable to our dividend distribution in the first half of 2020. Our return on equity remained relatively stable in 2019. Our return on equity increased in 2018, primarily attributable to the increases in our revenue and profit during the period.

Our return on total assets decreased in the nine months ended September 30, 2020, primarily attributable to an increase in intangible assets due to our in-licensing of new drug candidates. Our return on total assets remained relatively stable in 2019. Our return on total assets increased in 2018, primarily attributable to the increases in our revenue and profit during the period.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any 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.

MATERIAL RELATED PARTY TRANSACTIONS

For details about our related party transactions during the Track Record Period, see Note 35 to the Accountant's Report in Appendix I of this prospectus.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis and they did not distort our results of operations or make our historical results not reflective of our future performance.

Balances due to/from the Group's related parties will be settled before the Listing.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk.

Market Risk

Market risk includes foreign exchange risk and interest rate risk.

Foreign exchange risk

Our subsidiaries operate in Cayman Islands, Mainland China and Hong Kong, and they are exposed to foreign exchange risk arising from currency exposure, primarily with respect to RMB. Foreign exchange risk primarily arises from recognized assets and liabilities in our subsidiaries in Cayman Islands when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners.

For our subsidiaries whose functional currency is USD, if RMB had strengthened or weakened by 5% against USD with all other variables held constant, the profit before income tax for the years ended December 31, 2017, 2018, 2019 and nine months ended September 30, 2019 and 2020 would have been approximately RMB26.2 million, RMB28.0 million, RMB20.5 million, RMB38.0 million and RMB16.7 million higher or lower, as a result of net foreign exchange gains or losses on translation of net monetary assets denominated in RMB, respectively.

Interest rate risk

Our interest rate risks arise from long-term borrowings. Borrowings obtained at floating rates expose us to cash flow interest rate risk which is partially offset by cash held at variable interest rates.

If the interest rate of borrowings with floating rate had been 50 basis points higher or lower, the profit before income tax for the nine months ended September 30, 2020 would have been approximately RMB3.0 million lower or higher. There existed no borrowing with floating rate for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2019.

Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, restricted cash, trade receivables, other receivables (including receivables from licensing income, purchase rebate receivables, rental deposits and interest receivables), loan receivables and financial guarantee contracts. The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, other receivables (including receivables from licensing income, purchase rebate receivables, rental deposits and interest receivables), loan receivables and financial guarantee contracts represent our maximum exposure to credit risk in relation to financial assets. We did not record any significant credit losses during the Track Record Period.

To manage risk arising from cash and cash equivalents and restricted cash, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

To manage risk arising from trade receivables, we apply the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of at least 24 months before the balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The expected credit loss was minimal as of December 31, 2017, 2018 and 2019 and September 30, 2020 as the trade receivables were considered to be of low credit risk.

Other receivables mainly comprise receivables from licensing income, purchase rebate receivables, rental deposits and interest receivables. We consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk, we compare risk of a default occurring on the assets as of the reporting date with the risk of default as of the date of initial recognition. As of December 31, 2017, 2018 and 2019 and September 30, 2020, there was no significant increase in credit risk since initial recognition. We assessed that the expected credit losses for these receivables within the next 12 months were not material.

We had loan receivables with the amount of RMB78.3 million as of December 31, 2017, all of which were collected in 2018 and we had no outstanding loan receivables as of December 31, 2018 and 2019 and September 30, 2020. As of December 31, 2017, there was no significant increase in credit risk since initial recognition. We assessed that the expected credit losses for loan receivables within the next 12 months were not material.

For the financial guarantee arrangement, we have taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts was USD176 million (equivalent to approximately RMB1,150.0 million), USD132 million (equivalent to approximately RMB905.9 million), USD300 million (equivalent to approximately RMB2,092.9 million) and nil as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively. Based on the financial conditions of the guarantee, we assessed that the credit risk in relation to the financial guarantee arrangement since initial recognition was minimal and therefore, the expected credit losses within the next 12 months were not material during the Track Record Period.

Liquidity Risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. We expect to fund our future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

For the maturity profile of our financial liabilities, see Note 3.1(c) to the Accountant's Report in Appendix I of this prospectus.

