君实生物
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上海君實生物醫藥科技股份有限公司
Shanghai Junshi Biosciences Co., Ltd.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock code: 1877

2019 ANNUAL REPORT

* For identification purpose only

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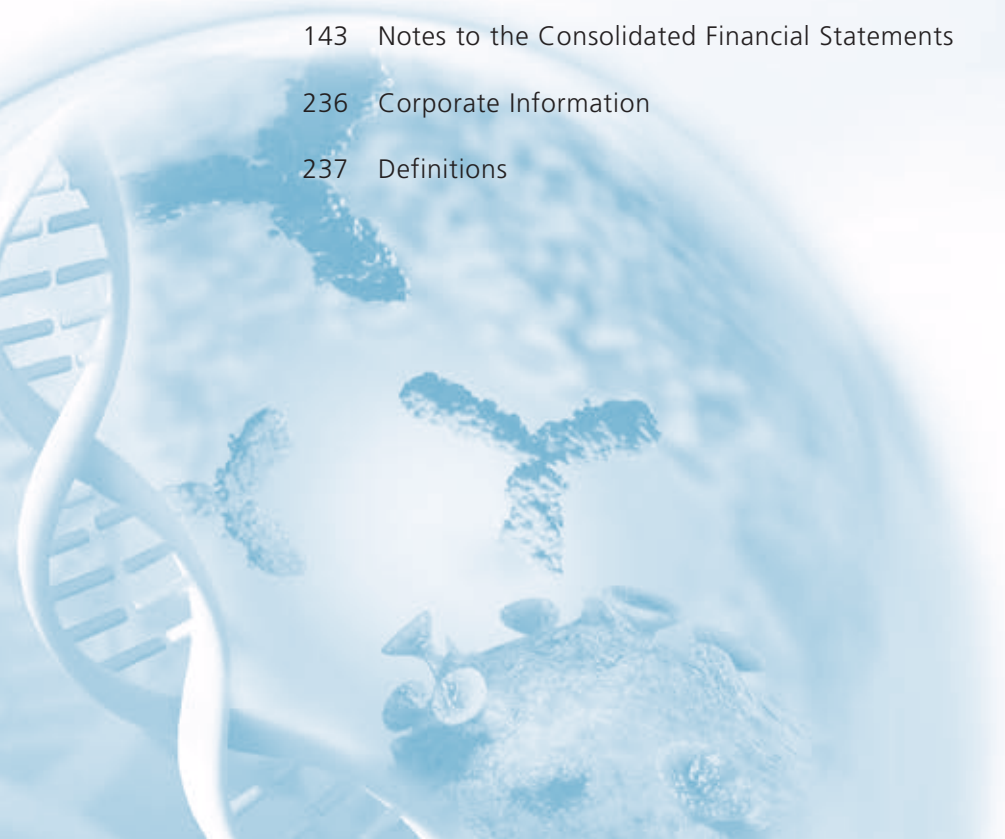

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Total revenue was RMB775.1 million, attributable mainly to the booming sales of Toripalimab since its commercialization in February 2019.

- Due to continued investment in R&D, our R&D expenses were RMB946.1 million, representing a 75.8% increase compared to that in 2018. With constant progress in key clinical trials and the introduction of co-R&D and license-in projects, the Company's R&D pipeline expanded to small molecule drugs and antibody drug conjugates (ADCs).

- Selling and distribution expenses were RMB320.1 million, mainly due to the launch and commercialization of Toripalimab.

- Total comprehensive expense was RMB741.1 million, representing a slight increase from RMB714.6 million in 2018, mainly benefits from the contribution of Toripalimab sales, but offset by the increase in R&D expenses and administrative expenses.

- Net cash from financing activities was RMB593.6 million, principally attributable to net cash from the exercise of Over-allotment Option of H Shares amounting RMB403.8 million in our initial public offering of H Shares on the Stock Exchange.

- Net cash used in investing activities was RMB952.0 million, mainly due to (1) the Lingang Production Base's construction. The Lingang Production Base is expected to enhance our current production capacity by ten times; and (2) diversification of our R&D pipeline and expansion to small molecule drugs and ADCs through equity investment.

- The Directors do not recommend a final dividend for the year ended 31 December 2019 (the "**Reporting Period**").

BUSINESS HIGHLIGHTS

During the Reporting Period, we have achieved significant progress with respect to our product commercialization, clinical trials, pipeline expansion and construction of production bases, including:

- As of the date of this annual report, we have developed a product pipeline comprising 21 drug candidates which covers a wide variety of disease areas associated with high levels of unmet medical needs, using our core platforms and through collaborations with third parties.

HIGHLIGHTS

- Revenue from sales of Toripalimab (trade name: 拓益(TUOYI®)), the Company's core product, reached RMB774.1 million during the Reporting Period. Gross profit margin of sales was 88.3%, and sales expenses accounted for approximately 41.3% of sales revenue.

- As of the date of this annual report, there were 14 pivotal registered clinical trials covering a broad spectrum of indications for Toripalimab being conducted simultaneously, including: urothelial carcinoma ("**UC**"), nasopharyngeal carcinoma ("**NPC**"), melanoma, non-small cell lung carcinoma ("**NSCLC**"), small cell lung carcinoma ("**SCLC**"), triple-negative breast carcinoma ("**TNBC**"), esophageal carcinoma ("**EC**"), hepatocellular carcinoma ("**HCC**"), gastric carcinoma ("**GC**") and renal cell carcinoma ("**RCC**").

- During the Reporting Period, Toripalimab has gained high standing in the field of academic research. Relevant study results have been published in journals such as Monoclonal Antibodies (mAbs), Journal of Hematology & Oncology, Annals of Oncology and Journal of Clinical Oncology (JCO). In addition to the outstanding performance in top academic journals, Toripalimab also participated in a series of authoritative academic conferences such as American Society of Clinical Oncology ("**ASCO**"), European Society for Medical Oncology ("**ESMO**"), World Conference for Lung Cancer ("**WCLC**") and Chinese Society of Clinical Oncology ("**CSCO**") during the Reporting Period. With clinically-proven and excellent safety and efficacy, Toripalimab is also included in the 2019 edition of the CSCO Guidelines for the Diagnosis and Treatment of Melanoma.

- TAB004/JS004 (anti-BTLA monoclonal antibody) was approved for IND by FDA. We are conducting Phase I clinical trial in the United States. Also, TAB004/JS004 was approved for IND by NMPA on 23 January 2020, we will formulate its domestic clinical development strategy afterwards.

- NDA application for UBP1211 (Humira biosimilar) to NMPA was submitted, and it was accepted in November 2019.

- JS005 (anti-IL-17A monoclonal antibody) has received the Clinical Trial Approval from NMPA in August 2019. Phase I clinical trial of JS005 is expected to complete the first patient enrollment in the first half of 2020.

- Our Lingang Production Base with 30,000L capacity in Shanghai, constructed in accordance with the Current Good Manufacturing Practice (cGMP) standards, has obtained the Drug Production License issued by the Shanghai Medical Products Administration.

HIGHLIGHTS

IFRS:

	For the year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Operating Results				
Revenue	3,757	1,148	934	**775,089**
Gross profit	2,771	702	667	**684,405**
Loss for the year from continuing operations	(131,490)	(320,802)	(716,500)	**(744,233)**
Total comprehensive expense for the year	(128,667)	(326,915)	(714,593)	**(741,055)**
Total comprehensive expense for the year attributable to:				
Owners of the Company	(127,720)	(326,688)	(714,654)	**(740,744)**
Non-controlling interests	(947)	(227)	61	**(311)**
Loss per share				
From continuing and discontinued operations				
Basic (RMB yuan)	(0.26)	(0.55)	(1.19)	**(0.95)**
Diluted (RMB yuan)	N/A	N/A	(1.19)	**(0.95)**

	At 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Financial Position				
Non-current assets	604,122	708,703	1,347,126	**2,511,324**
Current assets	544,908	511,006	2,910,184	**1,911,116**
Total Assets	1,149,030	1,219,709	4,257,310	**4,422,440**
Non-current liabilities	3,453	41,815	465,112	**828,548**
Current liabilities	18,962	58,560	471,065	**605,376**
Total Liabilities	22,415	100,375	936,177	**1,433,924**
Net Assets	1,126,615	1,119,334	3,321,133	**2,988,516**

Note: The results of 2016 and 2017 are extracted from the Prospectus.

HIGHLIGHTS

PRC GAAP:

	Year ended December 31				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Operating Results*					
Revenue	2,887	5,939	54,500	2,928	**775,089**
Gross profit	2,754	2,646	48,373	(1,269)	**677,105**
Loss for the year	(57,970)	(136,269)	(317,571)	(722,854)	**(747,729)**
Total comprehensive expense for the year	(57,274)	(128,667)	(326,915)	(721,582)	**(744,550)**
Loss per share					
From continuing and discontinued operations					
Basic (RMB yuan)	(3.94)	(0.27)	(0.55)	(1.21)	**(0.96)**
Diluted (RMB yuan)	N/A	N/A	N/A	N/A	**N/A**

	At 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Financial Position					
Non-current assets	127,790	596,082	704,380	1,340,137	**2,500,838**
Current assets	500,591	552,948	515,328	2,910,184	**1,911,116**
Total Assets	628,381	1,149,030	1,219,708	4,250,321	**4,411,954**
Non-current liabilities	6,930	3,452	41,815	465,111	**855,700**
Current liabilities	14,163	18,963	58,560	471,067	**578,225**
Total Liabilities	21,093	22,415	100,375	936,178	**1,433,925**
Net Assets	607,288	1,126,615	1,119,333	3,314,143	**2,978,029**

Operating Results* include noncontinuous operation results.

CHAIRMAN'S STATEMENT

Dear Investors,

2019 marked the first year after our shares became listed on the Hong Kong Stock Exchange. As a young and innovative biopharmaceutical company, we are pleased to announce our performance results for the first year after the listing.

Since our establishment, we have focused on original innovation of biopharmaceuticals and are committed to providing Chinese and global patients with biologics that cost less and work better for the benefit of human health. Building upon such vision, we adhere to the attitude of seeking truth and being pragmatic and take technological innovation as the core value, aiming at achieving rapid development to become a leading enterprise in the biopharmaceutical industry in China.

2019 was a crucial year to us. The business of the Company has made a number of breakthroughs, opening up brand new horizons and unleashing development potentials filled with imagination.

First of all, leveraging our own high-quality antibody platforms, our self-developed Toripalimab was officially launched for sales and became the first approved PD-1 drug, which recorded revenue from sales of RMB774.1 million for the year. As a high-quality treatment option with a preferential price, Toripalimab benefited more cancer patients. In addition to the approved indications, we continued to expand the scope of indications for Toripalimab. Currently, more than 30 clinical trials for monotherapy and combination treatments have commenced worldwide, including 14 pivotal registered clinical trials.

In addition to independent R&D, we continued to focus on "innovation-driven" and "patient access" approaches, making use of the synergy arising from original innovation and cooperation while strengthening and expanding our pipeline. At present, the Company has established a R&D pipeline comprising 21 products, with product types including monoclonal antibodies, fusion proteins, ADCs, and small molecule drugs.

First-class production capacity and first-class quality system are indispensable to first-class products. In 2019, the Lingang and Wujiang Production Bases have been upgraded and constructed to achieve a total fermentation capacity of 33,000L. Meanwhile, the Company has established a quality system that covers the entire life cycle of drugs, which safeguarded product quality and allowed the Company in fulfilling its vision of benefiting patients and establishing a global layout.

Meanwhile, the Company continued to explore at the forefront of the academic community. Several pieces of the latest research findings of Toripalimab were published in top academic journals. Toripalimab also shone in authoritative academic conferences with some of its excellent clinical data.

In 2019, we achieved key results in the operation throughout the industrial chain, including R&D, production and commercialization, bringing quality improvement to our overall competitiveness. In 2020, we will make full use of our development potential to further consolidate our competitive advantages with promising future growth.

CHAIRMAN'S STATEMENT

As an innovation-driven company, we will continue to deepen our technological innovation strategy. In 2020, our BTLA monoclonal antibody, the first "global new" blockbuster product in the immuno-oncology field, was approved for clinical trial from NMPA, achieving the simultaneous commencement of clinical trials for the project in China and the United States. In addition, at the ASCO GU seminar, the complete analysis and data for the treatment of urothelial carcinoma were presented, which once again showed the excellent efficacy and safety of Toripalimab against multiple types of tumors.

At the same time, the Company will embrace new development opportunities in the foreseeable future. We are striving to achieve dual listing. Another product of the Company, UPB1211, is pending approval. We are also in active communication with NMPA on the NDA application for the extended indications of Toripalimab, namely urothelial carcinoma and nasopharyngeal carcinoma.

Our founder team comprises mostly overseas Chinese scientists. Our mission has been providing patients with treatment options that work better and cost less since our establishment, so we have been committed to improving the accessibility of our drugs and undertaking social responsibilities. In 2019, the Company launched the "Accompanying all the Way" drug assistance project with charities to benefit more cancer patients. In addition, the Company invested in coronavirus vaccine R&D enterprises, and cooperated with IMCAS to give full play to its own antibody drug R&D advantages and actively work on the R&D of the neutralizing antibody against the novel coronavirus, in order to make contribution as a Chinese pharmaceutical company in view of the recent global outbreak of the novel coronavirus.

"Excellent people do not pursue appearances, and those who have cultivation and prestige are committed to reality". Without its spirit, one would not be accepted and a country could not be strong. Likewise, a corporation could not prosper unless it holds its spirit. Our spirit has helped us to rank among the top in the biopharmaceutical field in China in just seven years. In the future, we will not forget our original mission, and will forge ahead to become a world leading biopharmaceutical original innovator with a base in China. We look forward to more investors coming together to witness the historic opportunities for the biopharmaceutical development in China.

Xiong Jun
Chairman

27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

We are an innovation-driven biopharmaceutical company dedicated to the discovery and development of innovative drugs and their clinical research and commercialization on a global scale. Since our establishment in December 2012, leveraging our advanced R&D platforms and globally integrated R&D process, we have developed a collection of drug candidates that we believe to have solid biological mechanisms. We are the first innovative drug company in China to obtain the approval for the marketing of anti-PD-1 monoclonal antibody in the PRC and also the first company to obtain approval for clinical trial for anti-PCSK9 monoclonal antibody and anti-BLyS monoclonal antibody among the Chinese companies. We filed an application to the FDA for our BTLA monoclonal antibody, the "first-in-human" innovative drug in the immuno-oncology field in 2019, and have commenced clinical trial for the drug. Toripalimab (anti-PD-1 monoclonal antibody injection), the first product marketed by the Company, has delivered impressive clinical data, and has shown satisfying efficacy and safety on various indications.

Currently, we have two world-leading monoclonal antibody production bases that comply with GMP standards. They are located in the Wujiang Economic and Technological Development Zone in Suzhou and the Lingang Industrial Park in Shanghai Free-Trade Zone, respectively. The Company has established the world's advanced antibody production plant for global drug supply in Shanghai Lingang. The fermentation capacity of the first phase of the Lingang Production Base has reached 30,000L. The Company has introduced the highest international standards for production, filling and testing equipment, and will adopt cGMP for production in strict compliance with its plan. With the intelligent full-process data interaction system, the Company has achieved real-time management and control of the entire drug production process, ensuring that the products reach the top global standards.

Our aim is to develop first-in-class and best-in-class drugs through original innovation and become a pioneer in the area of translational medicine to provide patients with treatment options that work better and cost less. Our R&D platforms have become more sophisticated and diversified. At present, we can develop monoclonal antibodies and small molecule drugs and we also possess the capability for developing other types of novel molecules such as antibody-cytokine fusion proteins, bispecific antibodies, and antibody-drug conjugates (ADCs), as well as the exploration of the next-generation innovative therapies for cancer and autoimmune diseases.

MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCT PIPELINE

At present, we have 21 drug candidates, including 13 original innovative drugs independently developed by the Company and 8 drugs jointly developed with our partners. Our diversified drug pipeline covers different R&D stages. Our product, JS001 (i.e. Toripalimab, a recombinant humanized anti-PD-1 monoclonal antibody for injection, trade name : 拓益 (TUOYI®)), was officially launched for sale with approved indication of locally advanced or metastatic melanoma after standard treatment failure. 9 candidates obtained Investigational New Drug ("**IND**") approvals from the NMPA, including: JS001, which was conditionally approved for marketing, commenced clinical trials for indication expansion; UBP1211 (a biosimilar of Humira) was accepted for New Drug Application ("**NDA**") by NMPA; JS002 (a recombinant humanized anti-PCSK9 monoclonal antibody for injection) commenced Phase II clinical trial; JS501 (a biosimilar of Avastin), JS003 (a recombinant humanized anti-PD-L1 monoclonal antibody for injection), JS101 (a pan-CDK inhibitor), TAB004/JS004 (a recombinant humanized anti-BTLA monoclonal antibody for injection) and JS005 (a recombinant humanized anti-IL-17A monoclonal antibody for injection) commenced Phase I clinical trials; and UBP1213 (a recombinant humanized anti-BLyS monoclonal antibody for injection) is being prepared for clinical trial. 2 candidates obtained approval from the FDA for clinical trial, including: JS001 commenced Phase Ib clinical trial in the United States; and TAB004/JS004 (a recombinant humanized anti-BTLA monoclonal antibody for injection) is the world's first anti-BTLA monoclonal antibody for injection approved for clinical trial, and commenced Phase I clinical trial in the United States. 12 candidates are in the preclinical research stage, and an IND application for JS108 (a recombinant humanized anti-Trop2 monoclonal antibody-Tub196 conjugate for injection) has been submitted to and accepted by the NMPA. The markets of our core products are extensive. The Company has a diversified product pipeline and obvious technical advantages.

The main strategic focus of the Group's product pipeline includes:

(1) Focusing on anti-tumor, autoimmune, metabolic diseases, neurologic diseases and other therapeutic areas to facilitate the R&D progress of the existing drug candidates at full steam: With respect to our existing product pipeline, we will expedite clinical trials to obtain NDA approval in the PRC for multiple additional oncological indications of JS001, and rapidly advance the United States and international multi-center clinical trials of JS001. We will focus on supporting the further progress of the clinical trials for TAB004/JS004, a global first-in-human drug candidate, in the PRC and the United States. We will intensify our efforts to push forward the clinical trials for JS002 and JS005, while accelerating the commercialization of drug candidates and the R&D of pre-clinical products.

(2) Focusing on independent development for the entire industrial chain: Our product pipeline concentrates on self-developed products, and we have the ability to develop and commercialize drugs throughout the industrial chain. In the existing product pipeline, a total of 13 products were developed by the Company. Leveraging our self-developed R&D platforms and globally integrated R&D process, the Company aims at developing drugs for the fulfilment of unmet medical needs in a sustainable manner. At the same time, the Company will also further increase production capacity to further reduce production costs while ensuring a steady increase in product output.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) Focusing on innovation and unmet medical needs and to quickly expand the product pipeline: We are dedicated to the development of first-in-class and best-in-class macromolecular drugs through original innovation, and focuses on the discovery and application of new targets. We will continue our tracking and exploratory research on potential targets suitable for the development of macromolecular drugs, and utilize advanced antibody discovery, high-efficiency screening platforms and high-expression cell line construction platforms to discover and select new drug candidates. We will allocate appropriate resources to the exploration and R&D of new drug targets in the fields of small molecule and cytokine, and promote the R&D cooperation with other excellent biopharmaceutical companies. We will also conduct exploratory research in the fields of nucleic acid drugs, cell therapy, tumor vaccines and ADCs, exploring opportunities to further expand the product pipeline. At the same time, in view of the fact that anti-PD-1 monoclonal antibodies are the cornerstone drugs for tumor immunotherapy, the Company has initiated the exploration and layout for a wide range of innovative combinations. By expanding the innovative combinations of drugs under combination therapy, the Company strives to develop drugs to fulfil the unmet medical needs domestically and abroad.

(4) The combination of drug policies: Our product pipeline comprises innovative drugs and biosimilar, combinations of macromolecular drugs and small molecular drugs, which are subject to different drug management policies. At the same time, we pay attention to the coordinated development of product pipelines domestically and abroad, such that we can have a solid foothold in the domestic market while expanding the overseas market by adopting drug policies applicable to different countries and regions. JS001 and TAB004/JS004 commenced ongoing clinical trials in the United States. JS001 also commenced ongoing international multi-center clinical trials. The Company has made active efforts in the overall planning in the global, Asian and China markets and will strive to make progress in a short period of time.

In terms of our R&D pipeline, leveraging our profound scientific expertise and understanding of unmet medical needs, the Company has established a diversified R&D pipeline comprising 21 drug candidates with therapeutic areas covering anti-tumor, metabolic diseases, autoimmune diseases, neurologic diseases and infectious disease. Product types include monoclonal antibodies, fusion proteins, ADCs, and small molecule drugs. In terms of R&D speed, with the strength in R&D platforms and efficient execution by the Company, our JS001 is the first domestic PD-1 monoclonal antibody approved in the PRC, and a variety of indications are expected to be approved one after another over the next few years. TAB004/JS004 is the first anti-BTLA monoclonal antibody which obtained an IND approval in the world, which is a testimony to our R&D capabilities of innovative drugs. In the meantime, we plan to submit 2 to 3 IND applications every year. In addition to promoting the development of the current products at the clinical trial stage, we will also further expand our product pipeline.

As of the date of this annual report, the development progress of the Company's drug candidates is as follows:

Treatment Area	Medicine Code	Targets	Indications	Pre Clinical	Phase I	Phase II	Phase III	NDA	Origins of Development	Location of Clinical Trial	Segmentation Stage
Oncology	JS001	PD-1	Melanoma, mucosal melanoma, nasopharyngeal carcinoma, urothelial carcinoma, non-small cell lung carcinoma, triple negative breast carcinoma, esophagus carcinoma, hepatocellular carcinoma	Approved on 17 December 2018					In House	China	NDA approved
	JS003	PD-L1	Urothelial carcinoma, melanoma,non-small cell lung cancer, triple negative breast carcinoma, esophageal carcinoma, nasopharyngeal cancer, hepatocellular carcinoma						In House	China	Recruiting
	JS004	BTLA	Melanoma, lung cancer, lymphoma						In House	United States	Recruiting
			Solid tumors							China	Not yet recruited
	JS006	TIGIT	Solid tumors						In House	/	Process development
	JS007	CTLA-4	Lung cancer, melanoma						In House	/	Process development
	JS009	Undisclosed	Undisclosed						In House	/	Optimizing medical elements
	JS011	Undisclosed	Undisclosed						In House	/	Optimizing medical elements
	JS012	Undisclosed	Undisclosed						In House	/	Process development
	JS101	Pan-CDK	Breast cancer						In House	China	Not yet recruited
	JS104	Pan-CDK	Breast cancer						Co-development	/	Process development

Treatment Area	Medicine Code	Targets	Indications	Pre Clinical	Phase I	Phase II	Phase III	NDA	Origins of Development	Location of Clinical Trial	Segmentation Stage
	JS105	PI3K-α	Breast cancer, kidney cancer, Hodgkin's lymphoma						Co-development	/	Process development
	JS014	IL-21	Tumor						Co-development	/	Process development
	JS501	VEGF (Avastin biosimilar)	Metastatic colorectal cancer and terminal, metastatic or recurrent non-small cell lung carcinoma						Co-development	China	Recruited
	JS108	Anti-Trop2 mAb-Tub196 coupling agent	Solid tumors such as Trop2 positive triple negative breast carcinoma, small cell lung carcinoma, pancreatic cancer						Co-development	All Asian countries and area (except for Japan and Korea)	IND application has been accepted
Metabolic	JS002	PCSK9	Hyperlipidemia						In House	China	Recruited
	JS008	Undisclosed	Undisclosed						In House	/	Selecting medical elements
Auto-immunity	UBP1211	TNF-α (Humira biosimilar)	Rheumatoid arthritis, ankylosing spondylitis, psoriasis arthritis						Co-development	China	NDA accepted
	JS005	IL-17A	Psoriatic, rheumatoid arthritis						In House	China	Recruiting
	UBP1213	BLyS	Systemic lupus erythematosus						Co-development	China	Preparing for dosage improvement and clinical experiment
Neurologic	JS010	Undisclosed	Undisclosed						In House	/	Process development
Infectious disease	JS016	S protein	COVID-19						Co-development	China	Preparing for clinical trail application

Biologics
Small molecule drugs

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. JS001 received conditional approval for Phase II pivotal clinical trial data for local progression or metastatic melanoma indications after previous standard treatment failures, and no Phase III clinical trial is required when approved. According to the requirement of the Technical Guide for Conditional Approval of Clinical Urgent Drugs (Consultation Draft), the Company has reached an agreement with the regulatory agency on the confirmatory clinical trial protocol for conditional approval when Toripalimab was conditionally approved, which is a randomized, controlled, multicenter, Phase III clinical study examining JS001 versus Dacarbazine in the first-line treatment of unresectable or metastatic melanoma. The procedure has begun and is currently underway.

2. For UBP1211, the Company conducted Phase I and III studies simultaneously in accordance with the Technical Guiding Principles for the Development and Evaluation of Biosimilar (Trial) to compare the similarities between UBP1211 and Humira for treating patients with moderate to severe rheumatoid arthritis. Currently, NDA has been submitted and accepted.

3. For each phase of clinical trials, the length of the arrows is listed according to "not yet recruited, recruiting, recruited", and the specific progress of each period has been listed in the table; for pre clinical stages, the length of the arrows is listed according to "selecting medical elements, optimizing medical elements, process development", and the specific progress of each period has been listed in the table.

BUSINESS REVIEW

During the Reporting Period, the Group has achieved breakthroughs of products that are under commercialization, research, clinical trials, early R&D and drugs in-licensing and business expansion.

Commercialized-stage Product and Related Clinical Development

- Toripalimab injection (hereinafter referred to as "**JS001**" or "**Toripalimab**") is the first domestic anti-PD-1 mAb developed by the Company in-house and approved by NMPA for NDA. During the Reporting Period, Toripalimab (trade name: 拓益(TUOYI®)) recorded revenue from sales of RMB774.1 million. Gross profit margin of sales was 88.3%, and sales expenses accounted for approximately 41.3% of revenue from sales. In 2019, the Company promoted commercialization of Toripalimab with reference to product characteristics, clinical data and prescription information. We actively built and trained sales teams, established the brand image of TUOYI®, set up effective marketing strategies and plans and continuously conducted academic promotion. Meanwhile, in view of market potential and product characteristics, we carried out meaningful Investigator Sponsored Study (**ISS**) and Real World Study (**RWS**) to continue to find the best tumor immunotherapy.