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries. PRC laws require a foreign-invested enterprise to make up for its accumulative losses out of its after-tax profits and allocate at least 10% of its remaining after-tax profits, if any, to fund its statutory reserves until the aggregate amount of its statutory reserves exceeds 50% of its registered capital.

Any amount of dividend we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents and the Cayman Companies Act. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

We declared dividends of nil, RMB563.4 million, RMB211.6 million, nil and RMB2,230.4 million and paid dividends in cash of nil, RMB563.4 million, RMB211.6 million, nil and RMB2,173.8 million to our then shareholders in 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020, respectively. Our dividend payment of RMB2,173.8 million for the nine months ended September 30, 2020 was financed by the bank loan facility to be repaid by part of the proceeds from the Global Offering. See "Future Plans and Use of Proceeds." On February 5, 2021, our Board approved our plan to declare a dividend of USD120.0 million from our consolidated retained earnings as of December 31, 2020 to our existing Shareholders. We intend to pay such dividend with our own cash before the Listing. There is no assurance that dividends of any amount will be declared or be distributed in any year. We aim to maximize our Shareholders' interests. Though in order to retain flexibility for our business development, currently we do not have a formal dividend policy or a fixed dividend distribution ratio, our Board may declare dividends in the future after taking into account various factors including our future earnings and cash inflows, future plan for use of funds, long-term development of our business and other legal and regulatory restrictions.

As advised by Maples and Calder (Hong Kong) LLP, the Cayman Islands Legal Advisor to the Company, a Cayman Islands exempted company may pay dividends out of profits, retained earnings or share premium, subject to a solvency test, and the provisions, if any, of the company's memorandum and articles of association. The directors of the company must be comfortable that they have satisfied their fiduciary duties when the dividends are declared and paid, and are satisfied that the Company will continue to be able to meet its obligations as they fall due after the payment of the dividend. Where dividends are paid out of share premium, there is a statutory test set out in Section 34(2) of the Cayman Islands Companies Act which provides that the share premium account may be applied by the company to pay dividends to its members, "provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company shall be able to pay its debts as they fall due in the ordinary course of business." There is no provision under the Cayman Islands Companies Act which expressly prohibits the Company to declare and pay dividends out of its share premium account where the Company is loss making.

DISTRIBUTABLE RESERVES

As of September 30, 2020, the total equity of our Company amounted to approximately RMB6,541.2 million, representing our reserves available for distribution to our equity holders.

LISTING EXPENSES

Assuming an Offer Price of HK$18.00 per Share (being the mid-point of the indicative offer price range stated in this prospectus), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, which are payable by us are estimated to amount in aggregate to be approximately RMB114.3 million. We incurred RMB23.4 million of listing expenses during the Track Record Period. We expect to charge approximately RMB13.1 million of the estimated listing expenses to profit or loss and to capitalize approximately RMB77.8 million following the Listing.

PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2020

Our Directors estimate, on the bases as set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, that our estimated consolidated profit attributable to owners of our Company and unaudited pro forma estimated earnings per Share for the year ended December 31, 2020 as follows:

Estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2020	Not less than RMB740 million (approximately HK$888 million)
Unaudited pro forma estimated earnings per Share for the year ended December 31, 2020	Not less than RMB1.09 (approximately HK$1.31)

The profit estimate, for which our Directors are solely responsible for, has been prepared by them based on the audited consolidated results of our Group for the nine months ended September 30, 2020 as set out in the Accountant's Report in Appendix I to this prospectus and the unaudited consolidated results based on the management accounts of our Group for the three months ended December 31, 2020.

The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2020 by 677,874,263 Shares that had been assumed to be in issue throughout the year ended December 31, 2020. The calculation of the unaudited pro forma estimated earnings per Share does not take into account any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option, the exercise of the outstanding options granted under the Option Incentive Plan or any Shares which may be issued or repurchased by the Company pursuant to the general mandates given to the Directors for the issue and allotment of Shares as described in the section headed "Share Capital" in this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on our audited consolidated net tangible assets as of September 30, 2020 as if the Global Offering had taken place on September 30, 2020.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of our consolidated net tangible assets as of September 30, 2020 or any future date following the Global Offering. It is prepared based on the audited consolidated net tangible assets of our Group attributable to the owners of our Company as of September 30, 2020, derived from the Accountant's Report, the text of which is set out in Appendix I of this prospectus, and adjusted as below. The unaudited pro forma statement of adjusted consolidated net tangible assets does not form part of the Accountant's Report as set forth in Appendix I of this prospectus.

	Adjusted consolidated net tangible liabilities of our Group attributable to the owners of the Company as of September 30, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of the Company as of September 30, 2020	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of the Company per Share	
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$17.20 per Share	(401,901)	1,572,868	1,170,967	1.73	2.08
Based on an Offer Price of HK$18.80 per Share	(401,901)	1,721,159	1,319,258	1.95	2.34

Notes:

(1) The audited consolidated net tangible liabilities of our Group attributable to the equity holders of our Company as of September 30, 2020 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as of September 30, 2020 of approximately RMB166,010,000, with adjustment for intangible assets as of September 30, 2020 of approximately RMB567,911,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$17.20 and HK$18.80 per share, being the low and high end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB23,400,000 which have been accounted for in the consolidated statements of comprehensive income of our Group prior to September 30, 2020) paid/payable by our Company, and takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the exercise of the outstanding options granted under the Option Incentive Plan or any Shares which may be issued or repurchased by our Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital" in this prospectus.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 677,874,263 Shares were in issue, assuming that the Global Offering has been

completed on September 30, 2020 but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and any Shares which may be issued or repurchased by our Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital" in this prospectus.

(4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to September 30, 2020. Specifically, the unaudited pro forma adjusted net tangible asset per Share presented above has not taken into account effect of the proposed dividend of US$120.0 million which was declared subsequent to September 30, 2020 on February 5, 2021. The unaudited pro forma adjusted net tangible asset per Share would have been RMB0.59 (HK$0.71) and RMB0.80 (HK$0.96) per Share based on the Offer Price of HK$17.20 and HK$18.8 per Share, respectively, if such proposed dividend had been accounted for.

RECENT DEVELOPMENT

Selected Financials for the Three Months Ended December 31, 2020

Our revenue, gross profit and net profit for the fourth quarter of 2020 were lower by approximately 20.8%, 20.6% and 45.8% compared to our revenue, gross profit and net profit for the third quarter of 2020, respectively, primarily due to (i) a significant increase in our sales of Zadaxin in the first half of 2020 for the prevention and clinical treatment of COVID-19 in China, which accounted for a majority of our annual sales target, and the corresponding adjustment of sales plan in the fourth quarter of 2020, as well as a drop in demand for Zadaxin for the treatment of COVID-19 in the second half of 2020 which resulted in our revenue from Zadaxin in the second half of 2020 being substantially lower as compared to that in the first half of 2020, (ii) cancellation of Zadaxin shipments to China in December 2020 due to the lockdown of logistics warehouses at Shanghai Pudong International Airport for COVID-19 prevention, the sales of which would have otherwise generated RMB52.5 million in revenue, resulting in our delay in delivery which also affected our fulfillment of orders to Sinopharm, and (iii) increases in sales and marketing expenses and research and development expenses as delayed marketing and promotion activities and research and development activities in 2020 due to the impact of COVID-19 in the first half of 2020 were held in the fourth quarter of 2020 due to our gradual recovery from the COVID-19 impact to catch up on the slowdown in the first three quarters. These factors were all one-off events and we do not expect them to be recurring in the future. We expect to see growth in our revenue in 2021 with the continuous recovery from the COVID-19 impact in China. We also expect our revenue from the sales of our in-licensed products, Angiomax and Zometa, will gradually increase in 2021 due to our commercialization efforts, and we expect our revenue from the sales of Zadaxin in 2021 will continue to account for a substantial part of our total revenue.