MANAGEMENT DISCUSSION AND ANALYSIS

- As of the date of this annual report, in addition to the approved indications for locally advanced or metastatic melanoma after failed in routine systemic treatment, the Group is currently conducting more than 30 clinical trials for Toripalimab monotherapy and combo treatments worldwide, including 14 pivotal registered clinical trials. Pivotal registered clinical trials for Toripalimab that have been conducted include first-line treatment for melanoma, first-line treatment combo with chemotherapy for recurrent or metastatic nasopharyngeal carcinoma, first-line treatment combo with chemotherapy for esophageal squamous cell carcinoma, and combo with chemotherapy for EGFR-sensitive mutated TKI failed terminal non-small cell lung cancer, first-line treatment combo with chemotherapy for EGFR mutated TKI failed terminal stage non-small cell lung carcinoma, neoadjuvant therapy for non-small cell lung carcinoma, combo with chemotherapy for extensive stage small cell lung carcinoma, first-line treatment combo with albumin-bound paclitaxel for triple negative breast carcinoma, postoperative adjuvant treatment for hepatocellular carcinoma, first-line treatment combo with Bevacizumab for hepatocellular carcinoma, first-line and second-line treatment for nasopharyngeal carcinoma, second-line treatment for urothelial carcinoma, combo with Axitinib for renal cell carcinoma, third-line treatment for gastric carcinoma covering many types of cancers with large patient populations, high mortality and no standard treatment. Meanwhile, the Group is conducting Phase Ib clinical trials of Toripalimab in the United States. Pivotal registered clinical trials for Toripalimab that are being conducted are shown below:

MANAGEMENT DISCUSSION AND ANALYSIS

Medicine Code	Targets	Indications	Pre Clinical	Phase I	Phase II	Phase III	Location of Clinical Trial	Segmentation Stage
JS001	PD-1	Melanoma (first-line treatment, monotherapy)	Pivotal registered trial				China	Recruiting
		Nasopharyngeal carcinoma (first-line treatment, combo with chemo)	Pivotal registered trial				Asia Pacific	Recruited
		Esophagus carcinoma (combo with chemo)	Pivotal registered trial				China	Recruiting
		Triple negative breast carcinoma (combo with albumin-bound paclitaxel)	Pivotal registered trial				China	Recruiting
		Hepatocellular carcinoma (monotherapy, postoperative adjuvant)	Pivotal registered trial				China	Recruiting
		Hepatocellular carcinoma (first-line treatment, combo with Bevacizumab)	Pivotal registered trial				China	Not yet recruited
		Renal cell carcinoma (combo with Axitinib)	Pivotal registered trial				China	Not yet recruited
		EGFR negative non-small cell lung carcinoma (firstline treatment, combo with chemo)	Pivotal registered trial				China	Recruiting
		EGFR mutated TKI failed terminal stage non-small cell lung carcinoma (combo with chemo)	Pivotal registered trial				China	Recruiting
		Non-small cell lung carcinoma (neoadjuvant)	Pivotal registered trial				China	Not yet recruited
		Extensive stage small cell lung carcinoma (combo with chemo)	Pivotal registered trial				China	Recruiting
		Nasopharyngeal carcinoma (second-line treatment, monotherapy, pivotal trial)	Pivotal registered trial				China	Recruited
		Urothelial carcinoma (second-line treatment, monotherapy, pivotal trial)	Pivotal registered trial				China	Recruited
		Gastric carcinoma (third-line treatment, monotherapy, pivotal trial)	Pivotal registered trial				China	Not yet recruited
		Solid tumors					United States	Recruiting

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. For JS001, only pivotal registered trial and ongoing major clinical trials are listed.

2. JS001 has received conditional approval for Phase II pivotal clinical trial data for local progression or metastatic melanoma indications after previous standard treatment failures, and no Phase III clinical trial is required upon approval. According to the requirement of the Technical Guide for Conditional Approval of Clinical Urgent Drugs (Consultation Draft), the Company has reached an agreement with the regulatory agency on the confirmatory clinical trial protocol for conditional approval when Toripalimab was conditionally approved, which is a randomized, controlled, multicenter, Phase III clinical study examining JS001 versus Dacarbazine in the first-line treatment of unresectable or metastatic melanoma. The procedure has begun and is currently underway.

- Toripalimab has gained high standing in the field of academic research.

  During the Reporting Period, the research group of Toripalimab published an article about its structure and binding characteristics in the journal Monoclonal Antibodies (mAbs), illustrating that the combination of Toripalimab and PD-1 is carried out mainly through the unique long HCDR3 binding to the FG loop of PD-1, thereby blocking the binding of PD-1 on the surface of T cells and PD-L1 on the surface of tumors, which does not rely on any glycosylation modification.

  In addition, the Phase I clinical results of Toripalimab in the treatment of advanced solid tumors have shown high tolerability and indicated a long-lasting antitumor activity to urothelial carcinoma, renal cell carcinoma, as well as acral and mucosal melanoma subtype, which are more common in Asia. The relevant results were published in the Journal of Hematology & Oncology in January 2019.

  In the field of gastric cancer which is of high incidence in China, researchers have studied the therapeutic predictive value of tumor mutational burden (TMB) as a biomarker for patients with chemos relapsed gastric cancer receiving treatment with Toripalimab. The relevant results were published in the Annals of Oncology.

  Most importantly, the research results on Toripalimab in combination with axitinib in the treatment of advanced mucosal melanoma have shown that the combined treatment regimen has controllable safety and long-lasting antitumor activity. The relevant results were published in the Journal of Clinical Oncology in August 2019.

  With clinically-proven and excellent safety and efficacy, Toripalimab is also included in the 2019 edition of the Chinese Clinical Oncology Society (CSCO) Guidelines for the Diagnosis and Treatment of Melanoma.

MANAGEMENT DISCUSSION AND ANALYSIS

- In addition to the outstanding performance in top academic journals, Toripalimab also shone in a series of authoritative academic conferences during the Reporting Period.

In June 2019, five clinical research results on Toripalimab were presented in the forms of poster presentation and discussion at the 2019 ASCO annual meeting, covering nasopharyngeal cancer, urothelial cancer, gastric cancer, esophagus cancer and melanoma, which included: 1) interim results of the safety and efficacy of Toripalimab for the treatment of refractory/metastatic nasopharyngeal carcinoma (POLARIS-02); 2) preliminary results of the safety and effectiveness of Toripalimab for the treatment of metastatic urothelial cancer (POLARIS-03); 3) therapeutic predictive value of tumor mutational burden (TMB) for patients with chemos relapsed gastric cancer and undergone chemotherapy receiving treatment with Toripalimab; 4) therapeutic predictive value of 11q13 amplification for patients with advanced esophageal squamous cell carcinoma receiving treatment with Toripalimab; 5) therapeutic predictive value of tumor growth rate (TGR) for patients with advanced melanoma receiving treatment with Toripalimab;

In September 2019, the research results on the safety and efficacy of using Toripalimab in combination with carboplatin-pemetrexed for the treatment of advanced or recurrent EGFR mutation positive and T790M negative non-small cell lung carcinoma with failing EGFR-TKI treatment were presented orally at the WCLC 2019;

In September 2019, the clinical research results of Toripalimab for two indications of urothelial cancer and non-small cell lung carcinoma were presented orally, which included: 1) updated results on the safety and efficacy of Toripalimab for the treatment of metastatic urothelial cancer (POLARIS-03); 2) research results on the safety and efficacy of using Toripalimab in combination with carboplatin-pemetrexed for the treatment of advanced T790M negative non-small cell lung carcinoma with failing EGFR-TKI treatment or relapsing EGFR sensitive mutations were presented orally at the 2019 CSCO annual meeting;

At the latest ASCO GU seminar in February 2020, the latest results on the safety and efficacy of Toripalimab for the treatment of advanced metastatic urothelial carcinoma (POLARIS-03) were presented in the form of poster presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

- The following table sets out the clinical results of major registered clinically relevant indications of Toripalimab:

Indication	Objective response rate (ORR)	Disease control rate (DCR)	Number of assessable patients	Note
Advanced or metastatic urothelial carcinoma (Phase II)	25.7%	45.9%	148	Clinical results after the completion of enrollment
Refractory or metastatic nasopharyngeal carcinoma (Phase II)	25.5%	47.1%	165	Interim results for pivotal clinical trial
Non-small cell lung carcinoma (with failing EGFR-TKI treatment, Phase II)	50%	87.5%	40	/
Advanced esophageal squamous cell carcinoma (Phase II)	18.6%	47.5%	59	/

Source: ASCO (Annual meeting of American Society of Clinical Oncology), CSCO (Academic conference of Chinese Society of Clinical Oncology), WCLC (World Conference for Lung Cancer) and ASCO GU (American Society of Clinical Oncology Symposium on Urogenital Cancer)

Notes:

1. The clinical trial stage shown in the table is the clinical trial stage of the product during the time of clinical data evaluation.

2. The number of assessable patients refers to the number corresponding to clinical data for the evaluation of efficacy.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Core Products Development

- TAB004/JS004 is the world's first-in-human recombinant humanized anti-BTLA monoclonal antibody for injection specific to B- and T- lymphocyte attenuator (BTLA) independently developed by the Group and officially approved for clinical trial. An IND application of the TAB004/JS004 treatment of advanced unresectable or metastatic solid tumors (including patients with lymphoma and PD-1 antibody resistance) was submitted to the FDA on 22 March 2019. An US IND approval was obtained on 18 April in the same year. TAB004/JS004 was granted a NMPA IND approval on 23 January 2020, and we will formulate its domestic clinical development strategy for this product afterwards. Currently, no other similar product in the world has entered the clinical stage. The Group is conducting Phase I clinical trial of TAB004/JS004 in the United States. The Phase I clinical trial has commenced the dose-escalation study in October 2019 and completed the dosing of the first patient, which is expected to be completed in the first half of 2020. The dose-expansion trial will be carried out subsequently and it is planned to recruit 120 patients who have received anti-PD-1 monoclonal antibody and suffered from disease progression. The initial planned indications include melanoma, lung cancer and lymphoma.

- JS002 is a recombinant humanized anti-PCSK9 monoclonal antibody for injection independently developed by the Company for the treatment of cardiovascular diseases. The Company is the first PRC company to obtain clinical trial approval for the target drug. The Company has completed the Phase I clinical trial with the clinical trial center Fuwai Hospital to test the safety and tolerability of JS002 in voluntary patients. At present, the Phase II clinical trial has completed enrollment and is conducting follow-ups. Based on the obtained clinical research data, JS002 shows sound safety and tolerability profile. No serious adverse events (SAE) or any withdrawal due to adverse events (AE) are reported during the study. In terms of lowering LDL-C, JS002 shows a comparable lipid reduction and longer duration compared with products of the same target. Currently, the Company is initiating preparations for Phase III clinical studies with larger patient population.

- UBP1211 is a recombinant humanized anti-TNF-α-monoclonal antibody injection, which targets autoimmune diseases such as rheumatoid arthritis, and is a biosimilar of Humira (adalimumab). The Company has submitted a NDA application for UBP1211 to NMPA and it was accepted in November 2019.

- JS005 is a recombinant humanized anti-IL-17A monoclonal antibody injection, which targets autoimmune diseases including psoriasis. JS005 obtained the Drug Clinical Trial Notification from the NMPA in August 2019. The amino acid sequence of JS005, especially the sequence of the CDR region (the region that binds to the target molecule) is different from the CDR sequences of similar monoclonal antibodies on the market and is a unique new structure. In preclinical studies, JS005 has shown efficacy and safety comparable to those of marketed anti-IL-17 monoclonal antibodies. The Phase I clinical trial of JS005 is expected to complete the first patient enrollment in the first half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing Facilities

- The Company has two production bases. Among which, the Wujiang Production Base in Suzhou, with a 3,000L fermentation capacity, obtained GMP certification and is currently in the commercial production of the Company's products and the production of clinical trial drugs. The Lingang Production Base in Shanghai was constructed in accordance with the cGMP standard and obtained the Drug Production License issued by the Shanghai Medical Products Administration in November 2019. The first phase of the Lingang Production Base has been put into trial production at the end of 2019, which has a fermentation capacity of 30,000L. The Company will further increase the fermentation capacity of macromolecular drugs and explore new production processes to further reduce production costs.

- The Company always focuses on product quality management, and aims at safeguarding the product quality through establishing comprehensive standards, processes and specifications. According to the actual situation, the Company clarifies the work and responsibilities of departments and individuals, strengthens performance evaluation and continuously improves the management; strengthens equipment use and maintenance management, and fully utilizes the technical performance of equipment; implements GMP normalization management, refines various operating rules, and strengthens staff rules and quality awareness to ensure the quality of pharmaceutical production.

Other Business Development Highlights

- In February 2019, the Company entered into the Technology Transfer and Cooperation Agreement with 潤佳（蘇州）醫藥科技有限公司(Risen (Suzhou) Biosciences Co., Ltd.*), pursuant to which the parties agreed to cooperate on the development of two projects, namely JS104 and JS105. JS104 is a pan-CDK inhibitor that effectively inhibits the activity of various cyclin-dependent protein kinases including CDK-1, CDK-2, CDK-4, CDK-6 and CDK-9. A completed preclinical study showed that the drug candidate has an ideal pharmacokinetic profile in laboratory animals and was found to have significantly low acute toxicity. JS105 is an oral small molecule-specific PI3K inhibitor. In a breast cancer cell line carrying the PIK3CA mutation, the drug candidate has the potential to inhibit the PI3K pathway and has an inhibitory effect on cell proliferation. The pharmacokinetic properties of the drug candidate are characterized by high efficacy and low toxicity. According to the Technology Transfer and Cooperation Agreement, the Group obtained a 50% interest in each of these two drugs. In the PRC, only two CDK inhibitors have been approved at present, and no PI3K-α inhibitor has been approved.

- In June 2019, the Company entered into a stock purchase agreement with Anwita Biosciences, Inc. ("**Anwita**"). Meanwhile, the Company and Anwita entered into a license agreement for the Company to develop and commercialize Anwita's AWT008, a novel IL-21 fusion protein, in the greater China territories (including mainland China, Taiwan, Macau, and Hong Kong). IL-21 is an active cytokine to stimulate the activation of innate and adaptive immune cells, such as natural killer (NK) cells and cytotoxic T cells. At present, no similar products have been approved for sale in the market in the PRC and overseas.

MANAGEMENT DISCUSSION AND ANALYSIS

- In June 2019, the Company entered into a technology transfer and cooperation development contract with Shanghai Huaota Biological Pharmaceutical Co., Ltd.* (上海華奧泰生物藥業股份有限公司) ("**Huaota Biosciences**"). The Company purchased the existing research and development results of Avastin biosimilar (JS501) from Huaota Biosciences and subsequent technical support. At present, except for the originator drugs for metastatic colorectal cancer and non-small cell lung cancer which have been approved, only a biosimilar from Qilu Pharma has been approved in the PRC. JS501 has been granted "Clinical Trial Approval Document" from NMPA and it has entered into Phase I clinical trial.

- In December 2019, the Company entered into the Drug Development and License Contract with Hangzhou DAC Biotech Co., Ltd. The Company developed and commercialized JS108 in the licensed area by way of an exclusive license. JS108 is an anti-Trop2 monoclonal antibody conjugated with an antitubulin Tubulysin B analog through a smart linker. Currently, there is no drug which shares the same target on the market. An IND Application for JS108 (recombinant humanized anti-Trop2 monoclonal antibody-Tub196 conjugate for injection) has been submitted to and has been accepted by the NMPA.

When the Company promoted product licensing, it fully considered the innovation, potential in the future market of related products and their synergy with the Company's existing products. The aforementioned in-licensing products have strong innovation and market potential, which is conducive to expanding the Company's product pipeline and enhancing the Company's innovative product portfolio.

FINANCIAL REVIEW

Revenue

Starting from the year ended 31 December 2019, the Group generated revenue from sales of pharmaceutical products. The Group revenue climbed to RMB775.1 million in the Reporting Period in which RMB774.1 million was derived from the commercialization of Toripalimab.

Other Income

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
Interest income from bank and time deposits	**29,222**	3,756
Government grants *(Note)*	**31,546**	4,631
	60,768	8,387

Note: Government grants include subsidies from the PRC government which are specifically for (i) the capital expenditure incurred for plant and machinery, which is recognised as income over the useful life of the related assets; (ii) the incentives and other subsidies for research and development activities, which are recognised as income upon meeting specific conditions; and (iii) the incentives which have no specific conditions attached to the grants.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development Expenses

Our R&D expenses mainly include clinical trial expenses, preclinical study costs, reagents and consumables, staff salary and welfare, depreciation and amortisation.

For the years ended 31 December 2018 and 2019, we incurred R&D expenses of approximately RMB538.2 million and RMB946.1 million, respectively. The significant increase in our R&D expenses was mainly due to (i) increase in Co-R&D and license-in projects which diversify our R&D pipeline; (ii) increase in clinical trial expenses and preclinical study costs, as we initiated a number of preclinical research and clinical trials for several new indications and accelerated the progress of clinical trials; and (iii) increases in our staff salary and welfare for R&D personnel, which was primarily due to the increase in the number of our R&D projects.

Selling and Distribution Expenses

Our selling and distribution expenses mainly include staff costs of the sales department, marketing activities and travelling costs.

For the years ended 31 December 2018 and 2019, our selling and distribution expenses were RMB20.3 million and RMB320.1 million, respectively. The significant increase in our selling and distribution expenses was mainly due to the commencement of the sales of JS001 and the building of the sales teams.

Administrative Expenses

Our administrative expenses mainly include administrative staff costs, office administration expenses, depreciation and amortization and audit and consultancy fees.

For the years ended 31 December 2018 and 2019, our administrative expenses were RMB124.8 million and RMB244.2 million, respectively. The significant increase was mainly due to (i) new hiring; (ii) intermediary consultancy fees and auditor fees; and (iii) increased office administration expenses in line with business expansion.

Liquidity and Capital Resources

As at 31 December 2019, our bank balance and cash decreased to RMB1,214.0 million from RMB2,763.6 million as at 31 December 2018. The Group's funds mainly came from the proceeds from the issue of H Shares by the Company in its listing on the Stock Exchange. See "– Use of proceeds from Listing" in this annual report. The decrease was mainly due to (i) investment in ongoing R&D projects, newly Co-R&D and license-in projects; (ii) investment in and acquisition of companies in the pharmaceutical sector; and (iii) investment in the production bases especially the Lingang Production Base.

In order to optimize the proposed Company's capital structure and enhance the Company's self-development capabilities, the Company has applied for an initial public offering and listing of A shares of the Company on the STAR Market of the Shanghai Stock Exchange. See "– Proposed A Share Listing" in this annual report.

Foreign currency bank balance at 31 December 2019 are:

	'000
HKD	**16**
USD	**110,318**
EUR	**2**

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

No dividend was paid or declared by the Company during the years ended 31 December 2019 and 2018, nor has any dividend been declared since the end of the Reporting Period.

LOSS PER SHARE

(a) Basic

For continuing and discontinued operations

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(743,922)**	(716,414)

Number of shares:

	Year ended 31 December	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic loss per share	**783,624,056**	601,917,890

For continuing operations

The calculation of the basic loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company	**(743,922)**	(716,414)
Less: Profit for the year from discontinued operations attributable to owners of the Company	**–**	89
Loss for the year for the purpose of basic loss per share from continuing operations	**(743,922)**	(716,503)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

From discontinued operations

Basic earnings per share for the discontinued operations is RMB0.01 cent for the year ended 31 December 2018, based on the profit for the year from the discontinued operations of RMB89,000 for the year ended 31 December 2018, and the denominators detailed above for the basic loss per share from continuing and discontinued operations.

(b) Diluted

The Company issued the convertible loan notes on 23 February 2018 as set out in Note 29 to the consolidated financial statements. For the purpose of calculation of diluted loss per share for the years ended 31 December 2019 and 2018, it did not assume the conversion of the convertible loan notes since their assumed conversion would result in a decrease in loss per share. The Group granted share options on 14 May 2018 as set out in Note 37 to the consolidated financial statements and over-allotment option as per underwriting agreement entered on 16 December 2018. The over-allotment option was exercised in January 2019. The computation of diluted loss per share for the years ended 31 December 2019 and 2018 does not assume the exercise of the Company's outstanding share options and over-allotment option since their assumed exercise would result in a decrease in loss per share.

INVENTORIES

Our inventories increased significantly from approximately RMB48.5 million as at 31 December 2018 to approximately RMB180.7 million as at 31 December 2019, mainly due to the increased purchase of raw materials and consumables in line with our clinical trial progress and the commercialization of Toripalimab.

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	**129,081**	48,468
Work in progress	**35,004**	–
Finished goods	**16,581**	–
	180,666	48,468

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER FINANCIAL ASSETS

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets		
Financial assets measured at FVTPL		
– Financial products *(Note a)*	**–**	5,500
– Fund *(Note b)*	**17**	16
	17	5,516
Non-current assets		
Financial assets measured at FVTPL		
– Unlisted equity investment *(Note c)*	**69,345**	18,000

Notes:

(a) The Group entered into contracts in respect of financial products (the "Financial Products") with financial institutions, with contractual terms from 7 days to 21 days. The principal is not guaranteed by the relevant financial institutions and the expected return rate is 3.95% per annum for the year ended 31 December 2018. No financial products were outstanding as of 31 December 2019.

(b) The Group entered into several contracts of funds (the "Fund") with financial institutions. The principals are not guaranteed and the return of the Fund are determined by reference to the performance of the underlying instruments including equity and debt securities.

(c) The Group invested in Hebei Boke Biotechnology Co., Ltd.* (河北博科生物技術有限公司) ("Boke") at the fair value of RMB15.0 million in April 2018, representing 5% of the registered capital of Boke. Boke is mainly engaged in drug discovery and development consulting services. The Group also invested in Beijing Zhenzhi Medical Technology Co., Ltd.* (北京臻知醫學科技有限責任公司) ("Zhenzhi") at the fair value of RMB3.0 million in September 2018, representing 15% of the registered capital of Zhenzhi. Zhenzhi is mainly engaged in technology services and medical research and development. The Group also invested in Hangzhou DAC Biotech Co., Ltd.* (杭州多禧生物科技有限公司) ("Hangzhou DAC") at the fair value of RMB51.3 million in October 2019, representing 4.5479% of the registered capital of Hangzhou DAC. Hangzhou DAC is mainly engaged in drug discovery.

MANAGEMENT DISCUSSION AND ANALYSIS

TRADE RECEIVABLES

As at 31 December 2019 and 31 December 2018, trade receivables from contracts with customers amounted to RMB157.4 million and nil, respectively. There has been no change in the estimation techniques or significant assumptions made during both years.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. None of the trade receivables that have been written off is subject to enforcement activities.

The aged analysis of the Group's trade receivables, based on invoice date, at the end of each reporting period are as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
0 – 30 days	**96,647**	–
31 – 90 days	**60,235**	–
91 – 180 days	**534**	–
	157,416	–

TRADE AND OTHER PAYABLES

The following is an aging analysis of trade payables presented based on invoice date at the end of the Reporting Period:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
0 – 30 days	**58,726**	33,372
31 – 60 days	**2,946**	198
61 – 180 days	**11,426**	81
Over 180 days	**1,518**	6,527
	74,616	40,178

MANAGEMENT DISCUSSION AND ANALYSIS

CONTRACT LIABILITIES

The Group receives payments before service is rendered and this gives rise to contract liabilities until the revenue is recognised. During the year ended 31 December 2019, revenue of RMB1.0 million (2018: nil) that was included in the contract liabilities at the beginning of the year was recognised upon service rendered, after deducting value added tax amounting to RMB0.1 million.

INDEBTEDNESS

Unsecured Borrowings

As at 31 December 2019, we had unguaranteed and unsecured borrowings of RMB75.7 million from the China Merchants Bank. The borrowings bear fixed interest rates of 4.35% per annum.

Secured Borrowings

In 2019, we entered into a loan facility of up to RMB900.0 million from 12 September 2019 to 22 November 2022 with the Bank of Shanghai, and drew down RMB746.1 million of guaranteed and secured loan under such facility as of 31 December 2019. The loan facility bears a fixed interest rate of 5.23% per annum.

The loan is guaranteed by us and our subsidiary Suzhou Union Biopharm, and secured by mortgages over our property, plant and equipment and right-of-use assets situated in Shanghai Lingang and Wujiang Economic and Industrial Development Zone held by our subsidiaries Junshi Biotechnology and Suzhou Union Biopharm.

The Group incurred borrowings for: i) ongoing clinical trials and preclinical studies for our drug candidates; and ii) construction of the Lingang and Wujiang Production Bases.

As at 31 December 2019, the Group has pledged the following assets as security for the Group's bank borrowings:

	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**1,607,916**	775,938
Prepaid lease payments	**–**	62,915
Right-of-use assets	**62,425**	–
	1,670,341	838,853

The maturity profile of bank and other borrowings is as follows:		
– within one year	**76,891**	178,632
– within a period of more than two years but not exceeding five years	**744,896**	150,000
	821,787	328,632

All bank and other borrowings are denominated in RMB as at 31 December 2019 and 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

CONVERTIBLE LOAN NOTES

On 5 July 2019, the Group exercised its right to redeem all the convertible loan notes from the bondholders. The number of convertible loan notes redeemed was 2,000,000 with total amount of RMB228.2 million (including principal and interest upon redemption date).

The movement of the convertible loan notes for the year is set out as below:

	Fair value of convertible loan notes RMB'000
At 23 February 2018 (date of issuance)	200,000
Change in fair value charged to profit or loss	32,396
Change in fair value charged to other comprehensive income attributable to change in credit risk	9,367
At 31 December 2018 and 1 January 2019	241,763
Change in fair value charged to profit or loss	(13,520)
Payment of interests	(28,243)
Redemption of convertible loan notes	(200,000)
At 31 December 2019	–

The Company has used the binominal option pricing model to determine the fair value of the convertible loan notes as of the date of issuance and as at 31 December 2018.

CONTRACTUAL COMMITMENTS

Capital Commitments

As at 31 December 2019, the Group's capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements was RMB427.1 million, which increased by 11.3% from RMB383.9 million as at 31 December 2018, mainly for the Wujiang Production Base.

Financing Plan

The Group intends to apply for approximately additional RMB1,000 million credit line(s) (2018: RMB2,000 million) from the banks in the coming year, to support the production and operation of the Group and the quick development of project construction.

GEARING RATIO

Gearing ratio is calculated using interest-bearing borrowings less bank balances and cash, divided by total equity and multiplied by 100%. As at 31 December 2019, the Group was in a net cash position and thus, gearing ratio is not applicable.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Xiong Jun 熊俊, 46

Chairman of the Board, Legal Representative, Chairman of Strategic Committee & Member of Remuneration Committee and Nomination Committee

Appointed to the Board: March 2015
Joined the Group: April 2013

Mr. Xiong is the chairman of board of directors of certain of the Group's subsidiaries, namely, Jiangsu Union Biopharm. Qianhai Junshi, Suzhou Junshi, Suzhou Junao, Suzhou Junshi Biotechnology Co., Ltd. He is also the general manager of Jiangsu Union Biopharm, Suzhou Junshi and Suzhou Junao and a director of Junshi Hong Kong Limited.

Mr. Xiong started his investment in the Group since January 2013. From March 2004 to July 2006, Mr. Xiong was a research associate and fund manager assistant in Guolian Fund Management Co., Ltd.; from March 2013 to November 2015, he was the chairman of the board of directors of Shanghai Union Biopharm (a company previously listed on the NEEQ (previous stock code: 430598.NEEQ) and merged with the Company in June 2016), and he also served as its general manager from September 2013 to November 2015; since March 2015, he has been a director of Sichuan Huapu Modern Agriculture Co., Ltd. (a company previously listed on the NEEQ (previous stock code: 837890.NEEQ)); since February 2007, he has been the chairman of the board of directors of Shanghai Baoying Asset Management Co., Ltd.*.

Mr. Xiong obtained his MBA from the Chinese University of Hong Kong in December 2007.

Mr. Xiong is the son of Mr. Xiong Fengxiang, a Shareholder of the Company and a party to the 2017 Concert Party Agreement. As at 31 December 2019, Mr. Xiong is deemed to be interested in 217,231,536 Domestic Shares under the SFO, see "– Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

Li Ning 李寧, 58

Chief Executive Officer, General Manager & Member of Remuneration Committee and Strategic Committee

Appointed to the Board: June 2018
Joined the Group: January 2018

Dr. Li's main experience prior to joining the Group includes: he held various positions, including team leader of the Office of Biostatistics, team leader of mathematical statistician and a statistical reviewer, at the FDA; he was employed by Sanofi from September 2009 to January 2018, and the last position he held was Vice President of Asia Regulatory Affairs in Global Regulatory Affairs; from November 2010 to November 2012, he was a guest professor at the Clinical Research Institute of Peking University; and from January 2012 to December 2014, he was a part-time professor at the Medical Informatics Center of Peking University.

Dr. Li obtained his bachelor's degree in public health from Shanghai Medical College of Fudan University, the PRC in July 1984 and his master's degree in medicine from Shanghai Medical College of Fudan University, the PRC in October 1987. He obtained his Ph.D. degree in preventive medicine from University of Iowa, the US in August 1994.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Feng Hui 馮輝, 43
Chief Operations Officer

Appointed to the Board: March 2015
Joined the Group: January 2014

Dr. Feng has over 10 years of industry experience in biotechnology and drug discovery. His experience spans across multiple areas of drug development including antibody discovery, protein engineering, and immuno-oncology. From 2003 to 2007, he worked at Albert Einstein College of Medicine; from 2007 to 2010, he was a production manager in HumanZyme Inc.; from September 2010 to November 2013, he was a scientist in MedImmune, Inc. (a subsidiary of AstraZeneca).

Dr. Feng is the chief operations officer of TopAlliance, an executive director and legal representative of Junshi Biotechnology, the legal representative, executive director and general manager of Suzhou Junmeng and a director and manager of Beijing Tianshi. He took part in the invention of certain registered patents and patents in application in relation to JS001, JS002 and JS003 for the Group.

Dr. Feng obtained his bachelor's degree in biological sciences and technology from Tsinghua University, the PRC in July 1997 and his Ph.D. degree in molecular pharmacology from Albert Einstein College of Medicine, the US in September 2003. Dr. Feng has published a number of academic articles and is an inventor of a number of patents.

As at 31 December 2019, Mr. Feng is interested in 13,140,000 Domestic Shares under the SFO, see "– Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

Zhang Zhuobing 張卓兵, 52
Deputy General Manager

Appointed to the Board: December 2016
Joined the Group: December 2012

Mr. Zhang has over 10 years of experience in the pharmaceutical industry. Mr. Zhang has also been a director of Shanghai Union Biopharm from November 2011 to November 2015 and a deputy general manager of Shanghai Union Biopharm from July 2008 to November 2015, the legal representative, executive director and general manager of Suzhou Union Biopharm since October 2013, a director of Beijing Xinjingke Biotechnology from May 2016 until June 2018 when it was transferred and a director of Beijing Tianshi since April 2016.

Mr. Zhang was one of the founders of the Company when it was established in December 2012 and was a supervisor of the Company from December 2012 to March 2013. He has also been an executive director and general manager of Suzhou Union Biopharm since October 2013.

Mr. Zhang obtained his master's degree in biochemistry from Tsinghua University, PRC in July 1995. Mr. Zhang was awarded the first prize of the Shandong district award for invention in 2005.

As at 31 December 2019, Mr. Zhang is deemed to be interested in 8,608,000 Domestic Shares under the SFO, see "– Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Wu Hai 武海, 47
Deputy General Manager & Chief Science Officer

Appointed to the Board: December 2016
Joined the Group: June 2013

Dr. Wu has over 10 years of experience in the biopharmaceutical industry. From March 2003 to September 2007, he worked as a postdoctoral res affiliate at the Stanford University; from August 2007 to February 2009, he was a scientist at Trellis Biosciences; from February 2009 to May 2013, he was a senior scientist at Amgen. He is also the chief scientist and chief executive officer of TopAlliance. He took part in the invention of certain registered patents and patents in application in relation to JS002 and JS003 for the Group.

Dr. Wu obtained his bachelor's degree in biochemistry from Nanjing University, the PRC in July 1994 and his Ph.D. degree from the University of Texas Southwestern Medical Center at Dallas, the US in May 2002. He has published approximately 20 articles in relation to biopharmaceutical in academic journals including Nature, Science and EMBO.

Yao Sheng 姚盛, 44
Deputy General Manager & Senior Vice President of TopAlliance

Appointed to the Board: December 2016
Joined the Group: June 2014

Dr. Yao's main experience prior to joining the Group includes: in 2004, he was a research fellow at the Johns Hopkins University School of Medicine in the Department of Dermatology; from January 2011 to October 2011, he was an associate research scientist in the Human Translational Immunology Department at Yale University; from October 2011 to October 2013, he was a senior scientist at Amplimmune Inc., a subsidiary of AstraZeneca, responsible for the tumor immunology and anti-autoimmune diseases antibody project. Dr. Yao is also the Senior Vice President of TopAlliance and a director of Suzhou Junao. He took part in the invention of certain registered patents and patents in application in relation to JS002 and JS003 for the Group.

Dr. Yao obtained his bachelor's degree in biotechnology from School of Life Sciences of Peking University, the PRC in June 1998 and his Ph.D. degree from Albert Einstein College of Medicine, the US in January 2003. Dr. Yao has a number of articles published in journals including Nature Communications, Science Advances, Immunity, Jem, Blood and JI. Dr. Yao is also an inventor of six registered patents or patents in application.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-Executive Directors

Tang Yi 湯毅, 51

Appointed to the Board: May 2015
Joined the Group: May 2015

Mr. Tang has over 20 years of experience in the equity investment industry. Mr. Tang's main experience includes: since June 1996, he has been the chairman of the board of directors at Shenzhen Finevalue Capital Co., Ltd.*; since March 2001, he has been the chairman of the board of directors at Shenzhen Finevalue Technology Co., Ltd.*; since December 2010, he has been the chairman of the board of directors at Shenzhen Dingyuan Growth Investment Management Co., Ltd.*; from October 2010 to October 2013, he was a director at Jiajia Food Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002650.SZ); from June 2011 to November 2018, he was a director of SMMC Marine Drive Systems (Suzhou) Co., Ltd. (a company previously listed on NEEQ (previous stock code: 832549. NEEQ) and delisted in August 2017); since April 2013, he has been a director of Shenzhen Yuanben; since June 2014, he has been an executive partner representative at Suzhou Ruiyuan, a Shareholder; since July 2017, he has been the chairman of the board of directors of Jiangsu Xinyun Capital Management Co., Ltd.*. He is also a director of Suzhou Junshi, Suzhou Junao, Qianhai Junshi and Suzhou Junshi Biotechnology Co., Ltd.

Mr. Tang obtained his bachelor's double degree in mechanical engineering and business management from the National Huaqiao University, the PRC in July 1989 and January 1990, respectively.

As at 31 December 2019, Mr. Tang is deemed to be interested in 203,325,236 Domestic Shares under the SFO, see "– Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

Li Cong 李聰, 56

Member of Audit Committee

Appointed to the Board: December 2016
Joined the Group: December 2016

Mr. Li has over 14 years of experience in the pharmaceutical industry. From January 2004 to March 2019, he had successfully held the positions of regional manager, sales director and general manager at Tonghua Dongbao Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600867.SH)), responsible for manufacturing of diabetes products and operations.

Mr. Li obtained his bachelor's degree in medicine from Shanghai Tiedao University School of Medicine (now known as Tongji University School of Medicine), the PRC in July 1986.

As at 31 December 2019, Mr. Li is deemed to be interested in 3,657,600 Domestic Shares under the SFO, see "– Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Yi Qingqing 易清清, 48

Appointed to the Board: December 2016
Joined the Group: December 2016

Mr. Yi is a partner at Hillhouse Capital Group and has worked with Hillhouse Capital since 2005. Mr. Yi's work at Hillhouse includes investments in the healthcare sector.

Mr. Yi received a B.S. degree in engineering from Shanghai Maritime University, the PRC in July 1995 and his MBA from University of Southern California, the US in May 2003. Mr. Yi has also been an independent non-executive Director of BeiGene, Ltd. (a company listed on NASDAQ (stock code: BGNE.NASDAQ) and Hong Kong Stock Exchange (stock code: 6160.HK)) since October 2014.

Lin Lijun 林利軍, 46

Appointed to the Board: June 2018
Joined the Group: June 2018

Mr. Lin founded Loyal Valley Innovation Capital and has been its chairman since November 2015. Since June 2015, he has been an executive director of Shanghai Shengge Asset Management Co., Ltd.* and he was a general manager at China Universal Asset Management Co., Ltd. from May 2004 to May 2015. Mr. Lin has served as a director of Hangzhou Jiuyan Technology Co., Ltd. (a company previously listed on NEEQ (previous stock code: 836484.NEEQ)) since July 2015 and a non-executive director of Wenzhou Kangning Hospital Co., Ltd. (a company listed on Hong Kong Stock Exchange (stock code: 2120.HK)) since June 2017. Mr. Lin has also served as an independent non-executive director in each of the following companies: Shanghai Chengtou Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600649.SH)) from June 2014 to March 2017; Shanghai Xinhua Media Co., Ltd (stock code: 600825.SH) since September 2017; Yintech Investment Holdings Limited (a company listed on NASDAQ (stock code: YIN.US)) since April 2016; TANSH Global Food Group Co., Ltd. (a company listed on Hong Kong Stock Exchange (stock code: 3666.HK)) from March 2016 to June 2019; Yunfeng Financial Group Limited (a company listed on Hong Kong Stock Exchange (stock code: 376.HK)) from November 2015 to March 2019.

Mr. Lin obtained his master's degree in global economics from Fudan University, the PRC in June 1997 and his master's degree in business administration from Harvard University, the US in June 2003.

As at 31 December 2019, Mr. Lin is deemed to be interested in 78,852,000 Domestic Shares and 37,189,000 H Shares under the SFO, see "– Directors', Supervisors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures" in this annual report for details.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Chen Lieping 陳列平, 63

Member of Strategic Committee

Appointed to the Board: June 2018
Joined the Group: June 2018

Dr. Chen has over 35 years in the medical and pharmaceutical R&D and education industry. He discovered B7-H1 (also called PD-L1) molecule in 1999, demonstrated the role of PD-L1 in the evasion of immunity in tumor microenvironment, established the PD-1/PD-L1 pathway as the target for immuno-oncology in 1999-2002, initiated and helped organize the first-in-man clinical trial of anti-PD-1 monoclonal antibody for treating human cancer in 2006 and developed PD-L1 staining as a biomarker to predict treatment outcome. Dr. Chen's experience includes: in 1990, he was a scientist at the Bristol-Myers Squibb Company; in 1997, he was a professor in the Johns Hopkins University School of Medicine and Mayo Clinic; in 2004, Dr. Chen joined the faculty at School of Medicine of Johns Hopkins University. Since 2011, Dr. Chen has held various positions at the School of Medicine of Yale University, including Professor of Immunobiology, Professor of Medicine (medical oncology), Professor of Dermatology, co-director of the Cancer Immunology Program at Yale Cancer Center and United Technologies Corporation Professor in Cancer Research. He also worked on SPORE in Lung Cancer at the School of Medicine of Yale University.

Dr. Chen is the chairman of the board of directors and directly interested in 60% of the equity interest of Fuzhou Tuoxin Tiancheng Biological Technology Co., Ltd.* (福州拓新天成生物科技有限公司) ("**Fuzhou Tuoxin**"), which was a limited liability company established in the PRC on 17 April 2017 with a registered capital of RMB2 million. According to its business licence, Fuzhou Tuoxin is licensed to engage in business activities including, among others, R&D in biological and pharmaceutical areas. As confirmed by Dr. Chen, Fuzhou Tuoxin focused on the area of cellular immunotherapy in practice and it currently maintains a minimal operation with no substantial business. The Company is of the view that as Fuzhou Tuoxin has no substantial business operation or R&D activities, Fuzhou Tuoxin is not in competition with the Group. Dr. Chen has undertaken to the Company to keep the Company promptly and fully informed of his business or other activities which would or is likely to be in conflict or in competition (or may potentially compete) with the Group.

Dr. Chen is a director and directly interested in 15% of the equity interest of Dayou Huaxia Biotech Medical Group Co. Ltd.* (大有華夏生物醫藥集團有限公司) ("**Dayou Huaxia**"), which was a limited liability company established in the PRC on 27 September 2016 with a registered capital of RMB300 million. According to its business licence, Dayou Huaxia is licensed to engage in business activities including, among others, R&D in biopharmaceutical technology and diagnostic technology, medical research and tests. As confirmed by Dr. Chen, Dayou Huaxia is engaged in development of new antibody drug candidates and immunotherapy in practice, and it is currently at an early stage of R&D, and as of the date of this report, it had not registered or applied for registration of any patents, and there is currently no overlap between the Group's biologic drug candidates and those of Dayou Huaxia. The Company is of the view that since Dayou Huaxia is only at an early stage of R&D and with reference to the progress the Group has already achieved, there is no actual competition between the and Dayou Huaxia, notwithstanding that there may be potential competition in the future if Dayou Huaxia achieves any significant advancement in their R&D.

Dr. Chen obtained his M.D. degree from Fujian Medical University, Fuzhou, the PRC in 1982, M.S. degree from Peking Union Medical College, Beijing, the PRC in 1986 and Ph.D. degree from Drexel University College of Medicine, Philadelphia, Pennsylvania, the US in 1989. Dr. Chen has received several awards and professional recognitions including William B. Coley Award (2014) of Cancer Research Institute, AAI-Steinman Award of American Association of Immunologists (2016), Warren Alpert Foundation Prize (2017) and Luminary Award of World Affairs Council of Connecticut (2018).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

He Jia 何佳, 65

Chairman of Audit Committee and Remuneration Committee & Member of Strategic Committee

Appointed to the Board: June 2018

Joined the Group: June 2018

Dr. He has over 20 years of experience in the finance and education industry. Dr. He was an associate professor (life tenure) of the University of Houston from September 1996, a professor of the Department of Finance of the Chinese University of Hong Kong from August 1997 to August 2014, a member of the Strategy and Development Committee of the CSRC from June 2001 to July 2002. Dr. He has served as an independent non-executive director in the following listed companies: Bank of Tianjin Co., Ltd. (a company listed on Hong Kong Stock Exchange (stock code: 1578.HK) since June 2018, Norinco International Cooperation Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 000065.SZ)) since January 2017, CITIC Securities Company Limited (a company listed on Hong Kong Stock Exchange (stock code: 6030.HK) and Shanghai Stock Exchange (stock code: 600030.SH)) since March 2016, China Chengtong Development Group Limited (a company listed on Hong Kong Stock Exchange (stock code: 217.HK)) since September 2015, Tsinghua Tongfang Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600100.SH)) since May 2015, Shenzhen Xinguodu Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 300130.SZ)) since May 2014, Tibet Huayu Mining Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 601020.SH)) from October 2015 to October 2018 and OP Financial Limited (a company listed on Hong Kong Stock Exchange (stock code: 1140.HK)) since February 2003.

Dr. He also held various other positions, including serving as a chair professor of Southern University of Science and Technology of China, Cheung Kong Visiting Chair Professor of the Ministry of Education, executive director and academic member of the China Society for Finance and Banking, and financial consultant for Quanzhou government.

Dr. He graduated from Heilongjiang University, the PRC in August 1978 majoring in mathematics (worker-peasant-soldier student), obtained his double master's degree in computer science and decision science engineering from Shanghai Jiao Tong University, the PRC in November 1983 and obtained his Ph.D. degree in finance from the Wharton School of the University of Pennsylvania, the US in August 1988.

Chen Xinjun 陳新軍, 47

Chairman of Nomination Committee & Member of Audit Committee and Remuneration Committee

Appointed to the Board: June 2018

Joined the Group: June 2018

Mr. Chen's experiences include: from April 1998 to March 2005, he worked at the investment banking department of GF Securities Co., Ltd. and was responsible for general securities business; from March 2005 to September 2011, he was an executive general manager at the investment banking department of Pingan Securities Company Limited and was responsible for general securities business; from August 2011 to September 2015, he was a managing director at the investment banking department of Chinalion Securities Co., Ltd.; since November 2015, he has been a deputy general manager at the investment banking department of Haitong Securities Co., Ltd.

Mr. Chen obtained his master's degree in engineering from South China University of Technology, the PRC in April 1998. He has been qualified as a Chartered Financial Analyst since March 2007 and a sponsor representative under the Securities Association of China since 2004.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Qian Zhi 錢智, 51

Member of Audit Committee, Remuneration Committee and Nomination Committee

Appointed to the Board: June 2018
Joined the Group: June 2018

Mr. Qian previously worked at Jiangsu Law School, Nanjing Xiemanlin Law Firm and Jiangsu Weishide Law Firm; since March 2006, he has been a lawyer and is currently a partner at Jiangsu Gowin Law Firm.

Mr. Qian obtained his bachelor of laws degree from Fudan University, the PRC in July 1989 and his master of laws degree from Nanjing University, the PRC in December 2004. Mr. Qian was also awarded "grade one lawyer" (一級律師) by the Jiangsu Municipal Human Resources and Social Security Bureau in November 2015. Mr. Qian has been an arbitrator under the Nanjing Arbitration Committee since September 2017 and was employed as a legal consultant of the Nanjing People's Government in December 2017.

Roy Steven Herbst, 57

Member of Strategic Committee

Appointed to the Board: June 2018
Joined the Group: June 2018

Dr. Herbst was a Clinical Fellow from July 1991 to June 1994 at Harvard Medical School; he held various positions at the University of Texas M.D. Anderson Cancer Center (UT-MDACC) including the Barnhart Family Distinguished Professor of Targeted Therapy, Professor of Cancer Biology, and the Chief of Section of Thoracic Medical Oncology at the Department of Thoracic/Head and Neck Medical Oncology; since March 2011, he has held various positions at Yale University, including Ensign Professor of Medicine (Medical Oncology), Professor of Pharmacology, Professor of Medicine, Chief of Medical Oncology at Yale Cancer Center, leader of the Clinical Research Program in Phase I Cancers at Smilow Cancer Hospital, Associate Director for Translational Research at the Yale Cancer Center and leader of Disease Aligned Research Team in the Thoracic Oncology Program at the Yale Cancer Center.

Dr. Herbst obtained his M.S. degree from Yale University, the US in June 1984, his Ph.D. in Molecular Cell Biology from The Rockefeller University, the US in June 1990, his M.D. degree in Medicine from Cornell University Medical College, the US in May 1991, his M.S. degree from Harvard University, the US in November 1997 and an Honorary M.A. degree from Yale University in December 2012.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Wu Yu 鄔煜, 34
Chairman of the Board of Supervisors

Appointed to the Board of Supervisors: June 2018
Joined the Group: June 2018

Mr. Wu's experience includes: from March 2011 to March 2014, he was the analyst at Sinolink Securities Research Centre; from January 2016 to April 2017, he worked at Huatai Securities Co., Ltd.; since October 2017, he has been the investment director at Shanghai Guoyin Asset Management Centre (LP)*. Mr. Wu obtained his bachelor's degree in electrical engineering and automation from Shanghai Jiao Tong University, the PRC in July 2008 and his master's degree in computational mathematics from Shanghai Jiao Tong University, the PRC in January 2011.

Wang Pingping 王萍萍, 38

Appointed to the Board of Supervisors: June 2018
Joined the Group: June 2018

Ms. Wang has been a full-time teacher at the College of Economics and Management of the Shanghai University of Electric Power since March 2006. She obtained her master's degree in statistics from Shanghai University of Finance and Economics, the PRC in January 2006 and was awarded the college teacher qualification by the Shanghai Municipal Education Commission in September 2006.

Nie Anna 聶安娜, 26

Appointed to the Board of Supervisors: May 2019
Joined the Group: March 2018

Ms. Nie is currently a manager of the securities department of the Company. Ms. Nie studied at Université Lyon III in 2017 and graduated from Shanghai University with a master's degree in economics in March 2018.

Li Ruolin 李若璘, 27

Appointed to the Board of Supervisors: May 2019
Joined the Group: August 2017

Ms. Li is currently a manager assistant of the investment and finance department of the Company. Ms. Li graduated from University of Michigan with a master's degree in public health in April 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Liu Jun 劉俊, 41

Appointed to the Board of Supervisors: June 2019
Joined the Group: June 2019

Mr. Liu worked as a researcher and subsequently a senior researcher at Chanjiang Securities Research Centre* (長江證券研究所) from May 2007 to October 2009. He held several positions, ranging from industry researcher, strategic researcher, research director to investment director and investment general manager of equity investment at Everbright Securities Asset Management Company Limited* (光大證券資產管理公司) from October 2009 to September 2016. Since September 2016, he has been serving as the general manager at Shanghai Gulley Tree Investment Partnership (Limited Partnership)* (上海古喬投資合夥企業(有限合夥)). Mr. Liu obtained his bachelor's degree in engineering in July 2000 and his master's degree in management in May 2006 from Tongji University* (同濟大學), the PRC.

SENIOR MANAGEMENT

Wang Gang 王剛, 62

Dr. Wang joined the Group and has been serving as the deputy general manager and chief quality officer of the Company since August 2019. Dr. Wang's main experience includes: from October 1995 to June 1998, he engaged in post-doctoral research at the US National Institutes of Health; from June 1998 to July 1999, he was a research scientist at the US Osiris Therapeutics; from August 1999 to August 2003, he was a biologist at the US research institute of National Institutes of Health; from August 2003 to June 2005, he was an assistant professor at the US University of Texas; from June 2005 to April 2017, he was a senior policy advisor, an assistant officer at the office in China, a senior auditor and a lead inspector of the FDA; from April 2017 to April 2018, he was the chief scientist of the Center for Drug Evaluation of NMPA for compliance and inspection; from May 2018 to August 2019, he was the vice president of the Shanghai quality department of WuXi Biologics Co., Ltd.. Dr. Wang obtained his doctoral degree in Pharmacology & Toxicology from the School of Medicine of Dartmouth College, the US in 1995.

Han Jing 韓淨, 46

Mr. Han has been serving as the deputy general manager of the Company since July 2019. Mr. Han's main experience includes: from September 1996 to April 1998, he was a doctor in the general surgery department of Shanghai Xuhui District Central Hospital; from April 1998 to February 2000, he worked for Hangzhou Merck Sharp & Dohme Pharmaceuticals Limited; from February 2000 to August 2004, he served as a regional sales manager of Shanghai Boehringer Ingelheim Pharmaceutical Co., Ltd.; from August 2004 to April 2011, he was the regional sales director of AstraZeneca Pharmaceutical Co., Ltd.; from April 2011 to June 2013, he served as the sales director of Bayer Health Care Co., Ltd. in the southern China region; from June 2013 to October 2018, he served as the senior sales director of Shanghai Roche Pharmaceutical Co., Ltd.. Mr. Han obtained a bachelor's degree in clinical medicine from Shanghai Second Medical University, the PRC in 1996. He graduated from the EMBA course at China Europe International Business School, the PRC in 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Duan Xin 段鑫, 47

Mr. Duan has been serving as the deputy general manager of the Company since July 2019. Mr. Duan's main experience includes: from July 1994 to December 1998, he was a resident physician of Datai Hospital of Jing Mei Group; from March 1999 to August 2000, he worked at Beijing Jianfumeng Healthcare Limited; from September 2000 to April 2001, he worked at Beijing Qinmai Xinhai Biosciences Co., Ltd.; from May 2001 to May 2002, he worked at Quintiles, Inc. in the United States; from June 2002 to July 2006, he served as a regional sales manager of the cancer division of AstraZeneca Pharmaceutical Co., Ltd.; from August 2006 to July 2011, he was a sales director of the cancer division of Bayer Health Care Co., Ltd.; from August 2011 to November 2017, he served as the national sales director of Shanghai Roche Pharmaceutical Co., Ltd.; from December 2017 to February 2018, he served as a commercial operations director of Amgen Biology Technology Consulting (Shanghai) Co., Ltd.; from March 2018 to April 2019, he served as the general manager of the sales department of the sales corporation in Qilu Pharmaceutical Co., Ltd.. Mr. Duan obtained his master's degree in business administration from Renmin University of China, the PRC in July 2017.