Our revenue in the three months ended December 31, 2020 decreased compared to our revenue in the three months ended December 31, 2019, primarily due to (i) a significant increase in our sales of Zadaxin in the first half of 2020 for the prevention and clinical treatment of COVID-19 in China, which accounted for a majority of our annual sales target, and the corresponding adjustment of sales in the fourth quarter of 2020, (ii) our inventory management initiatives to limit our year-end inventories in order to minimize the risk of inventory accumulation, (iii) cancellation of Zadaxin shipments to China in December 2020 due to the lockdown of logistics warehouses at Shanghai Pudong International Airport for COVID-19 prevention, and (iv) the discontinued sales of DC Bead in April 2020. Our gross profit decrease during the same period was in line with our revenue decrease, and our gross profit margin remained relatively stable. We were not aware of any material adverse change in the demand for Zadaxin up to the date of this prospectus.

Our net profit in the three months ended December 31, 2020 decreased compared to our net profit in the three months ended December 31, 2019, primarily due to (i) decreases in revenue and gross profit, (ii) a significant increase in listing expenses in connection with the Global Offering, and (iii) increases in sales and marketing expenses and research and development expenses as delayed marketing and promotion activities and research and development activities in 2020 due to the impact of COVID-19 in the first half of 2020 were held or resumed in the fourth quarter of 2020 due to our gradual recovery from the COVID-19 impact.

Clinical progress update of SGX-942

In December 2020, SGX-942, one of our potential drug candidates, failed to achieve its Phase III clinical endpoint. As a result, we provided full impairment to related intangible assets in the amount of RMB21.0 million as of September 30, 2020. The impairment losses were recognized as administrative expenses in the consolidated statements of comprehensive income for the nine months ended September 30, 2020. We will closely monitor the subgroup analysis of the Phase III clinical data of SGX-942, and continue to develop its other potential clinical adoptions.

Angiomax's status in the volume-based procurement

Bivalirudin, the compound for our product Angiomax, was listed in the catalog for the fourth batch of volume-based procurement on December 25, 2020. We participated in the fourth batch of volume-based procurement for bivalirudin with Angiomax in February 2021, but Angiomax did not win the bid. The bid was won by three generic bivalirudin drugs, produced by Qilu Pharmaceutical Co., Ltd., Hainan Poly Pharm Co., Ltd., and Hainan Shuangcheng Pharmaceuticals Co., Ltd., respectively. As a result, such three bid-winning generic bivalirudin competitors will be procured by public hospitals and medical institutions with priority, enabling them to increase their market share. However, Angiomax can still be prescribed by doctors at public hospitals and medical institutions for patients in compliance with relevant prescription regulations, or be purchased at private hospitals and pharmacies. We believe that our overall business, results of operations and financial conditions will not be materially affected by the exclusion of Angiomax from the volume-based procurement.

Declaration of Dividend

On February 5, 2021, our Board approved our plan to declare a dividend of USD120.0 million from our consolidated retained earnings as of December 31, 2020 to our existing Shareholders. We intend to pay such dividend with our own cash before the Listing.

Outbreak of COVID-19

Assuming the worst case scenario of the COVID-19 outbreak, in which:

(i) we cease all operations (including product sales, marketing and promotion, production by CMO partners, logistics and transportation, procurement of raw materials and promotion products, product development and other operational activities) from October 2020 onwards, as we will not earn or incur any revenue and costs, and we will only incur fixed expenses;

(ii) we make salaries payments to all of our current employees;

(iii) there are no other sources of funding except cash and cash equivalents and financial assets at fair value through profit or loss as of September 30, 2020;

(iv) we use 28.0% of the net proceeds from the Global Offering based on the low-end of the Offer Price range to repay existing debt, including our loan facility of USD300.0 million with China Minsheng Banking Corp. Ltd., Hong Kong Branch, with a maturity date of November 4, 2024, and interest rate of LIBOR plus 2.3% per annum; and

(v) the settlement of trade receivables and trade payables is estimated on a prudent basis by taking into account our historical settlement patterns,

we would have sufficient cash flow for our business to remain financially viable for at least the next 17 months from September 30, 2020, which includes, but is not limited to the timely payment for the following:

- employees' salaries payments;
- lease payments;
- payments for existing purchase plans for long-term assets; and
- repayments of bank loans.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change that may impact our financial or trading position or prospects since September 30, 2020, being the end date of the periods reported on in the Accountant's Report in Appendix I of this prospectus, except as otherwise disclosed in this prospectus, and there has been no event since September 30, 2020 that would materially affect the information as set out in the Accountant's Report in Appendix I of this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.