Yuan Lu 原璐, 37

Ms. Yuan joined the Group and has served as the financial director of the Company since June 2018. Ms. Yuan has over 10 years of experience in finance controlling. Ms. Yuan's main experience includes: from April 2007 to July 2009, she was a finance analyst at Dow Chemical (China) Co. Ltd.; from August 2009 to May 2011, she was employed as a senior finance analyst for the Junior Management Program (Finance and Controlling) at Bosch (China) Investment Co., Ltd.; she worked in Henkel (China) Investment Company Limited from May 2011 to September 2017, the last position she held was BU-Adhesive Consumer China controller; from September 2017 to June 2018, she was the Asia-Pacific business controller at Festo (China) Co., Ltd. Ms. Yuan obtained her bachelor's degree in financial management from Shanghai University of Finance and Economics, School of Accountancy, the PRC in July 2004 and her master's degree in financial management from Shanghai University of Finance and Economics, School of Accountancy, the PRC in January 2007.

Chen Yingge 陳英格, 28

Ms. Chen has served as the secretary of the Board since January 2018. Ms. Chen joined the Group in April 2017 and was a securities affairs representative of the Company from April 2017 to January 2018. Ms. Chen obtained her bachelor's degree in pharmacy from Shanghai University of Traditional Chinese Medicine, the PRC in July 2014 and her master's of science degree in drug design from University College London, the United Kingdom in November 2015. Ms. Chen has obtained the qualification of NEEQ secretary of the Board since November 2017, and obtained the qualification of secretary of the board of directors of the Shanghai Stock Exchange STAR Market since October 2019.

Other Senior Management Team

Our senior management also include Dr. Li Ning (general manager), Mr. Zhang Zhuobing (deputy general manager), Dr. Wu Hai (deputy general manager) and Dr. Yao Sheng (deputy general manager), see "– Executive Directors" above for biographical details of Dr. Li Ning, Mr. Zhang Zhuobing, Dr. Wu Hai and Dr. Yao Sheng.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Chen Yingge 陳英格

See "– Senior Management" above for biographical details of Ms. Chen Yingge.

Wong Yik Han 黃譯嫻 (appointed on 14 January 2020)

Ms. Wong was appointed as a joint company secretary in January 2020. She is a Manager of Corporate Services of Tricor Services Limited, an Asia's leading business expansion specialist specializing in integrated Business, Corporate and Investor Services. She has around 8 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies and real estate investment trust as well as multinational, private and offshore companies. Ms. Wong is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators). Ms. Wong holds a Bachelor of Commerce degree in Accounting from Hong Kong Shue Yan University.

Yuen Wing Yan Winnie 袁穎欣 (resigned on 14 January 2020)

Ms. Yuen was our joint company secretary from December 2018 to January 2020. She is a director of corporate services division of Tricor Services Limited. Ms. Yuen has over 25 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

The Company has also in place a corporate governance framework and has established a set of policies and procedures based on the CG Code. Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

The Board is of the view that throughout the year ended 31 December 2019 (the "**Reporting Period**"), the Company has complied with all the applicable principles and code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Specific enquiry has been made of all the Directors and Supervisors and they have confirmed that they have complied with the Model Code throughout the Reporting Period.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

CORPORATE GOVERNANCE REPORT

Board Composition

The Board currently comprises fifteen Directors, consisting of six Executive Directors, four Non-executive Directors and five Independent Non-executive Directors. The details of the Board composition are as follows:

Executive Directors

Mr. Xiong Jun (Chairman and Legal Representative)
Dr. Li Ning (Chief Executive Officer and General Manager)
Dr. Feng Hui
Mr. Zhang Zhuobing
Dr. Wu Hai
Dr. Yao Sheng

Non-executive Directors

Mr. Tang Yi
Mr. Li Cong
Mr. Yi Qingqing
Mr. Lin Lijun

Independent Non-executive Directors

Dr. Chen Lieping
Dr. He Jia
Mr. Chen Xinjun
Mr. Qian Zhi
Dr. Roy Steven Herbst

The biographical information of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" on pages 29 to 40 of this annual report.

None of the members of the Board is related to one another.

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Apart from regular Board meetings, the Chairman also held one meeting with the Independent Non-executive Directors without the presence of other Directors.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Xiong Jun and Dr. Li Ning, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board, the overall management of the Company, implementing decisions of the Company and its operations, overseeing the Group's regulatory and commercial suitability and sustainability. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally and is also responsible for formulating business strategies, managing operations of the Group, and overseeing the Group's regulatory and commercial suitability and sustainability.

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association of the Company, every term of a Director is three years. Upon expiration of the term, a Director is eligible to re-election and re-appointment by shareholders at general meeting of the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations in order to give the Company the benefit of their skills, expertise and background.

CORPORATE GOVERNANCE REPORT

All Directors have full and timely access to all the information of the Company and may, upon request, seek the advice of legal advisers and other independent professional in appropriate circumstances (including to facilitate the identification of any conflict and competition situation, and to facilitate the enforcement of the above mechanisms if any actual or potential conflict or competition arise), at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. The Directors will be provided with and are required to receive continuous professional training on corporate governance and directors' duties including, directors' fiduciary duties and duty to avoid conflict, and on identifying potential conflict situation.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company organized one training session conducted by the lawyers for all Directors. The training session covered a wide range of relevant topics, including directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials, including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying.

CORPORATE GOVERNANCE REPORT

The training records of the Directors for the year ended 31 December 2019 are summarized as follows:

Directors	Type of Training Note
Executive Directors	
Mr. Xiong Jun	A/B
Dr. Li Ning	A/B
Dr. Feng Hui	A/B
Mr. Zhang Zhuobing	A/B
Dr. Wu Hai	A/B
Dr. Yao Sheng	A/B
Non-executive Directors	
Mr. Tang Yi	A/B
Mr. Li Cong	A/B
Mr. Yi Qingqing	A/B
Mr. Lin Lijun	A/B
Independent Non-executive Directors	
Dr. Chen Lieping	A/B
Dr. He Jia	A/B
Mr. Chen Xinjun	A/B
Mr. Qian Zhi	A/B
Dr. Roy Steven Herbst	A/B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading materials relevant to corporate governance, director's duties and responsibilities and other relevant rules and ordinances

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established four Board committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website.

Audit Committee

The Audit Committee consists of three Independent Non-executive Directors, namely Dr. He Jia (chairman of the Audit Committee), Mr. Chen Xinjun and Mr. Qian Zhi, and one Non-executive Director, namely Mr. Li Cong. Mr. Chen Xinjun holds the appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to make recommendations to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee held two meetings during the Reporting Period to review, in respect of the Reporting Period, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties. The Audit Committee also met the external auditors twice during the Reporting Period without the presence of the Executive Directors.

Remuneration Committee

The Remuneration Committee consists of three Independent Non-executive Directors, namely Dr. He Jia (chairman of the Remuneration Committee), Mr. Qian Zhi and Mr. Chen Xinjun, and two Executive Directors, namely Mr. Xiong Jun and Dr. Li Ning.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include: (i) making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee met twice during the Reporting Period to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Executive Directors and senior management and other related matters.

Details of the remuneration of the senior management by band are set out in note 12 to the consolidated financial statements for the Reporting Period.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee consists of two Independent Non-executive Directors, namely Mr. Chen Xinjun (chairman of the Nomination Committee) and Mr. Qian Zhi, and one Executive Director, namely Mr. Xiong Jun.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, assessing the independence of Independent Non-executive Directors and making recommendations to our Board on matters relating to the appointment of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee will review the Company's Board Diversity Policy, as appropriate, to ensure the effectiveness of the Policy.

The Nomination Committee held two meeting during the Reporting Period to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company.

With a view to achieving a sustainable and balanced development, the Company recognizes board diversity as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All board appointments will be based on meritocracy and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

Pursuant to the Board Diversity Policy, selection of candidates of directors will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT

Set out below are the gender, age and length of service of the Directors as required to be disclosed by the Company's Board Diversity Policy:

Directors	Gender	Age	Length of Service as Director (Date of Appointment as Director)
Executive Directors			
Mr. Xiong Jun	Male	46	More than 5 years (27 March 2015)
Dr. Li Ning	Male	58	More than 1 year (24 June 2018)
Dr. Feng Hui	Male	43	More than 5 years (27 March 2015)
Mr. Zhang Zhuobing	Male	52	More than 3 years (22 December 2016)
Dr. Wu Hai	Male	47	More than 3 years (22 December 2016)
Dr. Yao Sheng	Male	44	More than 3 years (22 December 2016)
Non-executive Directors			
Mr. Tang Yi	Male	51	More than 4 years (30 May 2015)
Mr. Li Cong	Male	56	More than 3 years (22 December 2016)
Mr. Yi Qingqing	Male	48	More than 3 years (22 December 2016)
Mr. Lin Lijun	Male	46	More than 1 year (24 June 2018)
Independent Non-executive Directors			
Dr. Chen Lieping	Male	63	More than 1 year (24 June 2018)
Dr. He Jia	Male	65	More than 1 year (24 June 2018)
Mr. Chen Xinjun	Male	47	More than 1 year (24 June 2018)
Mr. Qian Zhi	Male	51	More than 1 year (24 June 2018)
Dr. Roy Steven Herbst	Male	57	More than 1 year (24 June 2018)

CORPORATE GOVERNANCE REPORT

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection procedures in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level. The particulars of the Nomination Policy are set out as follows:

1. The Nomination Committee shall take into account factors as set out in the Board Diversity Policy when considering the nomination or re-appointment of a candidate, including but not limited to gender, age, cultural and educational background or professional experience, as well as business model and specific needs of the Company.

2. The Nomination Committee shall follow the below procedures for the selection and appointment of Directors and senior management of the Company:

    a) actively communicate with relevant departments of the Company to study the Company's demands on Directors and senior management, and compile the written materials;

    b) extensively search for candidates for Directors and senior management within the Company and in the talent market;

    c) collect the information about the occupation, academic qualifications, job titles, detailed working experience and all part-time employment of the shortlisted candidates, and compiles the written materials;

    d) seek the advice of the nominees on the nomination, otherwise such persons shall not be considered as candidates for Directors and senior management;

    e) convene meetings of the Nomination Committee to examine the qualifications of the shortlisted candidates according to the employment requirements of Directors and senior management;

    f) submit the recommendations and materials concerning the candidates for Directors before electing new Directors; and submit the recommendations and materials concerning the candidates for new member of senior management before appointment;

    g) in performing its duties, the Nomination Committee may, if necessary, invite persons with relevant experience and experts from independent professional consulting firms to attend its meetings or convene expert panels; and engage independent professional consulting firms to participate in formulating remuneration plans for Directors and senior management; and

    h) conduct other follow-up work in accordance with the Board's decisions and response.

CORPORATE GOVERNANCE REPORT

Strategic Committee

The Strategic Committee consists of three Independent Non-executive Directors, namely Dr. Chen Lieping, Dr. Roy Steven Herbst and Dr. He Jia, and two Executive Directors, namely Mr. Xiong Jun (chairman of the Strategic Committee) and Dr. Li Ning.

The primary functions of the Strategic Committee include considering and making recommendations to the Board in relation to the Company's long-term development strategies and major investment decisions.

The Strategic Committee met once during the Reporting Period to review and discuss the Group's strategic plan, and make recommendation to the Board on establishment of appropriate policies and practices in pursuit of the Group's strategic objectives and business plans.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report during the Reporting Period.

ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the Reporting Period is set out in the table below:

	Attendance/Number of Meetings						
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Strategic Committee	Annual General Meeting	Extraordinary General Meeting
Mr. Xiong Jun	9/9	–	2/2	2/2	1/1	1/1	0/1
Dr. Li Ning	9/9	–	2/2	–	1/1	0/1	0/1
Dr. Feng Hui	9/9	–	–	–	–	0/1	0/1
Mr. Zhang Zhuobing	9/9	–	–	–	–	1/1	1/1
Dr. Wu Hai	9/9	–	–	–	–	0/1	0/1
Dr. Yao Sheng	9/9	–	–	–	–	0/1	0/1
Mr. Tang Yi	9/9	–	–	–	–	0/1	0/1
Mr. Li Cong	9/9	2/2	–	–	–	0/1	0/1
Mr. Yi Qingqing	9/9	–	–	–	–	0/1	0/1
Mr. Lin Lijun	9/9	–	–	–	–	0/1	0/1
Dr. Chen Lieping	8/9	–	–	–	1/1	0/1	0/1
Dr. He Jia	9/9	1/1	2/2	–	1/1	0/1	0/1
Mr. Chen Xinjun	9/9	2/2	2/2	2/2	–	1/1	0/1
Mr. Qian Zhi	9/9	2/2	2/2	2/2	–	0/1	0/1
Dr. Roy Steven Herbst	8/9	–	–	–	1/1	0/1	0/1

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and review of their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

The Company has adopted a series of internal control policies, procedures and programs designed to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control systems include the following:

Scientific and Clinical Medicines Committee – The Company has established a Scientific and Clinical Medicines Committee comprising our Executive Directors, senior management and certain heads of department, which holds meetings on a monthly basis and is mainly responsible for the overall governance and decision making on drug development investment, strategy and planning of the Company.

Listing Rules Compliance – We have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions, notifiable transactions, inside information and securities transactions by the Directors.

Code of Conduct – Our code of conduct explicitly communicates to each employee our values and our ground rules for behavior.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects, including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provided treatment plans, monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The Board had reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

CORPORATE GOVERNANCE REPORT

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, Supervisors, senior management, officers and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Company has engaged an external professional firm for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit function examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 130 to 133.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the Reporting Period amounted to RMB2,400,000 and RMB1,986,000 respectively.

An analysis of the remuneration paid to the external auditors of the Company (including Shanghai and Hong Kong), Messrs. Deloitte Touche Tohmatsu, in respect of audit services and non-audit services for the Reporting Period is set out below:

Service Category	**Fees Paid/Payable (RMB)**
Audit Services	2,400,000
– Annual Report	2,400,000
Non-audit Services	1,986,000
– Interim Report	900,000
– Tax Service	1,000,000
– Others	86,000
	4,386,000

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Ms. Chen Yingge and Ms. Yuen Wing Yan, Winnie of Tricor Services Limited, an external services provider, acted as the Company's joint company secretaries for the Reporting Period. The primary contact person of Ms. Yuen Wing Yan, Winnie at the Company is Ms. Chen Yingge, secretary of the Board.

Due to an internal staff resources reallocation of Tricor Services Limited, Ms. Wong Yik Han of Tricor Services Limited has been appointed as joint company secretary of the Company in place of Ms. Yuen Wing Yan, Winnie with effect from 14 January 2020. Relevant details had been set out in the announcement of the Company dated 14 January 2020.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

Ms. Chen Yingge and Ms. Yuen Wing Yan, Winnie have complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training for the Reporting Period.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels. The Company's shareholders communication policy is made available on the Company's website.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Shareholders holding 10% or more of the shares of the Company (individually or together with others) shall be entitled to request for an extraordinary general meeting or class meeting.

The aforesaid shareholder(s) may sign one or more written request(s) of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the subject of the meeting. Shares held by the above shareholders shall be calculated as of the date on which the written request is made by the shareholder(s).

CORPORATE GOVERNANCE REPORT

Putting Forward Proposals at Extraordinary General Meetings

When a general meeting is held by the Company, the Board, the Board of Supervisors of the Company or shareholder(s) who individually or jointly holding at least 3% of the shares of the Company shall have the right to submit new proposals to the Company.

Shareholder(s) who individually or together holding at least 3% of the shares of the Company may propose an extempore proposal 10 days prior to the general meeting by submitting the same to the convener in writing. The convener shall issue a supplemental notice of general meeting within 2 days after receiving the proposed motion specifying the contents of the extempore motion.

Except as provided in the preceding paragraph, the convener shall not amend the proposals specified in the notice of the general meeting nor add new proposals after the notice is despatched.

Putting Forward Enquiries to the Board

To put forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

For H Shareholders

Address: Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(For the attention of the Board of Directors/Company Secretary)
Fax: +852 2810 8185

For Domestic Shareholders

Address: Floor 13, Building 2, Nos. 36 and 58, Hai Qu Road, Shanghai, China
(For the attention of the Board of Directors/Company Secretary)
Post Code: 201203
Fax: +86 021 8016 4691

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law. Shareholders may call the Company at +86 021 2250 0300 for any assistance.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Articles of Association of the Company was approved for amendment by the shareholders of the Company at the annual general meeting and the extraordinary general meetings of the Company held on 17 June 2019 and 23 September 2019 and 3 February 2020, respectively. The changes were mainly to reflect:

1. the expansion of business scope;

2. the relevant provisions on shares repurchase under the Company Law of the PRC;

3. change of registered address and change of investor relations contact information; and

4. the requirements on the notice period of the general meetings under the Company Law of the PRC.

An up-to-date Articles of Association is available on the Company's website and the Stock Exchange's website.

Amendment of Articles of Association of the Company for the purpose of listing of the Company's A shares on the STAR Market has been passed as a special resolution at the annual general meeting and class meetings of the Company held on 17 June 2019. The amendment will take effect upon completion of issuance and listing of A shares of the Company on the STAR Market.

Policies relating to Shareholders

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code and details are summarized as follows:

The Company may distribute dividends in the form of (or a combination of two or more) of the followings:

(1) cash;

(2) shares; and/or

(3) other means as permitted by the laws, administrative regulations, departmental rules and regulatory rules in the place where the Company's shares are listed.

When distributing each year's after-tax profits, the Company shall set aside ten percent of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital.

CORPORATE GOVERNANCE REPORT

If its statutory reserve fund is not sufficient to make up the losses of the previous year, profits of the current year shall be applied to make up the losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from the after-tax profits, the Company may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from the after-tax profits.

After making up for the losses and making contributions to the reserve fund, any remaining after-tax profits shall be distributed by the Company to the shareholders in proportion to their respective shareholdings according to the resolutions adopted at the general meeting.

The reserve funds of the Company shall be used to make up the losses of the Company, expand its production and operation or increase its capital. However, the capital reserve fund shall not be used to make up any losses of the Company. In capitalizing the statutory common reserve fund, the remaining balance of such fund shall not be less than 25% of the registered capital of the Company prior to such capitalization.

Where the general meeting violates the preceding paragraph and decides on the distribution of profits to shareholders prior to making up the losses of the Company and allocating to the statutory common reserve fund, shareholders must return the profit so distributed to the Company.

The shares of the Company held by the Company shall not be entitled to any profit distribution. Where any resolution concerning cash dividends, bonus issue or capitalization of capital reserve fund is passed at a general meeting, the Company shall implement the specific proposals within two months upon conclusion of the meeting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

- Reporting Period:

  From 1 January 2019 to 31 December 2019 ("2019").

- Reporting Scope:

  The scope of this report is consistent with the annual report, the entities it covers are Shanghai Junshi Biosciences Co., Ltd. ("Junshi Biosciences") and its entities within the scope of listing, including Suzhou Union Biopharm Biosciences Co., Ltd. ("Suzhou Union Biopharm"), Shanghai Junshi Biotechnology Co., Ltd. ("Junshi Biotechnology"), Suzhou Junmeng Biosciences Co., Ltd. ("Suzhou Junmeng"), Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd. ("Jiangsu Union Biopharm"), Suzhou Junshi Biosciences Co., Ltd. ("Suzhou Junshi"), Taizhou Junshi Biosciences Co., Ltd. ("Taizhou Junshi"), Beijing Junkejingde Biotechnology Co., Ltd. ("Junkejingde"), Shenzhen Qianhai Junshi Hospital Investment Management Co., Ltd ("Qianhai Junshi"), Suzhou Junao Medicine Co., Ltd. ("Suzhou Junao"), Beijing Union Biopharm Junshi Biosciences Co., Ltd. ("Beijing Union Biopharm"), Suzhou Junshi Biotechnology Co., Ltd. ("Suzhou Junshi"), Junshi Hong Kong Ltd. ("Hong Kong Junshi") and TopAlliance Biosciences Inc. ("TopAlliance").

  In order to facilitate the presentation and reading, for the purpose of this report, each of "Junshi Biosciences", the "Company" and "we" refers to "Shanghai Junshi Biosciences Co., Ltd. and its entities within the scope of listing", while "Shanghai headquarters" refers to the headquarters of "Shanghai Junshi Biosciences Co., Ltd." located in Shanghai.

  The scope of environmental data includes all production bases that have a significant impact on the environment: "Jiangsu Union Biopharm" and "Junshi Biotechnology."

- Basis of Preparation

  The Report is prepared in compliance with the ESG Reporting Guide and its major amendments as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Junshi Biosciences has been in compliance with the "Comply or Explain" requirement as set out in the ESG Reporting Guide.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Index Selection

  This report takes into consideration the materiality, quantification, balance and consistency of all specific indices related to performance disclosure of key issues. We will continue to adjust and optimize the disclosure indices in future reports.

  Materiality: Junshi Biosciences uses right-interest model for stakeholders, stakeholder participation mechanism, and matrix of materiality of substantive issues to identify issues of corporate social responsibility that are important or related to companies and stakeholders

  Quantification: Junshi Biosciences embodies the principle of quantification by disclosing measurable key performance indicators.

  Balance: Junshi Biosciences report the Company's work in environmental, social and governance aspects impartially and objectively.

  Consistency: Junshi Biosciences adopted a consistent data disclosure method, compared the data in the report, and marked the changes of statistical methods and key performance indicators.

- Source of Data

  The qualitative and quantitative data of this report came from publicly available sources, internal sources and the related statistics of Shanghai Junshi Biosciences Co., Ltd.* and its entities within the scope of listing.

- Form of Publication

  This report is published online. The online version can be accessed and downloaded from the website of the Stock Exchange of Hong Kong (www.hkex.com.hk), the designated disclosure platform of National Equities Exchange and Quotations (www.neeq.com.cn) and the website of Shanghai Junshi Biosciences Co., Ltd. (www.junshipharma.com).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. ABOUT JUNSHI BIOSCIENCES

Junshi Biosciences, an innovation-driven biopharmaceutical company founded in 2012, is dedicated to the discovery and development of innovative drugs and their clinical research and commercialization on a global scale. Its mission is to provide patients with treatment options that work better and cost less. Based on the core platform technology of protein engineering, Junshi Biosciences stands at the frontier of research and development (R&D) of macromolecular drugs. In December 2018, Junshi Biosciences was listed on the Main Board of the Hong Kong Stock Exchange. With distinguished capability of innovative drug discovery, advanced biotechnological R&D, large-scale production capacity throughout the whole industry chain, and rapidly expanding drug candidate portfolio of tremendous market potential, Junshi Biosciences has a leading edge, in the People's Republic of China (PRC), in the emerging field of immuno-oncology and for the treatment of autoimmune and metabolic diseases. Junshi Biosciences aims to become a pioneer in the area of translational medicine by developing first-in-class and best-in-class drugs through original innovation. Junshi Biosciences' production capability covers the whole production process from drug R&D to commercialization: international cooperation is realized based on its early research in the R&D Centres in the US Bay Area and Maryland, while its commercialization process is optimized by its process development and pilot scale production centre in Suzhou, China.

- Our major businesses include the follows:
    - Shanghai Headquarters: responsible for the R&D and evaluation of drug candidates, clinical trial, drug registration and commercialization;
    - Suzhou Union Biopharm: responsible for the operation of the Wujiang Production Base and the commercialization of drug candidates, and it has obtained Good Manufacturing Practice (GMP) certification;
    - Junshi Biotechnology: responsible for the R&D and operation of the Lingang Production Base, and it has obtained the Pharmaceutical Production License;
    - Suzhou Junmeng: responsible for the R&D of biopharmaceuticals;
    - TopAlliance: responsible for innovation of monoclonal antibody and development of efficient screening platform; development and engineering of recombinant antibody and TNFR-Fc antibody, and related technological service.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- As a young and innovative biopharmaceutical company, our mission is to address unmet clinical needs and achieve medical care, for which it continuously promotes the development and growth of the Company. In 2019, the Company's business has been developing rapidly, and has made remarkable achievements in the field of R&D, production and commercialization.

Operating Performance in 2019

In 2019, our product pipeline expanded rapidly. At present, 2019, we have 21 drug candidates, including 19 innovative drugs and 2 biosimilars.

In 2019, we have made continuous progress in R&D, in which the application for clinical trials of recombinant humanized anti-IL-17A monoclonal antibody injection (JS005) has been approved by the China Drug Administration.

In 2019, our original innovative recombinant humanized anti-BTLA monoclonal antibody (TAB004/JS004) approved for IND by FDA in April, and also was approved for IND by NMPA in January 2020.

In 2019, the Lingang Production Base (Junshi Biotechnology) has obtained the Drug production license. The fermentation capacity of 30,000L will greatly increase our production capacity.

In 2019, our commercialization process is also accelerating, in which the new drug application of Adamumab injection (UBP1211) has been accepted by the NMPA.

In 2019, the revenue of Toripalimab sales is RMB774.10 million.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Major awards in 2019:

January 2019, 2018 Zhangjiang Science City Excellent Institution Innovation Award

April 2019, PharmaDJ Editors' Choice – Overseas Listed Company of the Year

July 2019, 2019 China Healthcare Industry Innovation Award – Best Innovative Biopharmaceutical Company; TOP 20 list of China's Biopharmaceutical Enterprises in 2018 selected by expert committee of top 100 list of China's pharmaceutical industry

August 2019, 2019 Best Growing Competence Company in China's Pharmaceutical Industry

September 2019, Award Nomination for Innovative Drug with Most Clinical Value on "Dushu Lake Prize" Selection of China Pharmaceutical Innovation Brand

October 2019, an Outstanding Enterprise Award in the Pharmaceutical Industry on the Pharmaceutical Achievements Exhibition and the 70th Anniversary of the Founding of the PRC themed "Celebrate 70 years of thriving China and to work harder in the new era"

November 2019, the Fastest Growing Biopharmaceutical Enterprise on "Huachuang Award" Selection of the 2019 Yicai Sci-tech Innovation Conference; Award of Excellence 2018/2019 by Community Chest, HK

December 2019, the Most Valuable Growing Enterprise in the Pharmaceutical Industry in 2019 – Most Valuable Enterprises List of 2019 China Pharmaceutical Industry Wisdom Growing Forum

In January 2020, Toripalimab, independently developed by Junshi Biotechnology, was awarded one of the Top 10 Innovative Drugs in the 12th "Healthy China"(year 2019) and the Company was awarded "Corporate Social Responsibility Industry Model" in the 9th China Charity Festival

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

II. CORPORATE GOVERNANCE

The Company complies with the Company Law of the PRC, the Securities Law of the PRC, the Corporate Governance Code contained in Appendix 14 to the Listing Rules, other regulatory documents and the requirement under company policy. The Company's shareholder meeting is the highest decision-making body. The Board of Directors has decision-making power, and executes the mission of the shareholders meeting. The general manager executes the Decision of the board of directors and is responsible for corporate management. There are four committees under the Board of Directors: the Audit Committee, the Nomination Committee, the Strategic Committee and the Remuneration Committee. "Terms of Reference of the Audit Committee", "Terms of Reference of the Nomination Committee", "Terms of Reference of the Strategic Committee" and "Terms of Reference of the Remuneration Committee" have been formulated correspondingly. These four rules play important roles in risk prevention and control, and corporate decision-making process. The Company has always taken a responsible approach to improve operational efficiency and corporate competitiveness, in order to protect shareholders' rights and increase company value.

We attach great importance to the commitment of corporate social responsibility and are committed to working with stakeholders to create sustainable value in terms of environmental, social and economic levels. The Board of Directors participated in environmental, social and governance related work and is responsible for the Company's strategy deployment and supervision of strategy implementation. In the process of formulating strategic planning, the Company takes full account of the strategy of social responsibility. It also pays attention to the risks related to environment, society and governance in the assessment of internal and external risks in the business operating process, and develops corresponding coping strategies.

In order to better promote and fulfil corporate social responsibility, we set up the environmental, social and governance working group which consists of the secretary of the Board of Directors, the securities department, the environmental health and safety department and the backbone of the quality department to carry out environmental, social and governance work. Other functional departments cooperate with the working group to carry out practical activities around corporate social responsibility issues. In addition, we pay great attention to the cultivation of the social responsibility awareness of all employees, strive to promote full participation of social responsibility, and integrate social responsibility work into our daily business activities.

The reporting and disclosure of environmental, social and governance work information is an important channel for us to continuously improve corporate social responsibility performance and communicate with stakeholders. We have clarified the reporting path of environmental, social and governance work. The head of the environmental, social and governance working group will report to the Board of Directors on the annual work, and disclose the performance of our social responsibilities to the Company's equity holders through environmental, social and governance reports prepared in compliance with the Environmental, Social and Governance Reporting Guidelines.

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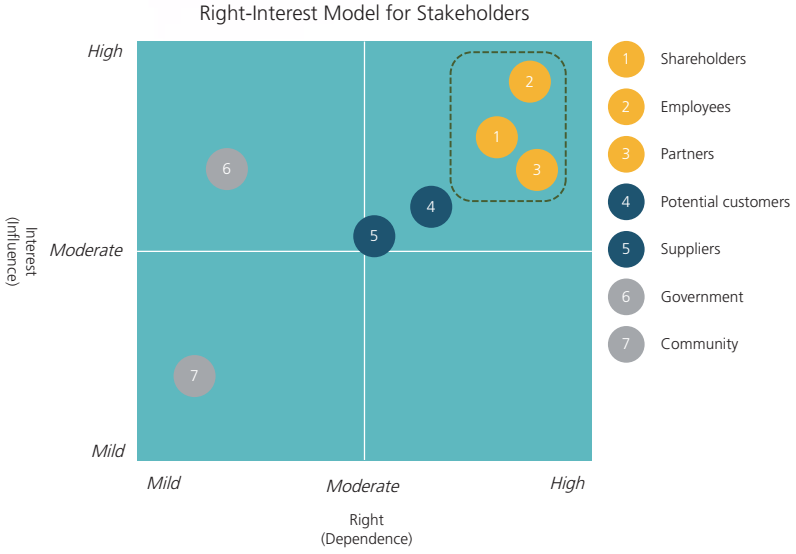
III. SUBSTANTIVE ISSUE ANALYSIS AND SELECTION

The focus of this report is based on the substantive issues to the stakeholders. In order to better understand the rights and interests of the stakeholders, we analysed their rights and interests, and identified the important stakeholders of the Company. On this basis, the Company analysed and selected the interests and demands of the stakeholders, and finally recognized 17 important substantive issues.

1. Identification and Analysis of Stakeholders

In accordance with the relevant guidelines and standards such as the ESG Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, we have assessed the level of influence and dependency of different stakeholders by using the right-interest model.



Right-Interest Model for Junshi Biosciences' Stakeholders

As shown in the above diagram, the shareholders, the employees and the clients are our most important stakeholders. The rights and interests of these three parties achieved a high score in both the evaluation of their influence and dependence on us. Therefore, while disclosing the key performance indicators required by the ESG Reporting Guide, key disclosures on the substantive issues related to these three parties will be made in this report.

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2. Screening of Substantive Issues

We communicated with stakeholders in forms of interviews, meetings, industrial exchanges and opinion surveys etc., and summarized the substantive issues stakeholders are concerned with as collected in our daily operation process, and adopted corresponding communication and response modes to fully meet the requirements of stakeholders, as shown in the following table:

Stakeholders	Substantive issues	Mode of communication and response
Shareholders	Corporate governance Capabilities in research and development Intellectual property protection	Timely information disclosure Expansion of product pipeline Protection of Intellectual Property
Employees	Safeguarding rights Occupational health and safety Career growth	System improvement and implementation Periodic physical examination Regular training
Clients	Improve client service system Product quality and safety	Improve client service Improve product quality system
Potential partners	Product quality and safety Cooperation and win-win situation Technology Research and Development	Improve product quality system Enhance cooperation Expansion of product pipeline
Suppliers	Responsible procurement	Improve supplier management
Government	Operation compliance Production safety Emission of waste Green office Extreme weather response	Information disclosure & anti-corruption Improve management of production safety Strict disposal of waste Economize on the use of resources Set up typhoon and flood control team
Community	Participating in charity event Community building	Charity drug giveaway project School-enterprise cooperation

Expectations and Demands as well as Mode of Communication and Response of the Stakeholders of Junshi Biosciences

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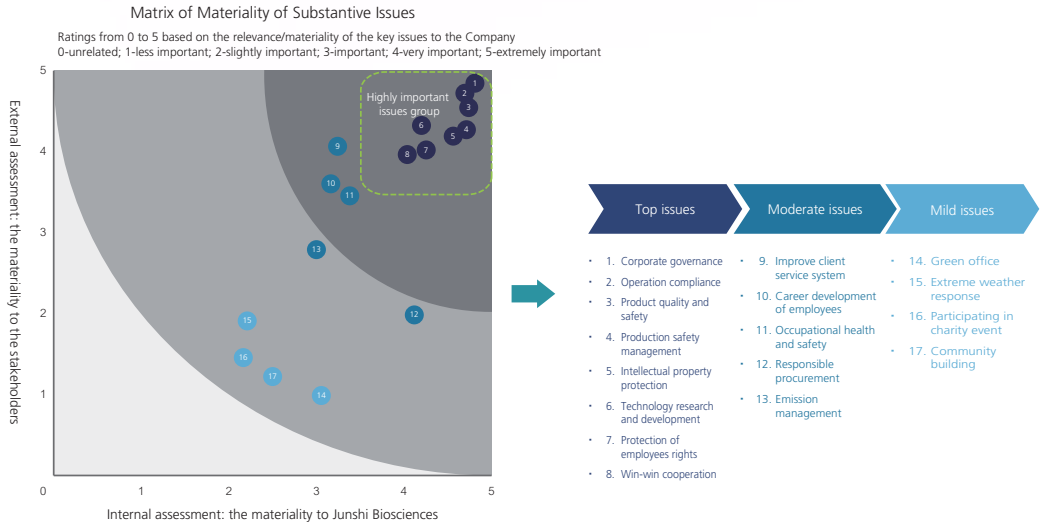
3. Evaluation and Confirmation of Substantive Issues

We use the materiality matrix model to form the preliminary evaluation results on the substantive issues which the stakeholders are concerned with. The expert group composed by the heads of the relevant departments makes a comprehensive evaluation, and makes definitive conclusions on the substantive issues that exert a great impact on the stakeholders, which provides the foundation for the management and information disclosure in sustainable development of the Company.

Material issues in year 2019



Matrix of materiality of substantive issue and Evaluation on the materiality of substantive issues

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IV. OPERATION COMPLIANCE

We pay attention to the construction of compliance system, strictly follow the relevant national laws and regulations and the pharmaceutical industry regulatory policy, perfecting the compliance requirements in the process of operation. We set up management policies involving anti-fraud, meeting communications and exchange, information disclosure and investor relations management etc. to ensure that the Company is always in a healthy and compliant operating environment. There was no non-compliance in 2019.

1. Anti-fraud and Compliance

We always adhere to the highest standards of business ethics, comply with medical and ethical guidelines and international laws and regulations, and maintain a zero-tolerance attitude towards corrupt practices and commercial briberies. We stipulated in the Article of Association that our Directors, Supervisors and senior management must abide by the principle of good faith and fulfil their loyalty obligations, and must not abuse their power, accept bribes and misappropriate company funds. We have drawn up the Prevention of Fraud and Encouraged Reporting System, which clarified the scope of application of reporting and the procedure for the reporting and its verification of fraud cases and have listed the remedies and penalties after the reporting is confirmed. The purpose is to regulate the professional act of all employees and prevent acts that harm the interest of the Company and the shareholders. We encourage employees and all parties having direct or indirect economic relationship with the Company to report actual or suspected fraud or violations of professional ethics by employees through reporting hotline, email, or mail, etc. For the procurement compliance management, we include supplier integrity and integrity management provisions in the Supplier Management Procedures, requiring all suppliers to sign a clean and compliant agreement, supervising their integrity. In 2019, the Company was not involved in corruption or bribery.

2. Meeting Compliance

We strictly abide by The Law of the People's Republic of China against Unfair Competition, Interim Provisions on the Prohibition of Commercial Bribery, and on this basis we established the Meeting Compliance Management System, clarifying the requirements relating to place, venue, travel, brand reminder of meetings held by Junshi Biosciences and related expense of meetings held by third party; in cases of more stringent policies, our employees shall abide by more stringent requirements. In addition, in order to standardize the exchange of information with external institutions and personnel about company and product information, provision of scientific, R&D and educational information and to support interactive activities with medical research and education, we also formulated operation procedures such as the Interaction with External Institutions and Personnel and the Restriction Standards on Interacting with External Institutions and Personnel, clarifying the principles of objectivity, independence, transparency that relevant personnel participating in the communication activities shall follow, and the management requirements of the specific process.

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3. Information Disclosure Compliance

In accordance with the Company Law of the PRC, the Securities Law of the PRC, the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited and the applicable regulations set out by National Equities Exchange and Quotations Co., Ltd. and China Securities Regulatory Commission, etc., we have formulated the Information Disclosure Management System, clarifying the basic principles and the scope of information disclosure, the responsible persons and the disclosure procedures to regulate the Company's information disclosure act and increase the transparency of the Company's information disclosure. We strictly abide by the rules and regulations for information disclosure, actively fulfilling information disclosure obligations, and effectively protecting the legitimate rights and interests of the Company, the shareholders, the creditors and other stakeholders.

We are committed to establishing and maintaining sound public relations with securities regulatory authorities, National Equities Exchange and Quotations Co., Ltd., industry associations, the media and the related institutions, promptly understanding and mastering the policies and regulations promulgated by the regulatory authorities and guiding the media to make an objective and fair report on the Company's situation. After the occurrence of major issues such as litigation, major restructuring, changes in key personnel and major changes in the business environment, we effectively respond to the issues and actively maintain the Company's public image.

We have designated the information disclosure platform designated by National Equities Exchange and Quotations (www.neeq.com.cn), the Hong Kong Stock Exchange (www.hkex.com.hk), and the Company's official website (www.junshipharma.com) as the medium to publish the Company's announcements and other information requiring disclosure.

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4. Protection of Investor Interest

We attach great importance to the protection of investors' interests. In order to strengthen communication with the investors, safeguard the legitimate rights and interests of the investors, and promote long-term, stable and benign relations between the Company and our investors, we have formulated the Investor Relations Management System, in which we clarified the content, methods, organization and implementation requirements of investor relationship management. Through the implementation of the system, we strive to build a trustworthy and harmonious investor relationship.

The Chairman and the management of the Company focus on the communication with investors. We have set up an investor relations page on our official website to provide a platform for investors to understand the Company and avoid the inconsistency of information received among the investors. Meanwhile, we have established the Securities Department, which is responsible for investor relations management and shareholder data management, increasing the transparency and compliance of corporate information disclosure, enhancing investors' understanding and recognition of the Company, establishing a stable and high-quality investor base, obtaining long-term market support, and building a corporate culture that serves and respects the investors.

We treat all investors fairly and avoid selective disclosure. We will proactively listen to our investors' opinions and suggestions, realize two-way communication between the Company and the investors, and form a positive interaction. During the Reporting Period, the Company communicated with investors mainly through regular announcements and interim reports, general meetings, the Company's website, telephone consultations and press conference, etc., promptly organized analyst briefings, performance briefings and roadshow activities, and responded to the issues raised by analysts, investors and the media. In addition, we also held investor visits and telephone inquiries, actively listening to investors' requests and safeguarding their rights and interests.

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V. INNOVATION LEADS DEVELOPMENT

Innovation is the key to survival for any pharmaceutical enterprise. Since the inception of Junshi Biosciences, it has been upholding the R&D principal of "Adhere to Innovation Driven". We have established a strong R&D team and cooperated with leading enterprises in the industry to drug "the undruggable" targets and address outstanding clinical needs across the world so that people's access to medical services are guaranteed. We set up a R&D centre in the United States at the early stage of the Company's establishment, absorbing and integrating overseas R&D technology to further enhance the Company's R&D strength. The Company's R&D innovation field has extended from the monoclonal antibody drugs since its establishment to small molecule drugs, bispecific antibodies and antibody-drug conjugates, etc. It has gradually become a company with a multidimensional R&D system. In addition, the Company is committed to protecting intellectual property. It has taken a series of measures to protect its R&D achievements and patents to accelerate technology accumulation and product upgrading.

1. R&D Capability

- *R&D Team*

  As a research-intensive enterprise, Junshi Biosciences believes that constant innovation is the power source for a company's sustained development. Each year, increasing R&D investment is provided for clinical trials and for introducing talent. For the year 2019, the Company's R&D expenses were RMB946.10 million, representing a 75.8% increase compared to that in 2018.

  A professional R&D department is specially established by the Company to manage drug discovery, process development, pre-clinical research, as well as R&D across the entire industry chain of clinical trials. The R&D team of the Company boasts profound professional knowledge and rich experience in the industry. In addition, most of the Company's core R&D professionals served major R&D institutions and multinational pharmaceutical companies, have led or participated in the clinical trials of various innovative drugs, and have both solid theoretical knowledge and abundant practical experience. In 2019, we improved relevant specifications of the R&D system, set up R&D Project Life Cycle Management Regulations and Procedures, R&D Team Management Regulations and Procedures, R&D Project Communication Management Regulations and Procedures and other standard management regulations and procedures to clarify the responsibilities of the relevant departments and management requirements for R&D process and communication, which improved the efficiency of R&D project management.

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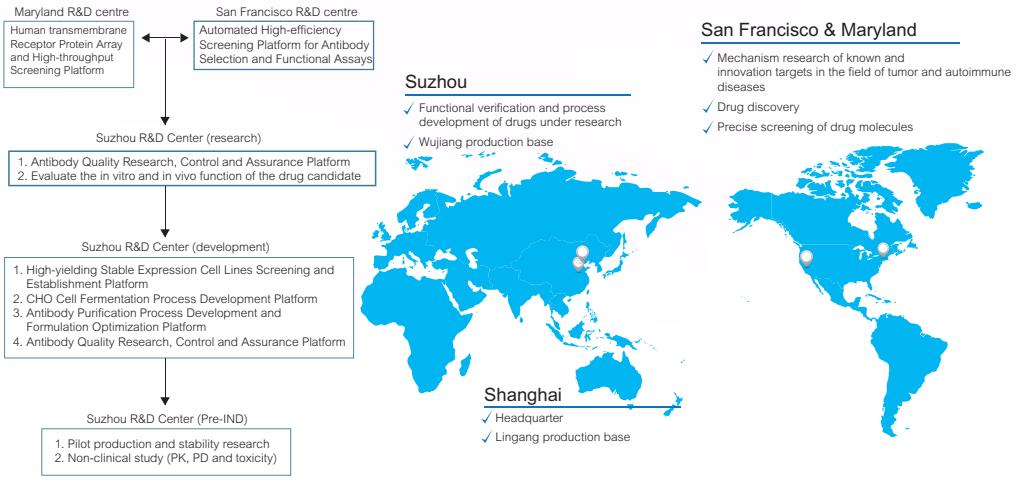
Through optimal resource allocation, distinguished capability of innovative drug discovery, advanced biotechnological R&D, and large-scale production capacity through the whole industry chain, the Company has conducted its clinical studies and commercialized its drugs across the world. Apart from the R&D centre in Suzhou, the Company established two overseas R&D centres in San Francisco and Maryland. See the figure below:



R&D Centres Distribution

Supported by its abundant talent reserve and sustained capital investment, Junshi Biosciences worked out a globally integrated R&D procedure. The Company self-developed and established a comprehensive technology system that covers the entire life cycle of protein drugs from early-stage R&D to commercialization. The system consists of seven technology platforms, including four core technology platforms: The automated high-efficiency screening platform for antibody selection and functional assays, Human transmembrane receptor array and high-throughput screening platform, Antibody quality research, control and assurance platform, and High-yielding stable expression cell lines screening and establishment platform. Details are as follows:

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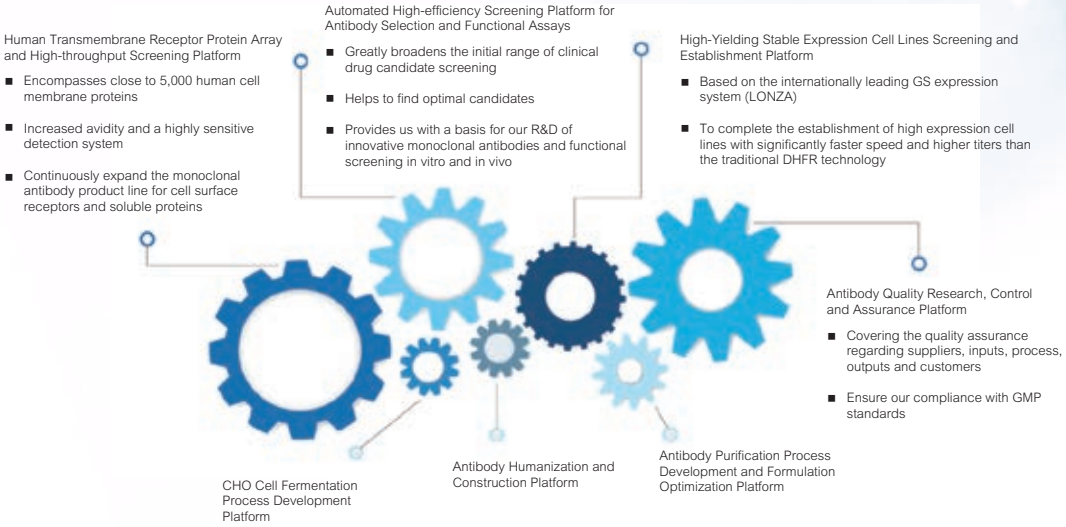

The seven technology platforms of Junshi Biosciences

- *Strategic Cooperation*

Junshi Biosciences has established stable cooperation and formed mature cooperation mechanisms with Betta Pharmaceutical Co., Ltd, University of Texas Health Science Centre at Houston (UTHealth), Hutchison China MediTech Limited and other well-known pharmaceutical companies and medical institutions in the world. Through collaboration on clinical treatment, we can share resources, complement each other's strength, achieve a win-win situation for all parties, and eventually serve the public. Relying on our strong technical platform, we cooperate with more partners in 2019, for example, Risen Pharma (Suzhou) Technology Co., Ltd. (Risen), Anwita Biosciences, Inc. (Anwita), Shanghai Huaaotai Biological Pharmaceutical co., LTD. (Huaota), Hangzhou DAC Biotech Co., Ltd. (Hangzhou DAC), etc. The trust of business partners is also a recognition of our R&D ability. The details are as follows:

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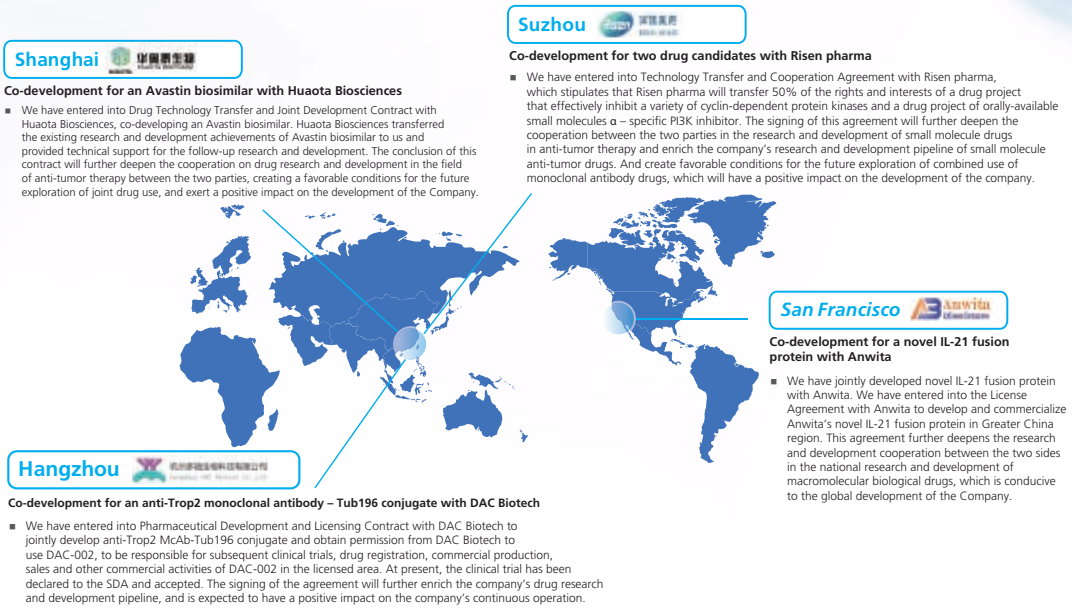

With the continuous development of the global and Chinese biopharmaceutical R&D market, beyond seizing external opportunities, increasing investment in innovation, and improving its R&D capability, the Company will actively promote the R&D of drug combination, in-license and will jointly explore the unknown, to pioneer and invent.

2. R&D Progress and Achievements

- *Ongoing Projects*

In 2019, the Company made progress in several ongoing research projects. At the beginning of 2019, Toripalimab (JS001), which was independently developed by the Company was launched for sale. In August 2019, the Company obtained approval from the National Medical Products Administration of clinical trial for JS005, a drug for psoriasis and rheumatoid arthritis. In April, it received FDA clinical trial approval for JS004. In October 2019, the Company completed the first patient dosing for JS004's Phase I clinical trial. In November 2019, three key registered clinical trials completed patient enrolment (including two phase II single arm studies and one phase III Asia Pacific multicenter research).

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- *The first prescription of Toripalimab*

Toripalimab is a class 1 new therapeutic biological drug with completely independent intellectual property rights by the Company, and it is the first domestic PD-1 monoclonal antibody injection approved to market in China.

On 26 February 2019, Professor Guo Jun, vice president of Peking University Cancer Hospital and the leader of Chinese melanoma treatment, made the first prescription of Toripalimab for the treatment of skin melanoma. By activating the body's own immune system to fight tumor cells, Toripalimab can provide long-term control or eliminate tumors, and bring hope of survival to a wide range of Chinese tumor patients. Its listing and sales have been widely reported by all source of media and attracted wide attention from all social circles.

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- *R & D achievement sharing*

In 2019, our independently developed innovative drug Toripalimab injection gained reputation in the field of academic research, and the relevant research results were published in well-known foreign journals.

The research results were published in well-known academic journals

The Company participates actively in various academic meetings to exchange with experts and scholars new ideas, knowledge and technologies within the field. In 2019, Toripalimab achieved multiple breakthroughs: It was presented at several authoritative clinical research conferences including American society of clinical oncology (ASCO), European Society for Medical Oncology (ESMO), World Conference on Lung Cancer (WCLC) and the Chinese Society of Clinical Oncology (CSCO), and will be applied in researches for treating various tumours continuously.

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Case: ASCO reconfirmed the efficacy and safety of Toripalimab

From 31 May to 4 June 2019, the Annual Meeting of ASCO, the world's largest, most academically advanced, and most authoritative conference on clinical oncology, was held in Chicago. During the meeting, the POLARIS-02 study led by Professor Xu Ruihua from Sun Yat-sen University Cancer Centre was presented in the poster discussion session. The Phase II study affirmed once again the efficacy and safety of Toripalimab in the treatment of metastatic nasopharyngeal carcinoma, which attracted extensive attention among researchers worldwide. In addition, preliminary results of a study on the use of Toripalimab in metastatic urothelial carcinoma and esophageal squamous cell carcinoma (ESCC) were presented in the meeting, showing the bright future of Toripalimab.

Case: During the CSCO meeting, Junshi Biosciences invited a number of experts to share new developments in immunotherapy

From 18 to 22 September 2019, the 22nd Chinese Conference on Oncology and CSCO 2019 Annual Meeting was held in Xiamen. During this period, Junshi Biosciences held a seminar with the theme of "Get Together to Make Progress with TUOYI – Lung Cancer Satellite Meeting". During the seminar, the Company invited experts and professors to share insights on hot topics such as the progress of immunotherapy for cancer, in a bid to deepen the research and bring more benefits to the patients.

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Case: CSCO Junshi Biosciences – Melanoma diagnosis and treatment speech tour to share the latest research data on Toripalimab

On 23 March 2019, the CSCO Junshi Biosciences melanoma diagnosis and treatment speech tour was held in Shanghai, attended by experts from all over the country. In this meeting, Professor Guojun, vice president of the Peking University Cancer Hospital, chairman of the melanoma expert committee of CSCO, commented favourably on Junshi's participation in the melanoma diagnosis and treatment tour as a national enterprise. Professor introduced the latest research data update of Toripalimab, namely POLARIS-1 (NCT03013101) study and shared the research progress and results with scholars present. Professor Guojun also spoke highly of the Chinese manufacturers of PD-1 monoclonal antibody.

Case: Professor Chen Lieping shared the "New Pathway of Tumour Immune Regulation"

On 27 July 2019, we held the CSCO Junshi Immune Tumour Youth Forum with the theme of "YOUNG style, expanding the future" in Kunming. Dr. Chen Lieping, an Independent Non-executive Director of the Company, a Chinese scientist, a professor of immunological biology at Yale University School of Medicine, attended the event and delivered a speech on the topic of "New pathway of tumour immunoregulation". He discussed the hot issues in the field of tumour immunotherapy and exchanged the latest achievements and research progress with scholars present.

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3. Intellectual Property Protection

In order to protect and keep continuous innovation, we attach great importance to the protection of the intellectual property of the Company. The Patent Department is responsible for handling all matters in relation to intellectual property, including the formulation and implementation of the Company's intellectual property strategies and plans, the establishment of intellectual property risk management system, the prevention of intellectual property-related risk exposures, and the management over the administrative works on patent layout implementation, exploration and application. The department will also provide assistance in handling litigation in relation to intellectual property when necessary.

With reference to the Patent Law of the PRC, the Implementation Rules on the Patent Law of the PRC, the Trademark Law of the PRC, and other laws and regulations, the Company reviewed its management systems regarding intangible assets, including patent rights, trademarks, and formulated the Administrative Measures on Patents and the Administrative Measures on Intangible Assets. Through the establishment of systematic system on regulation over intellectual property of patents and trademarks, we have established the maintenance and protection system on intangible assets such as patents and trademarks, thereby actively safeguarding matters in relation to intellectual property of the Company and its partners with respect to clinical indications and drug combination.

With respect to trademark management, the Company pays close attention to the use of similar trademarks on the market while actively applying for trademark registration. When a trademark registration is approved, the Patent Department assigns a responsible person to watch closely for infringements and monitor its renewal in the system.

In terms of employee confidentiality management, the Company requires all employees to sign a confidentiality agreement when they enter the Company. The terms of the agreement will specify the ownership of intellectual property, process methods and technical property rights in the future. For R&D personnel who have access to technical information, a separate technical confidentiality agreement shall be signed.

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VI. QUALITY FIRST, STRIVE FOR EXCELLENCE

As a pharmaceutical manufacturer, product quality is our lifeline. We pay great attention to product quality management. For this reason, we established a sound quality management system and strictly manage our suppliers. At the same time, we continue to expand the sales team, improve customer service, and continuously improve customer satisfaction.

Laboratory

1. Quality Management

We attach great importance to the quality of our products, following the quality policy of "Quality First, Respect Life, Continuous Innovation, and Strive for Excellence". The Quality Manual of the Company is mainly established by complying with the current editions of the Drug Administration Law of the PRC, the Regulations for Implementation of The Drug Administration Law of the PRC, the Measures for the Supervision and Administration of Drug Production, the Administrative Measures for Drug Recall, the Pharmaceutical Administration Regulations of the European Union, the United States Federal Regulations and the guidelines of The International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use, which detailed the requirements for quality management systems, quality control systems, production systems and other aspects, and clarified the responsibilities of management personnel at related quality management departments.

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The Company also established standardized operation procedures relating to quality management to guide the daily operation of all employees, and provides training for our employees on a regular basis. In 2019, Suzhou Union Biopharm and Junshi Biotechnology carried out about 3,000 professional training sessions in total. The content of training covered fire protection knowledge, system documents, microbial knowledge and other aspects, with a passing rate of over 95% for the training tests. In addition, we conduct cross-company and cross-department internal audit in quality management and production management, and promptly rectify defects found in the audit.

Quality Training Site

To manage product quality in a more scientific and efficient way, Suzhou Union Biopharm introduced a data management system in 2019 to collect and monitor its technical and quality data in real-time, realizing data visualization. Once a problem occurred during production, it could be discovered and dealt with in a timely manner. This plays an active role in improving the stability and reliability of the quality of the Company's products.

Since the independently developed Toripalimab was approved by the NMPA for commercialization at the end of 2018, Suzhou Union Biopharm has produced 52 commercial batches to the market for sale without any unqualified products. This fully reflects the high stability and reliability of our core technology, the operation level of production personnel and the quality control system. The high standard of quality management also enabled Junshi Biotechnology (the Lingang Production Base) to obtain the Drug Production License in 2019 and successfully put into production.

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Case: The "first Certificate" for the Lingang Production Base to focus on developing the biopharmaceutical Industry – Lingang Production Base of Junshi Biosciences has obtained the "Drug Production License"

Lingang Production Base

The Lingang Production Base is the second modern biomedical industrialization production base set up by Junshi Biosciences in China, which was supported by the strategic emerging industry project in Shanghai Lingang area in 2017. The base is built in accordance with Current Good Manufacture Practices (cGMP). In a short period of 2 years, the Company completed work from construction to installation and inspection of important equipment, and started the trial production and GMP production of a number of products. As the first batch of bio-pharmaceutical enterprises introduced into the Lingang Life Science and Technology Park, it has obtained the "first certificate" for the key development of the biopharmaceutical industry in the new Lingang area.

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2. Customer Service

- *Sales team*

  The Company has established a specialized sales team responsible for commercialization of Toripalimab and other drug candidates. The team leader and key members of the team are all from transnational pharmaceutical enterprises, having rich experience in drug sales.

  We continue to strengthen the expansion of sales channels and develop innovative marketing and medical strategies based on the characteristics of Toripalimab and clinical trial data. The Company sign contract with dealers that meet the Good Supply Practices (GSP) requirements, and sell Toripalimab monoclonal antibody to hospitals and pharmacies.

- *Customer privacy protection & Complaint management mechanism*

  In terms of the protection of customer privacy, we have defined the scope of privacy and confidentiality by formulating the standard operating procedures in Interaction with External Organizations and Personnel, and required the Company's employees to strictly protect customer privacy in accordance with the system requirements.

  For customer information communication and feedback, we formulated the Customer Complaint Management Standard Operating Procedures and the Drug Adverse Reaction Management Standard Operating Procedures, and established an adverse reaction monitoring system. We will closely monitor the customer's experience with the product. We have opened a third-party phone platform and set up an adverse event report page on the Company's official website so customers may report adverse reactions to us through various channels in the future. We also assigned personnel to carry out follow-up tracking.

- *Product recall mechanism*

  We care about drug safety, and have formulated the Drug Recall Management Standard Operating Procedures and the Product Returns Management Standard Operating Procedures to regulate the management procedures in relation to product returns and recalls. We also conducted whole-process product recall trainings to ensure the operational effectiveness of the product recall mechanism.

Product recall process simulation

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3. Supplier Management

Standardizing and strengthening supplier management can create a positively competitive environment for the Company, reduce procurement risks, and maximize the comprehensive benefits of procurement quality, cost, service and efficiency. We formulated the Supplier Management Procedures, the Procurement Standard Management Procedures, the Outsourcing and Management of Clinical Services, and other procurement and supplier management systems; regulated processes, including procurement application, payment and acceptance, and specified the evaluation and selection criteria for different types of suppliers, dynamic management and information archive management requirements.

In addition, the Company has launched the Enterprise Resources Planning (ERP) system to support the scientific and efficient management of the whole process of procurement through the system while perfecting the system. In 2019, our procurement work was carried out smoothly, without delays in production, clinical trials and project construction. The continuous improvement of supply chain management provided guarantee for production and project R&D. For construction projects and service projects that require bidding, we strictly follow the Bidding Law of the PRC.

We adhere to the principle of "strict access, quantitative evaluation, fault elimination, and dynamic management" for supplier management to build a dynamic and closed-loop management system. When including a new supplier, we assign a person to conduct field visits and keep the complete assessment record of such supplier. When selecting suppliers, the Company will give priority to suppliers with better performance in environmental protection and social responsibility after comprehensively considering their product and service quality, price level and technical standards, and will also support local suppliers. For qualified suppliers, we include them in the List of Qualified Suppliers and conduct annual performance evaluation. We will eliminate and blacklist suppliers with quality defects, failed environmental impact assessment or integrity issues.

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VII. GREEN AND ENVIRONMENT PROTECTION

We know that the development of enterprises is closely related to the environment, and we always emphasize the importance and necessity of green production. In the course of daily production and operation, we adhere to the policy of "saving and recycling" and strictly deal with all kinds of wastes discharged in the process of production. At the same time, we are concerned about the impact of extreme weather on production to ensure the sustainability of our operations. There were no environment-related non-compliance cases in 2019.

1. Use of Resources

In compliance with laws and regulations such as the Energy Conservation Law of the PRC and Opinions on Strengthening Water-saving Work in Industry, we have formulated the policy of "saving and recycling", and actively implemented this policy in the production and management process.

During the production process, we mainly consume water, natural gas and electricity. In 2019, we installed a Building Management System (BMS) system. Apart from ensuring that the physical environment in the production process continues to meet production requirements, it also strengthens our control over energy consumption of buildings and improves efficiency of energy use, thereby reducing unnecessary energy consumption. In addition, we regularly maintain production equipment and replace components in a timely manner to ensure production efficiency and safety while further reducing energy consumption of production equipment.

During the daily operation management process, we promote Green Office by encouraging "paperless" work and recycling of office supplies. The administrative department continuously reminds employees to save resources through slogans and notifications, such as advocating double-sided printing, saving electricity, recycling waste paper, and properly planning the driving routes of official vehicles.

2. Emission Management

We have established the Environment, Health and Safety (EHS) Department to effectively manage emissions during research, development and production. In complying with relevant laws and regulations such as Environmental Protection Law of the PRC, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Environmental Protection Regulations of Jiangsu Province, we developed Standard Operating Procedures for Waste Management, Standard Operating Procedures for Biological Waste Management, and Standard Operating Procedures for Preventing Pollution, Cross-pollution, and Errors in Production Workshops, clarifying the collection, storage, and treatment methods for various types of waste, in order to realize the recycling and harmless treatment, thereby minimizing the negative impacts on the environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- *Exhaust emission*

  The main exhaust produced during the production process include buffer waste gas, experimental waste gas, boiler combustion waste gas, etc. In order to effectively control the exhaust emissions and reduce environmental pollution, we adopt different treatment methods, such as lye spray and activated carbon adsorption, etc., according to the types of exhaust to ensure the discharge after proper treatment. In 2019, no excessive emissions occurred. The emission data was far below the maximum allowable emission concentration and rate stipulated by the regulations and standards.

- *Wastewater discharge*

  We have built our own independent sewage treatment equipment to pre-treat the wastewater from quality control room and biological filter during the production process in order to ensure that the quality and quantity of the treated wastewater are within the acceptance range of the sewage treatment plant.

- *Solid Waste management*

  Our main solid waste is from the production process, which can be categorized into non-hazardous wastes and hazardous wastes. Non-hazardous wastes include activated sludge, waste molecular sieves and domestic wastes. Hazardous wastes include waste disposable shake flasks, waste disposable reactors, waste filters, waste ion exchange resins, defective products, laboratory solid wastes, etc.

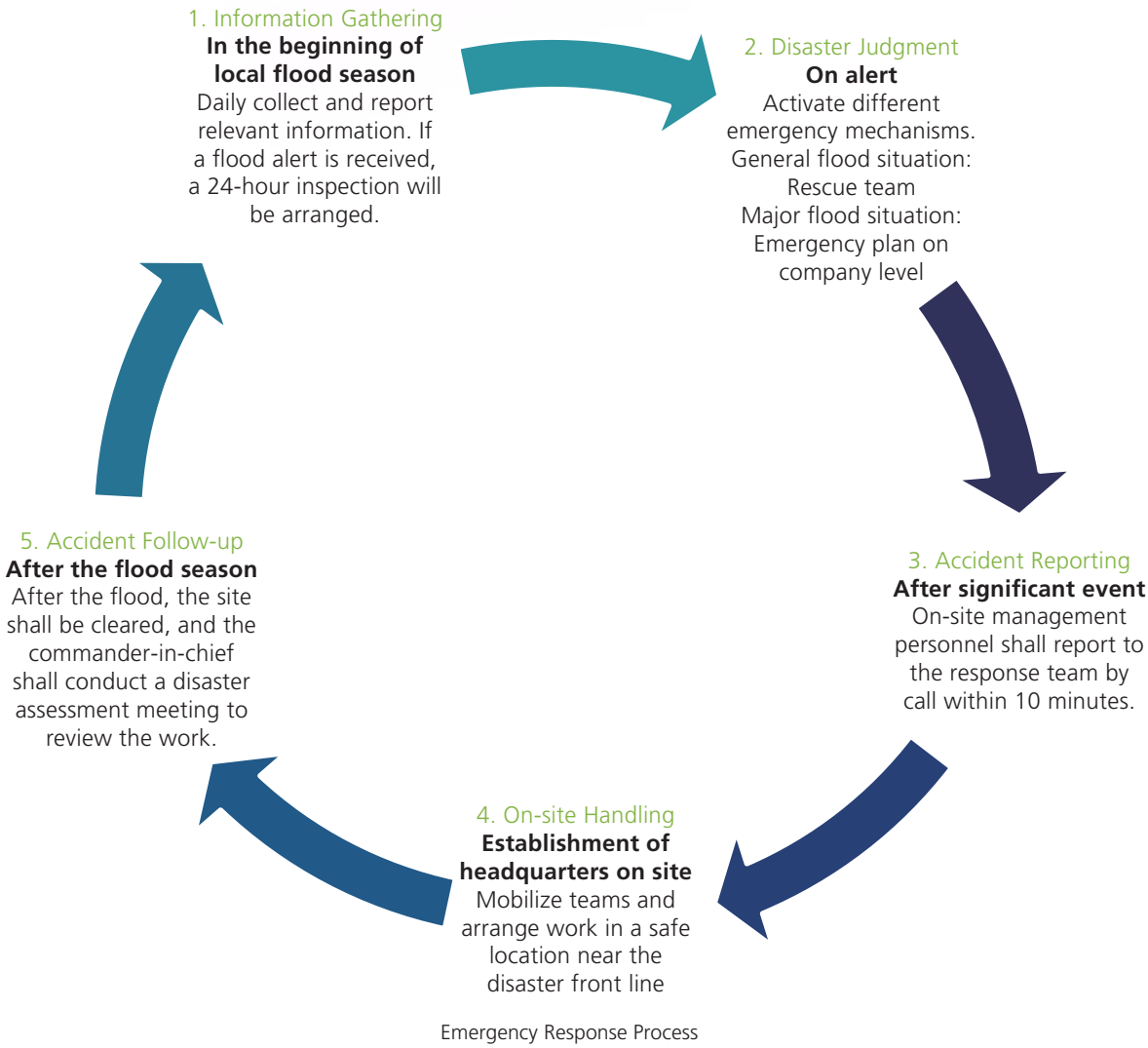
  For non-hazardous wastes, we categorize them into recyclable and non-recyclable wastes. For non-recyclable wastes, the sanitation department carry out unified clearance and transportation. For recyclable wastes, they are recycled by relevant departments. In addition, in order to reduce environmental pollution, after filtering the activated sludge, we use slaked lime for stable treatment before delivery to further reduce the moisture content in the sludge, thereby restraining the reproduction of bacteria and pathogens.

  For hazardous wastes, we collect them in the production system and quality inspection workshop, and put them into specific sterilizing bags. After sterilizing with the high-temperature sterilization equipment, the wastes are stored in the temporary storage room for hazardous wastes. The professional unit holding the hazardous waste business license is entrusted for receiving and processing at a fixed time. In order to ensure the safety of employees, we require employees to take necessary protection in the process of sorting and transferring to prevent the contact with and infection of harmful substances. We also attach great importance to hazardous wastes management in the experiment process. In the laboratory, we placed waste barrels that need to be sterilized, and set up different waste barrels for the experimental waste liquid with different chemical properties. The hazardous waste labels are also attached on the barrels.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Extreme Weather Response

In order to cope with extreme weather and maintain production and operation, we developed typhoon& flood-prevention emergency plan. With the general manager and deputy general manager being commanders, a response team was established and separately, teams for the purpose of rescue, support and coordination were set up. We clarified the emergency response process at different stages, including information gathering, disaster judgment, accident reporting, on-site handling, and accident follow-up, to enhance our awareness and ability to resist extreme weather.



Emergency Response Process

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VIII. CENTRING ON PEOPLE AND COEXISTING WITH HARMONY

Employees are a key resource of company's sustainable operation and steady development. We care for our employees' physical and mental health, try hard to safeguard the legitimate rights and interests of each employee, improve the career development system of employees, create harmonious labour relations, and actively create a warm working environment for our employees. Meanwhile, we actively devote ourselves in public welfare, benefit the public through the project of new drug charitable donation, and repay patients' families in the PRC with continuous drug R&D and innovation and favourable pricing so as to fulfil our social responsibility.

1. Employee Caring

In 2019, in complying with the relevant national and local laws and regulations, such as the Labour Law of the PRC, the Labour Contract Law of the PRC, and the Special Provisions on Labour Protection of Female Employees, we have reviewed our human resources policies and formulated the Measures for the Management of Labour Contracts, the Measures for the Management of Recruitment and On-boarding, the Measures for the Management of Employee Performance, the Measures for the Management of Working Hours and Holidays, the Measures for the Management of Employee Training, and the Measures for the Management of Promotion, Transfer and Rotation of Employees etc., forming a standardized human resources policy system to protect employees' rights and interests from multiple perspectives, such as equal employment, performance management, and career advancement.

Adhering to the basic principle of "harmonious development and continuous symbiosis", we resolutely resist the recruitment of child labour and forced labour. We did not have any illegal matters related to the employment of child labour or forced labour. In 2019, we signed labour contracts with all employees.

We adhere to the principle of "equal pay for equal work and equal gender", and strive to establish an equal, diverse and international team. Among our employees, in addition to Chinese nationality, there are employees from countries, including the United States and Canada, etc. At the same time, our team also includes many colleagues from different national minorities, such as Manchu, Hui, Zhuang and Mongolian, etc. For employees with different nationalities, ethnicities, races, genders, religious beliefs and cultural backgrounds, we adhere to the Company's principles and treat them equally in terms of employee recruitment, compensation and benefits, promotion, dismissal and retirement.

We value employee opinions and collect employee opinions through various channels, such as employee opinion boxes and employee questionnaires. We established a human resources partner system in 2019, and equipped each employee with a human resources partner to provide feedback on various issues and demands raised by employees.

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The Measures for the Management of Employee Performance protects the relevant rights and interests of employees, and provides a clear and reasonable career path and platform for employees. In 2019, we gradually established a career development channel for employees, and established a complete employee ranking system, which provides a guide and basis for employees' continuous career development. At the same time, we have established clear bonus calculation principles and formulas, which are calculated based on factors such as length of service and employee performance to ensure fairness in performance management and performance returns.

We pay attention to the career development of employees. In 2019, we have organized various trainings, such as new employee training, professional knowledge and skills training and rules and regulations training, etc. Our training covered the senior management, middle management and general staff (82.33% of the general staff received training). In 2019, the total training hours exceed 100,000 hours and the average training hours per person exceed 70 hours.

- *Health and Safety*

  We strictly abide by the Work Safety Law of the PRC and The Regulations of the People's Republic of China on the Prevention and Control of Occupational Diseases", and on this basis, we have formulated the Standard Operating Procedures for Work Safety Management, Standard Operating Procedures for Safety Accident Management, Emergency Plan for Safety Accidents and Standard Operating Regulations for Occupational Disease Prevention and Control Management, etc. These documents clarify the management responsibilities of each department in safe production, the management procedure of safe production and safety accidents, and the matters needing the attention of employees in production and operation activities, so as to ensure production safety in an all-round way.

  For the prevention of related occupational diseases, we employ Shanghai Pulmonary Hospital, a professional third party, to identify occupational disease risks in our production process, production environment, labor process, and construction process. We take effective preventive measures to further reduce employee health risks, for example, through process control and upgrading of personal protective equipment, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We arrange medical examinations for employees every year, in order to detect abnormalities such as occupational contraindications for occupational diseases as early as possible to protect the occupational health of employees. In addition, we set up Individual Occupational Disease Surveillance File. Based on the results of occupational disease risk factor tests conducted by third parties, on-the-job employees are regularly scheduled to undergo occupational medical examinations before, during, and out of the job. Not only our employees are covered by medical and accident insurance, in 2019, for positions involving occupational pollution, we organized medical examinations for all employees. Medical examination items include but are not limited to: general examination, internal and external gynaecology, electrocardiogram, blood lipids, blood routine, urine routine, liver and kidney function, otolaryngology ophthalmology and tumour markers. For positions involving occupational pollution, corresponding medical examination terms are added to the examination to effectively protect the occupational health of all employees.

At the same time, in order to prevent safety accidents and effectively reduce or eliminate factors that endanger employees' occupational health, the Company has formulated strict safety management mechanisms in accordance with Good Manufacturing Practice (GMP) requirements, covering safety operations management, safety inspections, identification and assessment of hazard sources, safety monitoring ledger and safety education. We have also carried out various safety trainings such as fire protection and emergency prevention training and gas mask use training etc., to improve employees' safety awareness and strengthen their practical operation capabilities. In 2019, Junshi Biosciences did not experience any work-related injuries or work-related death.

Case: Fire and Emergency Rescue Training

We carried out fire and emergency rescue training from May to June 2019, with topics including fire extinguisher drills and cardiopulmonary resuscitation. A total of 67 relevant employees of the Company participated in this activity and received practical training while learning related theoretical knowledge. After the training, the Company conducted a practical evaluation of all employees, and the passing rate reached 100%.

This training has achieved good results, showing that employees have improved their safety skills, strengthened their safety awareness, strengthened their confidence in responding to various disasters, and made sufficient preparations for company operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case: Gas Mask Training

On 29 July 2019, we organized a Gas Mask Training Event. The lecturer explained the wearing method and precautions of the gas mask in detail, and gave a live demonstration. During the actual operation of the staff, the lecturer gave guidance to the unskilled staff several times until all staff fully understood the use of the gas mask.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- *Employee Benefits*

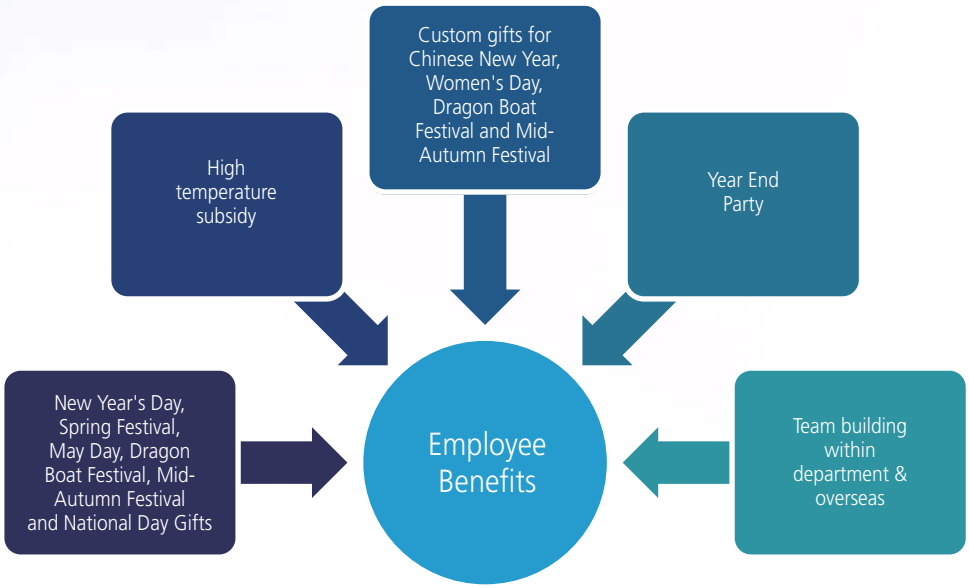

Figure: Employee Benefits on site

We always value talents as the Company's core competitiveness. In The Measures for the Administration of Working Hours and Holidays, we stipulate that every employee has the right to take paid annual leave in accordance with the law, and we have set up a maternity protection clause for female employees to reduce their workload during pregnancy. In order to strengthen welfare protection for employees, we not only purchase social insurance, but also purchase additional commercial insurance. Also, we provide various fringe benefits from time to time. For instance, we provide free transitional housing for new employees who come to Wujiang and Suzhou for one month.

We care about employees' physical and mental health as well as their quality of life. In 2019, we organized activities such as employee outing, fellowship activities at Chinese Valentine's Day, movie watching, company sports meeting, gobang competitions, and marathon foundation run. These activities enrich the life of employees, provide them with an opportunity to communicate and improve and create an atmosphere of unity, continuous learning, and efficient work.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case: Hold Marathons to Boost Employees' Willpower

In November 2019, in order to celebrate the start of construction of the Company's R&D building and workshops in Wujiang zone, we held a marathon and gave honorary medals to finishers of this marathon. This activity relaxed our employees' minds and helped them exercise their will.

Case: Employee Quality Developing Activities

From March to April 2019, we launched a number of employee quality development activities. There are not only warm-up exercises but also interesting treasure hunts, which fully reflects the spirit of solidarity and mutual help among employees and the vigorous vitality released to the top of their hearts.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case: Junshi Biosciences Housewarming Party

In August 2019, Junshi Biosciences held a housewarming party and invited all employees to attend. The event provided a variety of refreshments and the Company carried out lucky draw, making employees fully embrace the Company's culture and humanistic care.

2. Harmonious Community

We are enthusiastic about participating in community charity activities and always believe that the development of charity activities is not only a platform for the Company to fulfil its social responsibilities, but also an important measure to build a good company image and enhance employees' pride. With the continuous development and growth of the Company, we will firmly fulfil our responsibility on social public welfare.

Case: Bethune·Tuoyi Charity Donation

We plan and participate in community charity activities and fulfil our social responsibility actively. In 2019, we participated in Bethune's charitable donation program. This project enables timely, continuous and effective treatment for patients with family difficulties or poverty, reduces the economic burden on patient's family, and brings hope to more cancer patients.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX

(I) ESG GUIDE KPIS

A1.1 The types of emissions and respective emissions data

		Year 2019[1]	Year 2018
Total NO_x emissions	Ton	**5.60**	1.42
Total SO_x emissions	Ton	**0.16**	0.07[2]
Total air emissions	Ton	**5.76**	1.49
The intensity of the air emissions	Ton/Million turnover	**0.01**	0.51

A1.2 Greenhouse gas emissions in total

Direct emissions (Scope 1)	Ton	**3,812.70**	1,643.00
Indirect emissions (Scope 2)	Ton	**13,007.78**	5,219.00
Total GHG emissions	Ton	**16,820.48**	6,862.00
The intensity of the GHG emissions (Scope 1 & 2)	Ton/Million turnover	**21.70**	2,344.38

A1.3 Total hazardous waste produced

Total hazardous waste emissions	Ton	**63.65**	19.51
The intensity of hazardous waste emissions	Ton/Million turnover	**0.08**	6.67

A1.4 Total non-hazardous waste produced

Total non-hazardous waste emissions	Ton	**615.00**	48.60
The intensity of the non-hazardous waste emissions	Ton/Million turnover	**0.79**	16.60

[1] Compared with 2018, the environmental scope of 2019 included the Junshi Biotechnology (Lingang production base) and our business grew significantly in 2019. Therefore, the consumption and emission data of all kinds of resources increased significantly compared with 2018.

[2] The data have been restated according to the actual situation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		Year 2019[1]	Year 2018
A2.1 Total energy consumption by type			
Electricity	kWh in '000s	**18,490.09**	7,418.83
Nature gas	kWh in '000s	**18,227.66**	8,039.00
Total energy consumption	kWh in '000s	**36,717.75**	15,457.83
The intensity of the energy consumption	kWh in '000s/ Million turnover	**47.37**	5,281.12
A2.2 Water consumption			
Total consumption of water resource	Cubic meters	**194,273.00**	61,399.00
The intensity of water consumption	Cubic meters/ Million turnover	**250.65**	20,976.77
A2.5 Packaging material used			
Inner package material (coated rubber stoppers, penicillin bottles, etc.)	Ton	**22.09**	1.48
External package material (product packaging, bottom support, etc.)	Ton	**14.81**	0.49
Total consumption of packaging material	Ton	**36.90**	1.97
The intensity of the consumption of packaging material	Ton/Million turnover	**0.05**	0.67

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		Year 2019
B1.1 Total workforce by gender, employment type, age group and geographical region		
Total number of employees		**1,421**
Gender	Male	**738**
	Female	**683**
Employment Type	Full time	**1,357**
	Part-time	**29**
	Contractor	**35**
Age Group	Age: ≤30	**596**
	Age: 30~50	**759**
	Age: ≥50	**66**
Geographical Region	Domestic	**1,410**
	Overseas	**11**
B1.2 Employee turnover rate by gender, employment type, age group and geographical region		
Gender	Male	**16.71%**
	Female	**18.14%**
Age Group	Age: ≤30	**15.80%**
	Age: 30~50	**19.61%**
	Age: ≥50	**8.20%**
B2.1 Number and rate of work-related fatalities		
Number of work-related fatalities	None	
Rate of work-related fatalities	Not applicable	
B2.2 Lost days due to work injury	None	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		Year 2019
B3.1 The percentage of employees trained by gender and employee category		
Gender	Male	**73.58%**
	Female	**68.52%**
Employee Category	Senior Management	**38.00%**
	Middle Management	**50.18%**
	General Staff	**79.89%**
B3.2 The average training hours completed per employee by gender and employee category		
Gender	Male	**72.69**
	Female	**68.75**
Employee Category	Senior Management	**35.70**
	Middle Management	**49.62**
	General Staff	**80.21**
B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases		**None**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(II) ESG GUIDE CONTENT INDEX

Aspects	Guide No.	Chapter
A Environmental	A1 Emissions Information on： (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	VII.Green and environment protection 2.Emission Management
	A1.1 The types of emissions and respective emissions data.	Appendix (I)
	A1.2 Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix (I)
	A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix (I)
	A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix (I)
	A1.5 Description of emission target(s) set and steps taken to achieve them.	VII.Green and environment protection 2.Emission Management
	A1.6 Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	VII.Green and environment protection 2.Emission Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects	Guide No.	Chapter
	A2 Use of Resources Policies on efficient use of resources including energy, water and other raw materials.	VII.Green and environment protection 2.Emission Management
	A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Appendix (I)
	A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Appendix (I)
	A2.3 Description of energy use efficiency target(s) set and steps taken to achieve them.	VII.Green and environment protection 1.Use of Resources
	A2.4 Description of whether there is any issue in sourcing water, that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	VII.Green and environment protection 1.Use of Resources
	A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Appendix (I)
	A3 The Environment and Natural Resources Policies on minimising the issuer's significant impacts on the environment and natural resources.	VII.Green and environment protection 1.Use of Resources
	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	VII.Green and environment protection 1.Use of Resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects	Guide No.	Chapter
	A4 Climate Change Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	VII.Green and environment protection 3.Extreme Weather Response
	A4.1 Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	VII.Green and environment protection 3.Extreme Weather Response
B Social	B1 Employment Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	VIII.Centring on People and Coexisting with Harmony 1.Employee caring
	B1.1 Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Appendix (I)
	B1.2 Employee turnover rate by gender, age group and geographical region.	Appendix (I)
	B2 Health and Safety Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	VIII.Centring on People and Coexisting with Harmony 1.Employee caring

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects	Guide No.	Chapter
	B2.1 Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Appendix (I)
	B2.2 Lost days due to work injury.	Appendix (I)
	B2.3 Description of occupational health and safety measures adopted, and how they are implemented and monitored.	VIII.Centring on People and Coexisting with Harmony 1.Employee caring
	B3 Development and Training Policies on improving employee's knowledge and skills for discharging duties at work. Description of training activities.	VIII.Centring on People and Coexisting with Harmony 1.Employee caring
	B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Appendix (I)
	B3.2 The average training hours completed per employee by gender and employee category.	Appendix (I)
	B4 Labour Standards Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	VIII.Centring on People and Coexisting with Harmony 1.Employee caring
	B4.1 Description of measures to review employment practices to avoid child and forced labour.	VIII.Centring on People and Coexisting with Harmony 1.Employee caring

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects	Guide No.	Chapter
	B4.2 Description of steps taken to eliminate such practices when discovered.	VIII.Centring on People and Coexisting with Harmony 1.Employee caring
	B5 Supply Chain Management Policies on managing environmental and social risks of the supply chain.	VI.Quality First, Strive for Excellence 3.Supplier Management
	B5.1 Number of suppliers by geographical region.	VI.Quality First, Strive for Excellence 3.Supplier Management
	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	VI.Quality First, Strive for Excellence 3.Supplier Management
	B5.3 Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	VI.Quality First, Strive for Excellence 3.Supplier Management
	B5.4 Description of practices used to promote environmental preferable products and services when selecting suppliers, and how they are implemented and monitored.	VI.Quality First, Strive for Excellence 3.Supplier Management
	B6 Product Responsibility Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	VI.Quality First, Strive for Excellence 1.Quality Management 2.Customer Service

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Aspects	Guide No.	Chapter
	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	VI.Quality First, Strive for Excellence 1.Quality Management
	B6.2 Number of products and service related complaints received and how they are dealt with.	VI.Quality First, Strive for Excellence 2.Customer Service
	B6.3 Description of practices relating to observing and protecting intellectual property rights.	V.Continuous Innovation and Expanding to Global Markets 3. Intellectual property protection
	B6.4 Description of quality assurance process and recall procedures.	VI.Quality First, Strive for Excellence 1.Quality Management
	B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	VI.Quality First, Strive for Excellence 2.Customer Service
	B7 Anti-corruption Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	IV.Operation Compliance 1.Anti-fraud and compliance
	B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	IV.Operation Compliance 1.Anti-fraud and compliance

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Aspects	Guide No.	Chapter
	B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	IV.Operation Compliance 1.Anti-fraud and compliance
	B7.3 Description of anti-corruption training provided to directors and staff.	IV.Operation Compliance 1.Anti-fraud and compliance
	B8 Community Investment Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration communities' interests.	VIII.Centring on People and Coexisting with Harmony 2.Harmonious Community
	B8.1 Focus areas of contribution (e.g. education, environment, labour needs, health, culture and sports).	VIII.Centring on People and Coexisting with Harmony 2.Harmonious Community
	B8.2 Resources contributed (e.g. money or time) to the focus area.	VIII.Centring on People and Coexisting with Harmony 2.Harmonious Community

REPORT OF THE DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL ACTIVITIES

The Company is an innovation-driven biopharmaceutical company dedicated to the discovery and development of innovative drugs and their clinical research and commercialization on a global scale.

The Group has developed a product pipeline comprising 21 drug candidates covering a wide variety of indications associated with high levels of unmet medical needs, using its core platforms and through collaborations with third parties. They include 13 original innovative drugs independently developed by the Group and 8 drugs jointly developed with its partners.

Details of the principal activities of the principal subsidiaries are set out in note 40 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

BUSINESS REVIEW AND RESULTS

A review of the business of the Group during the Reporting Period is provided in "Management Discussion and Analysis" of this annual report. An analysis of the Group's performance during the Reporting Period is provided in the Financial Review on pages 21 to 28 of this annual report.

The results of the Group for the Reporting Period are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on pages 134 to 135 in the Independent Auditor's report.

FINAL DIVIDENDS

The Directors do not recommend a final dividend for the Reporting Period.

FUTURE AND OUTLOOK

With strong R&D capabilities, we are at the forefront of medical innovation, and the mission of the Company is to provide patients with better treatment options with less expenses.

In the aspect of R&D of drugs, with the focus on the development of macromolecular drugs, we will continue to track and conduct exploratory research on potential targets suitable for the development of macromolecular drugs on the basis of accelerating the R&D and commercialization progress of research pipelines in order to develop new drugs under research. Meanwhile, we will invest appropriate resources in the field of small molecule R&D to explore and develop new drug targets, and carry out exploratory research in the field of cell therapy and tumor vaccines. Based on independent R&D, we will further expand the product pipeline through licensing and other methods to stay on the front line of R&D of innovative drugs. As for production, we plan to further increase the fermentation capacity of macromolecular drugs and explore new production processes to further reduce production costs. In the aspect of commercialization, we will continue to improve the establishment of marketing and commercialization teams. The Company is committed to becoming an innovative biopharmaceutical company with global competitiveness, integrating R&D, production and commercialization, and achieving the ambitious goal of "Manufacture in China, Driven by Global Innovation: Synchronously Serve for Domestic and Overseas Markets".

REPORT OF THE DIRECTORS

We plan to submit the supplemental new drug application of JS001 to the NMPA for the treatment of UC and NPC. We are initiating preparations for Phase III clinical studies of JS002 with larger patient population. TAB004/JS004 was approved for IND by NMPA on 23 January 2020, we will formulate its domestic clinical development strategy afterwards. Phase I clinical trial of JS005 is expected to complete the first patient enrollment in the first half of 2020.

PROPOSED A SHARE LISTING

In order to optimize the proposed Company's capital structure and enhance the Company's self-development capabilities, the Company has applied for an initial public offering and listing of A shares of the Company on the STAR Market of the Shanghai Stock Exchange (the "**SSE**") (the "**A Share Listing**"). The proposal on the A Share Listing was approved at the 2018 Annual General Meeting, the 2019 First Class Meeting of Domestic Shareholders and the 2019 First Class Meeting of H Shareholders in June 2019. In September 2019, the application for the A Share Listing was formally accepted by the SSE. The Company has replied to the SSE's first and second rounds of enquiries in December 2019 and February 2020, respectively. The application for the A Share Listing has been considered and approved by the STAR Market Stock Listing Committee. If the shares of the Company are successfully issued and listed on the STAR Market, the funds raised will be used for innovative drug R&D projects, Junshi Biosciences Technology Industrialization Lingang project, repayment of bank loans and replenishment of liquidity.

SUBSEQUENT EVENTS

On 3 February 2020, the Company signed the A+ Round Capital Increase Agreement of Stemirna Therapeutics, Ltd. with Stemirna Therapeutics, Ltd. ("**Stemirna**") and its existing shareholders, regarding the Company's participation in the A+ round financing of Stemirna by making capital contribution of RMB10 million and acquiring its 2.86% equity interest. Further details are set out in the announcement of the Company dated 5 February 2020.

On 4 February 2020, the Company has received the Clinical Trial Approval in respect of the "recombinant humanized anti-BTLA monoclonal antibody injection" issued by NMPA. Further details are set out in the announcement of the Company dated 4 February 2020.

On 20 March 2020, the Company announced that in order to actively cope with the current pandemic, respond to national call and meet emergency need for novel coronavirus neutralizing antibody (the "**novel NAb**"), the Company, relying on strength and foundation of its own complete antibody commercial development, will cooperate with the Institute of Microbiology, Chinese Academy of Sciences to develop novel NAb. Further details are set out in the Company's announcement dated 20 March 2020.

On 27 March 2020, the Company announced that Toripalimab in combination with Axitinib for treatment of mucosal melanoma was granted the orphan-drug designation by the US FDA. Further details are set out in the Company's announcement dated 27 March 2020.

The other material subsequent events are disclosed in note 45 to the consolidated financial statements in this annual report.

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM LISTING

The total proceeds from the issue of new H Shares by the Company in its listing of H Shares on the Stock Exchange ("**Listing**") (after deducting the underwriting fees and related listing expenses) amounted to approximately RMB3,003.4 million *(Note a)* and the balance of unutilized net proceeds was approximately RMB828.0 million as at 31 December 2019.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus and subsequently the announcement of the Company dated 29 August 2019 regarding the change in use of proceeds from the Listing. The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2019.

	Prior to the change of use of proceeds *(Note d)*						Following the change of use of proceeds *(Note d)*				
Usage	% of total proceeds	Planned use of net proceeds *RMB'000*	Interests *RMB'000*	Utilized proceeds *(Note b)* *RMB'000*	Unutilized proceeds *RMB'000*	Usage	% of total proceeds	Planned use of net proceeds *RMB'000*	Interests *RMB'000*	Utilized proceeds *(Note b)* *RMB'000*	Unutilized proceeds *RMB'000*
The R&D and commercialization of the Group's drug candidates	65%	1,952,203	–	964,440	987,763	The R&D and commercialization of the Group's drug candidates	72%	2,162,440	–	1,698,395	464,045
The R&D and commercialization of the Group's Core Product, JS001	*40%*	*1,201,356*	–	*579,778*	*621,578*	*The R&D and commercialization of the Group's Core Product, JS001*	*40%*	*1,201,356*	–	*992,071*	*209,285*
The R&D of the Group's other drug candidates to fund clinical trials	*16%*	*480,542*	–	*114,357*	*366,185*	*The R&D of the Group's other drug candidates to fund clinical trials worldwide including JS004, etc.*	*16%*	*480,542*	–	*330,951*	*149,591*
The construction of the Lingang Production Base and the Wujiang Production Base	*9%*	*270,305*	–	*270,305*	–	*The construction of, acquisition of facilities for and settlement of start-up costs on the Lingang Site and the Wujiang Site*	*16%*	*480,542*	–	*375,373*	*105,169*
The Group's investment in and acquisition of companies in the pharmaceutical sector	25%	750,847	–	3,700	747,147	*The Group's investment in the health care and/or life science sector(s), including acquisition of companies, licensing-in and collaboration*	*18%*	*540,610*	–	*213,943*	*326,667*
The Group's working capital and other general corporate purposes	10%	300,339	11,117	33,456	278,000	The Group's working capital and other general corporate purposes	10%	300,339	28,529	291,556	37,312
Total	**100%**	**3,003,389**	**11,117**	**1,001,596**	**2,012,910**	**Total**	**100%**	**3,003,389**	**28,529**	**2,203,894**	**828,024** *(Note c)*

REPORT OF THE DIRECTORS

Notes:

(a) Net proceeds raised from the Listing amounted to approximately RMB3,117.3 million. After deducting listing expense payable of approximately RMB113.9 million, the net proceeds to be utilized for intended use amounted to approximately RMB3,003.4 million.

(b) Net proceeds were received in HKD and were converted to RMB and USD for the planned use of proceeds, which was adjusted slightly due to the fluctuation of the foreign exchange rates since the Listing.

(c) The total sum of unutilized proceeds, amounting to approximately RMB828.0 million as at 31 December 2019, includes interests of approximately RMB28.5 million generated from bank savings account in which the Listing proceeds have been deposited.

(d) The Company has changed the use of proceeds from the Listing on 29 August 2019. The underlined items represent the changes made to the use of proceeds. Further details are set out in the Company's announcement dated 29 August 2019.

RESEARCH AND DEVELOPMENT ACTIVITIES OF CORE PRODUCTS

JS001 (Toripalimab, anti-PD-1 mAb, trade name: 拓益(TUOYI®))

The Group's Core Product, JS001, or Toripalimab, is a recombinant humanized anti-PD-1 monoclonal antibody for injection addressing various malignant tumors. The Group optimized JS001 through various R&D steps, in particular the discovery and efficient identification of new molecular entities, the humanization of mouse antibodies, functional evaluation of antibody leads in vivo and the construction of productive and stable cell lines, all of which made JS001 an innovative drug with distinctive treatment advantages.

Toripalimab is the first anti-PD-1 mAb developed by a PRC company to be approved by the NMPA for Investigational New Drug ("**IND**") application and New Drug Application ("**NDA**"). JS001 received conditional approval for phase II pivotal clinical trial data for local progression or metastatic melanoma indications after previous standard treatment failures, and no phase III clinical trial is required when approved. According to the requirement of the Technical Guide for Conditional Approval of Clinical Urgent Drugs (Consultation Draft), the Company has reached an agreement with the regulatory agency on the confirmatory clinical trial protocol for conditional approval when Toripalimab was conditionally approved, which is a randomized, controlled, multicenter, phase III clinical study examining JS001 versus Dacarbazine in the first-line treatment of unresectable or metastatic melanoma. The procedure has begun and is currently underway. The Group also received the GMP certificate for JS001 from Jiangsu Drug Administration, which is valid through 19 December 2023. JS001 was conditionally approved for market launch for locally advanced or metastatic melanoma, Toripalimab on 17 December 2018, and, it, with a trade name of 拓益(TUOYI®), was officially launched for sale with approved indications of locally advanced or metastatic melanoma.

As of the date of this annual report, in addition to the approved indications for locally advanced or metastatic melanoma after failed in routine systemic treatment, the Group is currently conducting more than 30 clinical trials for Toripalimab monotherapy and combo treatments worldwide, including 14 pivotal registered clinical trials. Pivotal registered clinical trials for Toripalimab that have been conducted include, among others, malignant melanoma, urothelial cancer, gastric cancer, esophageal cancer, nasopharyngeal cancer, non-small cell lung cancer and breast cancer.

JS001 has also received IND approval from the FDA and the Group commenced Phase Ib clinical trial in the United States and the JS001 product also commenced ongoing international multi-center clinical trials.

Further details of JS001 are also set out in "Management Discussion and Analysis" of this annual report.

During the Reporting Period, the Group incurred approximately RMB716.7 million on the R&D activities of JS001.

REPORT OF THE DIRECTORS

Industry Competition Landscape and Development Trend

The corporate mission of "to provide patients with treatment options that work better and cost less" takes firm root among people, providing better development opportunity for management and core technical personnel, so that they can grow with the Company, build the Company, and achieve themselves. Riding on the superior efficacy of biologics, the significant development in biotechnology, and the increasing R&D investments, it is expected that the global biologics market will further grow to USD402.1 billion in 2023, representing a compound annual growth rate (CAGR) of 9.0% from 2018 to 2023.

Driven by a combination of increasing R&D investments, significant developments in biotechnology and favorable policies, original biologics market is expected to continuously grow in the near future. At the same time, the global market for biosimilars has also increased rapidly driven by factors such as the expiry of patents protecting original biologics, increasing demand for lower-priced drugs with similar efficacy, evolvement of regulatory systems and improving R&D of biosimilar manufacturers. The number of self-developed drugs is also increasing in the PRC. As the industry gradually enters the stage of rapid differentiation, structural upgrading, and elimination of backward production capacity, enterprises with independent medical innovation capabilities and intellectual property protection will be in an advantageous position in the future market competition.

The Company is an innovation-driven biopharmaceutical company dedicated to the discovery and development of innovative drugs and their clinical research and commercialization on a global scale. The Company's mission is to provide patients with treatment options that work better and cost less. Equipped with the core platform technology of protein engineering, the Company stands at the frontier of R&D of macromolecular drugs. With the distinguished capability of innovative drug discovery, advanced biotechnological R&D, large-scale production capacity on the full industry chain and rapidly expanding drug candidate portfolio of tremendous market potential, the Company has a leading edge in the PRC in the emerging field of immuno-oncology and for the treatment of autoimmune and metabolic diseases. The Company's aim is to develop first-in-class and best-in-class drugs through original innovation and become a pioneer in the area of translational medicine. As the Company supplement its product pipeline and explore drug combination therapies, the innovation field of the Company will expand to R&D of more types of drugs, including small molecule drugs and antibody drug conjugates (or ADCs), as well as the exploration of the next-generation innovative therapies for cancer and autoimmune diseases. The Company will adhere to the following development strategies:

1. Focus on the advancement and commercialization of existing drug candidates

2. Rapidly expand product pipeline

3. Scale up macromolecules fermentation capacity and lower production cost

REPORT OF THE DIRECTORS

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The following are parts of the key risks and uncertainties identified by the Group:

1. R&D risk of new drugs

Classified as technical innovation, the R&D of new drugs is characterized by long R&D cycles, significant investment, high risks and low success rate. From laboratory research to obtaining approval, new drugs go through a lengthy process with complicated stages, including preclinical study, clinical trial, registration and marketing of new drugs and after-sales supervision. Any of the above stages is subject to the risk of failure.

The Company will strengthen its forward-looking strategic research, and determine the direction of new drug R&D according to the needs of clinical drug use. The Company will also formulate reasonable new drug technology solutions, continuously increase the investment in R&D of new drugs, and launch R&D projects for new drugs with prudence. In particular, the Company implements phase-based assessment on drug candidates in the course of R&D. If it is found that the expected result cannot be achieved, the subsequent R&D of such product will be terminated at once, so as to minimize the R&D risks of new drugs.

2. Market competition risk

The R&D and commercialization of new drugs are highly competitive. The Company's recent drug candidates and any drug that may be sought for R&D and commercialization in the future will face competition from pharmaceutical companies and biotechnology companies around the world. Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize drugs that are safer, more effective or have fewer side effects than the drugs we developed. Our competitors may also obtain approval from the NMPA or FDA faster than we may obtain approval for ours, such that they may establish a strong market position before we are able to enter the market. The Company will maintain its market competitiveness with its rapid advancement in R&D and clinical trial of drugs, corroborant efficacy and stable production process.

3. Quality control risk of drugs

The quality and safety of drugs not only concern the health of drug users but also arouse public concern. Due to various factors, drugs are subject to quality control risks in all stages, including R&D, manufacturing, distribution and use. Therefore, risk control runs through the entire process of drug development, manufacturing, distribution and use. The Company will secure necessary resources, strengthen training in risk management, and improve various rules and regulations, so as to ensure strict compliance with the GMP standards and control the quality risk of drugs.

REPORT OF THE DIRECTORS

4. Risk of short-term unprofitability

A long profit cycle is one of the most salient features of biomedicine industry. It typically takes a long time for a biopharmaceutical company at the R&D stage to grow before it becomes profitability. As an innovative biopharmaceutical business, the Company is currently in an important R&D investment phase, and its R&D investment is expected to increase significantly and consistently in line with the expansion of R&D pipeline and acceleration of domestic and overseas drug clinical trial activities. Its future profitability depends on how fast the drugs currently in development will be released and post-launch sales. On the other hand, heavy R&D investments and high marketing and operating costs will add to the uncertainty about the Company's profitability. Therefore, it is exposed to the risk of short-term unprofitability.

5. Risks related to market regulation and policies

In view of the further reform in the medical and health system and the establishment of the new National Healthcare Security Administration, as well as the implementation of a series of policies such as control in medical insurance fees, publication of the revised National Essential Medicine List, consistency evaluation, reform in drug approval, compliance regulations, the commencement of centralized procurement of "4+7" drugs on a trial basis and "zero tariff" on imported drugs, encouragement of innovation and reduction in drug prices by pharmaceutical enterprises have become an inevitable trend, and the industry landscape is facing changes.

Since its establishment, the Company has embraced "innovation" as its core competence. Apart from UBP1211 and JS501 that are biosimilars, 19 other product candidates are all class I new drugs. In the face of the aforesaid industry and policy risks, the Company will adapt to changes in external policies by continuous improvement in capabilities of innovation and sustainable product development, increased R&D investments and accelerated clinical trials and marketing of innovative drugs, in order to respond to challenges through innovation. On this basis, the Company will further expand its production capacity and reduce the unit cost of its products, so as to address the price reduction of drugs; meanwhile, the Company will also adhere to legal compliance by adapting its business activities to changes in regulatory policies, thereby preventing policy risks.

6. Foreign exchange risk

The Company's exposure to the exchange rate risk mainly lies in assets and liabilities held by it and its subsidiaries, which are denominated in foreign currencies other than the bookkeeping base currency. Increased volatility in exchange rates will lead to substantial fluctuations in exchange gains and losses of USD/HKD-denominated financial assets and liabilities, which will, in turn, adversely affect the Company's profits. The Company is therefore exposed to the exchange rate risk.

REPORT OF THE DIRECTORS

7. Risk of high product concentration

During the Reporting Period, Toripalimab is the only marketed product of the Company. It will have a great influence on the business performance and financial situation of the Company if there are significant changes in the business environment, sales fluctuations, or clinical development progress can't reach the expected goal in respect of Toripalimab.

The Company will accelerate the R&D and commercialization of other drug candidates, increase the types of products on the market, reduce dependence on a single product, and strengthen the Company's overall competitiveness.

8. Risk of R&D technical services and raw material supply

The Company's business operations require a large number of R&D technical services and raw material supply. Currently, the relationship between the Company and existing suppliers are stable. If the price of R&D technical services or raw materials rises sharply, the Company's profitability may be adversely affected. At the same time, the Company's suppliers may not be able to keep up with the rapid development of the Company, and there is the possibility of reducing or terminating the supply of the Company's R&D services and raw materials. Also, the Company's raw materials are mainly imported directly or indirectly. If there are significant changes in the international trade situation, it may have a certain impact on the Company's production and operation.

MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period,

(i) the Group's largest supplier accounted for 10.04% (2018: 11.48%) of its total purchases, and the five largest suppliers accounted for 33.40% of its total purchases (2018: 30.60%); and

(ii) the Group's largest customer accounted for 20.99% (2018: 33.08%) of its total revenue and the Group's five largest customers accounted for 64.40% (2018: 73.88%) of its total revenue.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements.

SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2019 are set out in note 40 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 33 to the consolidated financial statements.

On 4 January 2019, the Over-allotment Option was fully exercised and 23,836,500 H Shares were allotted at the offer price of HK$19.38 per H Share. The number of H Shares increased from 158,910,000 to 182,746,500 afterwards. Further details are set out in the Prospectus, and the announcement of the Company dated 4 January 2019.

As of 31 December 2019, 784,146,500 Shares were in issue (comprising 601,400,000 Domestic Shares and 182,746,500 H Shares).

The Company has granted certain Pre-IPO Options (which may be satisfied by issue of new Domestic Shares or acquisition of existing Domestic Shares). See "– Share Incentives" below. The Company has also redeemed the 2018 Convertible Bonds. See "– 2018 Convertible Bonds" below.

RESERVES

Details of movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company did not have any distributable reserves.

BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Group as at 31 December 2019 are set out in note 28 to the consolidated financial statements.

2018 CONVERTIBLE BONDS

On 23 February 2018, the Company issued the 2018 Convertible Bonds in a principal amount of RMB200 million to qualified investor(s) at the issue price representing 100% of its face value (i.e. RMB200 million). The term of the 2018 Convertible Bonds is 6 years commencing from the issue date. The annual interest rate of the 2018 Convertible Bonds is 10.35%. The 2018 Convertible Bonds may be converted into Domestic Shares of the Company after the expiry of a six-month period from the issue date. The 2018 Convertible Bonds were previously listed on the Shanghai Stock Exchange (previous stock code: 145951.SH).

At the beginning of the Reporting Period, RMB200 million of these 2018 Convertible Bonds were outstanding and were held by Shanghai Tanying Investment Partnership (LP)* (上海檀英投資合夥企業（有限合夥)).

In June 2019, the Company announced for the early redemption of all of the outstanding 2018 Convertible Bonds. All of the outstanding 2018 Convertible Bonds were redeemed at its nominal price plus accrued interest (i.e. RMB114.1214 per bond) and delisted from the Shanghai Stock Exchange in July 2019.

REPORT OF THE DIRECTORS

SHARE INCENTIVES

The Company has established its share incentive scheme and entered into share incentive agreements to provide incentive to its management and employees. Set out below are details of the share incentive scheme and the share inventive agreements.

Share Incentive Scheme

The Company's Share Incentive Scheme was adopted by the Shareholders on 14 May 2018 (the "**Existing Scheme**"). The purpose of the Share Incentive Scheme is to attract, retain and motivate the Group's employees, to align the interest of the Directors, the Supervisors, the senior management, the employees and the Shareholders of the Company and to strive for long-term mutual development of the Company. The following is a summary of the principal terms of the Share Incentive Scheme:

(a) The Directors, Supervisors, senior management and other employees of the Group are eligible to participate in the Share Incentive Scheme. Save and except for the Directors and the Shareholder Representative Supervisors, all other grantees shall assume a position at, and have executed an employment contract with, a member of the Group. A person will cease to be eligible under the Share Incentive Scheme if he/she, among others, has materially breached the Company's management system, has caused substantial economic losses or material negative impact to the Company, was reprimanded publicly as an unsuitable person by the NEEQ in the recent three years, was subject to administrative penalties or other regulatory measures by the CSRC, the NEEQ and/or any other securities regulatory authorities in the recent three years, is unsuitable to be a director, supervisor or senior management pursuant to the PRC Company Law, has his/her employment contract terminated by reason of breach of the relevant laws or regulations or has resigned and other situation that are not appropriate to be encouraged by the relevant laws and regulations ("Events of Cessation of Eligibility");

(b) the Share Incentive Scheme may be implemented, altered or terminated by resolution passed by the Shareholders in a general meeting. Subject to the approval of the Shareholders, the Board shall be responsible for administering and implementing the Share Incentive Scheme and the relevant matters;

(c) the effective period of the Share Incentive Scheme shall be determined by the Board;

(d) the Company may use any the following means to settle the Pre-IPO Options:

  (i) issuing Shares to the Grantee;

  (ii) issuing Shares to asset management plan, private equity fund and other qualified financial products, as may be subscribed by the Grantee;

  (iii) repurchasing the Shares; or

  (iv) other means as permitted by the relevant laws, rules and regulations; and

(e) details of the grant, including the number of Pre-IPO Options, the subscription price and the exercise price, shall be governed by share incentive agreements between the Company and the relevant Grantee.

Following the Listing, no further Pre-IPO Options will be granted by the Company under the Share Incentive Scheme.

REPORT OF THE DIRECTORS

Share Incentive Agreements

On 12 March 2018, the Company entered into Share Incentive Agreements with 268 Grantees pursuant to which the Company agreed to grant, in aggregate, 6,023,000 Pre-IPO Options to the Grantees. The Pre-IPO Options are subject to the Share Incentive Scheme. The following is a summary of the principal terms of the Share Incentive Agreements:

(a) the exercise price of the Pre-IPO Options shall be RMB9.2 per Share;

(b) the Pre-IPO Options shall be valid for three years from 12 March 2018, the Grantee may exercise its Pre-IPO Options in accordance with the following schedule: 25% of the total number of Pre-IPO Options granted shall be vested on the trading day following the end of the 12 months from 12 March 2018, 35% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 24 months from 12 March 2018 and 40% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 36 months from 12 March 2018; and

(c) the Grantee undertakes to remain in his/her position in the Group from the date of grant up to the date of exercise of the Pre-IPO Options. The Grantee further undertakes not to allow the Events of Cessation of Eligibility to occur.

Amendments to the Share Incentive Scheme

In light of the proposed A Share Listing, the Company will amend the Existing Scheme in order to comply with the relevant rules and requirements regarding the A Share Listing and customary market practices with effect upon completion of the A Share Listing. These amendments (the "**Amended Scheme**") were approved by the Shareholders at the 2018 AGM, the 2019 First Class Meeting of Domestic Shareholders and the 2019 First Class Meeting of H Shareholders. For details of the Amended Scheme, please refer to the circular of the Company dated 27 May 2019.

On 27 March 2020, the Board proposed to further amend the validity period of the share incentive scheme and exercise periods of the Pre-IPO Options (the "**Proposed Amendments**"). Since the Company is still in the course of preparing for the A Share Listing, the Existing Scheme remains in force and all options that have not yet lapsed may be exercised under the Existing Scheme. Due to the PRC regulatory and review requirements (namely, the Questions and Answers by the Shanghai Stock Exchange on Examination of the Issuance and Listing of Stocks on the STAR Market (《上海證券交易所科創板股票發行上市審核問答》), until completion of the A Share Listing, the Grantees are currently prohibited from exercising their Pre-IPO Options. The first tranche of these unexercised options, however, would have been expired by 11 March 2020 and would have been lapsed upon the Amended Scheme coming into effect.

The Proposed Amendments are subject to the approval by the Shareholders by way of special resolution at the AGM and the Class Meetings. Upon the completion of the A Share Listing, the Existing Scheme (which does not fulfill the requirements applicable to an issuer listing on the STAR Market) will be replaced by the Amended Scheme. If approved, the Amended Scheme with the Proposed Amendments will only take effect upon completion of the A Share Listing. The Company will also enter into supplemental agreements with the Grantees to acknowledge the amendments to the Existing Scheme. Details of the Proposed Amendments are set out in the announcement of the Company dated 27 March 2020 and the corresponding circular of the Company.

REPORT OF THE DIRECTORS

Movement of Pre-IPO Options during the Reporting Period

As at 31 December 2019, 5,213,000 Pre-IPO Options were outstanding, entitling 219 Grantees to subscribe for an aggregate of 5,213,000 Domestic Shares (representing approximately 0.66% of the Company's issued share capital as at that date). Pre-IPO Options in respect of 810,000 Domestic Shares were granted to 49 Grantees who had already left the Group, thus a total of 810,000 Pre-IPO Options had lapsed following cessation of their employment.

Details of the movements of the Pre-IPO Options during the Reporting Period are as follows:

	Number of Pre-IPO Options						
Grantee	On 1 January 2019[4]	Granted	Exercised	Cancelled	Lapsed	On 31 December 2019	Exercised Period[1]
Liu Hongchuan (Previously Supervisor, vice supervisor of quality research of Suzhou Junmeng)[2]	120,000	–	–	–	–	120,000	12 March 2019 – 11 March 2021
Gao Yucai (Previously Supervisor, senior researcher and deputy manager at Suzhou Junmeng)[2]	100,000	–	–	–	–	100,000	12 March 2019 – 11 March 2021
Chen Yingge (Secretary of the Board and member of senior management of the Company)	10,000	–	–	–	–	10,000	12 March 2019 – 11 March 2021
Wang Shixu (Pre-clinical trial manager of Suzhou Junmeng)[3]	50,000	–	–	–	50,000	–	12 March 2019 – 11 March 2021
Other employees	5,518,000	–	–	–	535,000	4,983,000	12 March 2019 – 11 March 2021
Total	5,798,000	–	–	–	585,000	5,213,000	

Notes:

1. Under the Existing Scheme, 25% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 12 months from 12 March 2018, 35% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 24 months from 12 March 2018 and 40% of the total number of Pre-IPO Options granted shall be vested on the first trading day following the end of the 36 months from 12 March 2018.

2. For the purpose of the A Shares Listing, Mr. Liu Hongchuan and Mr. Gao Yucai have resigned as Supervisors of the Company since 7 May 2019 and are no longer connected persons of the Company pursuant to the relevant PRC laws and regulations.

3. Ms. Wang Shixu is an associate of Dr. Wu Hai, an Executive Director, and has given up her entitlements to 50,000 Pre-IPO Options.

4. The consideration paid by each grantee for the Pre-IPO Options was nil.

REPORT OF THE DIRECTORS

Potential Dilution Effect

For the following financial year ending 31 December 2020, in the event that the Grantees exercise the Pre-IPO Options in full on the vesting date in the year ending 31 December 2020 and the Company elects to satisfy the Pre-IPO Options by issuing new Domestic Shares, the potential dilution effect on the Company's share capital will be as follows (on the basis that the Existing Scheme remains in force):

As at	Number of Pre-IPO Options may be exercised by 31 December 2020	Number of new Domestic Shares may be issued upon exercise of these Pre-IPO Options	Approximate percentage of issued share capital of the Company enlarged by issuing Domestic Shares upon exercise of such Pre-IPO Options
31 December 2020	3,127,800	3,127,800	0.40%

Note: Assuming that the registered capital of the Company remains unchanged, the Company does not issue any new Share (other than for the satisfaction of Pre-IPO Options) or securities or right to subscribe for Shares, all Pre-IPO Options are satisfied by the Company by way of allotment of new Domestic Shares, none of the Grantees cease to be eligible under the Share Incentive Scheme and Share Incentive Agreements, and the terms of the Share Incentive Scheme and Share Incentive Agreements remain unchanged.

Further details of the Share Incentive Scheme and the Share Incentive Agreements are set out in the Prospectus.

EQUITY-LINKED AGREEMENTS

Other than the Share Incentive Agreements, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Reporting Period or subsisted at the end of the Reporting Period.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' BIOGRAPHICAL DETAILS

The Directors and Supervisors of the Company during the Reporting Period and up to the date of this annual report were:

Executive Directors
Mr. Xiong Jun (Chairman and Legal Representative)
Dr. Li Ning (Chief Executive Officer and General Manager)
Dr. Feng Hui
Mr. Zhang Zhuobing
Dr. Wu Hai
Dr. Yao Sheng

Non-executive Directors
Mr. Tang Yi
Mr. Li Cong
Mr. Yi Qingqing
Mr. Lin Lijun

Independent Non-executive Directors
Dr. Chen Lieping
Dr. He Jia
Mr. Chen Xinjun
Mr. Qian Zhi
Dr. Roy Steven Herbst

Supervisors
Mr. Wu Yu (appointed as Chairman of the Board of Supervisors on 10 July 2019)
Ms. Wang Pingping
Ms. Nie Anna (appointed on 7 May 2019)
Ms. Li Ruolin (appointed on 7 May 2019)
Mr. Liu Jun (appointed on 17 June 2019)
Mr. Gao Yucai (resigned on 30 April 2019, effective on 7 May 2019)
Mr. Liu Hongchuan (resigned as Supervisor on 30 April 2019, effective on 7 May 2019, and as Chairman of the Board of Supervisors on 10 July 2019)
Mr. Yan Jiawei (resigned on 9 April 2019)

See "Directors, Supervisors and Senior Management" of this annual report for biographical details of Directors, Supervisors and senior management of the Company. Save as disclosed in that section, up to the date of this report, there were no changes to information which are required to be disclosed by Directors and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

Service Agreement

Each of the Directors and Supervisors has entered into a service agreement with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party to the other.

None of the Directors or the Supervisors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

Directors' and Supervisors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, none of the Directors, Supervisors or any of their respective associates was granted by the Company or its subsidiaries any right to acquire shares in, or debentures of, the Company or its subsidiary, or had exercised any such right during the Reporting Period.

Competing Interest and Other Interest

None of the Directors or the Supervisors or any entity connected with them has any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group's business to which the Company, any of its holding companies, any of its subsidiaries, fellow subsidiaries was a party subsisted at the end of the year or at any time during the Reporting Period.

Except as disclosed in this annual report, during the Reporting Period, none of the Directors and their respective associates had an interest in a business which causes or may cause any significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

Independence of Independent Non-executive Directors

The Company has received a confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and the Company considers such Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

REMUNERATION POLICY

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors, Supervisors and five highest paid individuals are set out in note 12 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Interests in the Company

Name of Director/ Supervisor/Chief Executive	Nature of interests	Class of Shares	Number of Shares/ Underlying Shares[1]	Approximate percentage in relevant class of Shares (%)[1]	Approximate percentage in total share capital (%)[1]
Xiong Jun	Beneficial owner	Domestic Shares	87,252,968 (L)	14.51%	11.13%
	Parties acting in concert/ Interest in controlled corporations[2]	Domestic Shares	129,978,568 (L)	21.61%	16.58%
Feng Hui	Beneficial owner	Domestic Shares	13,140,000 (L)	2.18%	1.68%
Li Cong	Beneficial owner	Domestic Shares	3,657,600 (L)	0.61%	0.47%
Tang Yi	Beneficial owner	Domestic Shares	7,774,500 (L)	1.29%	0.99%
	Interest in controlled corporations[3]	Domestic Shares	195,550,736 (L)	32.52%	24.94%
Zhang Zhuobing	Interest of spouse[4]	Domestic Shares	8,608,000 (L)	1.43%	1.10%
Lin Lijun	Interest in controlled corporations[5]	Domestic Shares	78,852,000 (L)	13.11%	10.06%
	Interest in controlled corporations[5]	H Shares	37,189,000 (L)	20.35%	4.74%

Notes:

1. As at 31 December 2019, the Company had 784,146,500 issued Shares, comprising 601,400,000 Domestic Shares and 182,746,500 H Shares.

2. Pursuant to (i) a concert party agreement dated 25 December 2017 entered into among Mr. Xiong Jun, Mr. Xiong Fengxiang, Suzhou Ruiyuan Shengben Biological Medicine Management Partnership (LP) ("Suzhou Ruiyuan"), Suzhou Benyu Tianyuan Biological Technology Partnership (LP)* ("Suzhou Benyu"), Shanghai Baoying Asset Management Co., Ltd.* ("Shanghai Baoying"), Meng Xiaojun, Gao Shufang, Zhuhai Huapu Investment Management Co., Ltd.* and Zhao Yun (the "2017 Concert Party Agreement"), Mr. Xiong Jun was deemed to be interested in an aggregate of 108,297,768 Domestic Shares held by the other parties to the 2017 Concert Party Agreement as at 31 December 2019 under the SFO (including the 41,060,000 Domestic Shares directly held by Mr. Xiong Fengxiang, the father of Mr. Xiong Jun); and (ii) a concert party agreement dated 26 July 2019 entered into between Mr. Xiong Jun and Ms. Zhou Yuqing (the "2019 Concert Party Agreement"), Mr. Xiong Jun was further deemed to be interested in the 21,680,800 Domestic Shares held by the other party to the 2019 Concert Party Agreement as at 31 December 2019 under the SFO.

REPORT OF THE DIRECTORS

As at 31 December 2019, Mr. Xiong Jun (i) was an executive director and was directly interested in 20% of the equity share capital of Shanghai Baoying, which directly held 4,372,144 Domestic Shares; Shanghai Baoying was also a party to the 2017 Concert Party Agreement; (ii) was the chairman of the board of directors and was directly interested in 40% of the equity share capital of Shenzhen Qianhai Yuanben Equity Investment Fund Management Co., Ltd.* ("Shenzhen Yuanben"), which was the general partner of each of Suzhou Benyu and Suzhou Ruiyuan, which in turn directly held 4,600,000 and 43,584,000 Domestic Shares, respectively, and were each a party to the 2017 Concert Party Agreement. Shenzhen Yuanben also held a limited partner interest of approximately 86.28% of Suzhou Benyu. Mr. Xiong Jun was deemed to be interested in an aggregate of such 52,556,144 Domestic Shares under the SFO.

3. As at 31 December 2019, Mr. Tang Yi directly held 7,774,500 Domestic Shares. Mr. Tang Yi was a director of and directly interested in 60% of the equity share capital of Shenzhen Yuanben, which was the general partner of each of Suzhou Benyu and Suzhou Ruiyuan. Shenzhen Yuanben also held a limited partner interest of approximately 86.28% of Suzhou Benyu. Therefore, he was deemed to be interested in Shares in which Suzhou Benyu and Suzhou Ruiyuan were interested (including Shares they are deemed to be interested in pursuant to the 2017 Concert Party Agreement) under the SFO.

4. As at 31 December 2019, Mr. Zhang Zhuobing's spouse, Ms. Liu Xiaoling, directly held 8,608,000 Domestic Shares.

5. As at 31 December 2019, Shanghai Tanying Investment Partnership ("Shanghai Tanying") was directly interested in 76,590,000 Domestic Shares. Shanghai Tanzheng Investment Partnership ("Shanghai Tanzheng") directly held 2,262,000 Domestic Shares. Mr. Lin Lijun was a director and wholly interested in Shanghai Shengge Asset Management Co., Ltd. ("Shanghai Shengge"), which was the general partner of Shanghai Tanying and Shanghai Tanzheng. Mr. Lin Lijun was also the general partner of Shanghai Shengdao Investment Partnership, which was the general partner of Shanghai Lejin Investment Partnership, which in turn held 99.99% interest in Shanghai Tanying. Therefore, Mr. Lin Lijun was deemed to be interested in the Shares held by Shanghai Tanying and Shanghai Tanzheng under the SFO.

   Loyal Valley Capital Advantage Fund LP ("LVC Fund I"), Loyal Valley Capital Advantage Fund II LP ("LVC Fund II") and LVC Renaissance Fund LP ("LVC Renaissance Fund", together with LVC Fund I and LVC Fund II, the "LVC Funds") directly held 10,106,000 H Shares, 12,127,000 H Shares and 14,956,000 H Shares, respectively. Loyal Valley Capital Advantage Fund GP Limited ("LVC Fund I GP") was the general partner of LVC Fund I, Loyal Valley Capital Advantage Fund II Limited ("LVC Fund II GP") was the general partner of LVC Fund II and LVC Renaissance Limited ("LVC Renaissance GP") was the general partner of LVC Renaissance Fund. Each of LVC Fund I GP, LVC Fund II GP and LVC Renaissance GP was wholly-owned by LVC Holdings Limited, which was wholly-owned by LVC Bytes Limited, which was in turn wholly-owned by Mr. Lin Lijun. Also, LVC Renaissance Fund was owned as to 25.33% by Golden Valley Global Limited, which was wholly-owned by Shanghai Lehong Investment Partnership ("Shanghai Lehong"). Shanghai Tanying (a controlled corporation of Mr. Lin Lijun) held 99.99% interest in Shanghai Shengge (a corporation wholly-owned by Mr. Lin Lijun) and was the general partner of Shanghai Lehong. Therefore, Mr. Lin Lijun was deemed to be interested in an aggregate of 37,189,000 H Shares held by the LVC Funds under the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors, Supervisors and the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, to the best knowledge of the Directors, the following persons/entities (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company and Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Class of Shares	Number of Underlying Shares[1]	Approximate percentage in relevant class of Shares (%)[2]	Approximate percentage in total share capital (%)[2]
Xiong Fengxiang[3][4]	Beneficial owner	Domestic Shares	41,060,000 (L)	6.83%	5.24%
	Parties acting in Concert	Domestic Shares	154,490,736 (L)	25.69%	19.70%
Suzhou Ruiyuan Shengben Biological Medicine Management Partnership (LP)* 蘇州瑞源盛本生物醫藥管理合夥企業（有限合夥)[4]	Beneficial owner	Domestic Shares	43,584,000 (L)	7.25%	5.56%
	Parties acting in Concert	Domestic Shares	151,966,736 (L)	25.27%	19.38%
Suzhou Benyu Tianyuan Biological Technology Partnership (LP)* 蘇州本裕天源生物科技合夥企業（有限合夥)[4]	Beneficial owner	Domestic Shares	4,600,000 (L)	0.76%	0.59%
	Parties acting in Concert	Domestic Shares	190,950,736 (L)	31.75%	24.35%
Shanghai Baoying Asset Management Co., Ltd.* 上海寶盈資產管理有限公司[4]	Beneficial owner	Domestic Shares	4,372,144 (L)	0.73%	0.56%
	Parties acting in Concert	Domestic Shares	191,178,592 (L)	31.79%	24.38%
Meng Xiaojun 孟曉君[4]	Beneficial owner	Domestic Shares	4,288,400 (L)	0.71%	0.55%
	Parties acting in Concert	Domestic Shares	191,262,336 (L)	31.81%	24.39%
Gao Shufang 高淑芳[4]	Beneficial owner	Domestic Shares	3,789,720 (L)	0.63%	0.48%
	Parties acting in Concert	Domestic Shares	191,761,016 (L)	31.89%	24.45%
Zhuhai Huapu Investment Management Co., Ltd.* 珠海華樸投資管理有限公司[4]	Beneficial owner	Domestic Shares	3,719,504 (L)	0.62%	0.47%
	Parties acting in Concert	Domestic Shares	191,831,232 (L)	31.90%	24.46%
Zhao Yun 趙雲[4]	Beneficial owner	Domestic Shares	2,884,000 (L)	0.48%	0.37%
	Parties acting in Concert	Domestic Shares	192,666,736 (L)	32.04%	24.57%
Zhou Yuqing 周玉清[5]	Beneficial owner	Domestic Shares	21,680,800 (L)	3.61%	2.76%
	Parties acting in Concert	Domestic Shares	87,252,968 (L)	14.51%	11.13%
Zhuhai Gaoling Equity Investment Management Ltd.* 珠海高瓴股權投資管理有限公司	Investment manager	Domestic Shares	30,750,000 (L)	5.11%	3.92%
Shanghai Tanying Investment Partnership[6]	Beneficial owner	Domestic Shares	76,590,000 (L)	12.74%	9.77%
Shanghai Shengge Asset Management Co., Ltd.[6]	Interest of controlled corporation	Domestic Shares	78,852,000 (L)	13.11%	10.06%
Shanghai Lejin Investment Partnership[6]	Interest of controlled corporation	Domestic Shares	76,590,000 (L)	12.74%	9.77%

REPORT OF THE DIRECTORS

Name of Shareholder	Nature of interests	Class of Shares	Number of Underlying Shares[1]	Approximate percentage in relevant class of Shares (%)[2]	Approximate percentage in total share capital (%)[2]
Shanghai Shengdao Investment Partnership[6]	Interest of controlled corporation	Domestic Shares	76,590,000 (L)	12.74%	9.77%
Gong Ruilin 龔瑞琳	Beneficial owner[6][8] Interest of spouse [8]	Domestic Shares Domestic Shares	76,590,000 (L) 2,262,000 (L)	12.74% 0.38%	9.77% 0.29%
	Interest of spouse[7][8]	H Shares	37,189,000 (L)	20.35%	4.74%
Loyal Valley Capital Advantage Fund LP[7][9]	Beneficial owner	H Shares	10,106,000 (L)	5.53%	1.29%
Loyal Valley Capital Advantage Fund GP Limited[7]	Interest of controlled corporation	H Shares	10,106,000 (L)	5.53%	1.29%
Loyal Valley Capital Advantage Fund II LP[7][10]	Beneficial owner	H Shares	12,127,000 (L)	6.64%	1.55%
Loyal Valley Capital Advantage Fund II Limited[7]	Interest of controlled corporation	H Shares	12,127,000 (L)	6.64%	1.55%
LVC Renaissance Fund LP[7]	Beneficial owner	H Shares	14,956,000 (L)	8.18%	1.91%
LVC Renaissance Limited[7]	Interest of controlled corporation	H Shares	14,956,000 (L)	8.18%	1.91%
LVC Holdings Limited[7]	Interest of controlled corporation	H Shares	37,189,000 (L)	20.35%	4.74%
LVC Bytes Limited (now known as LVC Innovate Limited)[7]	Interest of controlled corporation	H Shares	37,189,000 (L)	20.35%	4.74%
Jovial Champion Investments Limited[7]	Interest of controlled corporation	H Shares	37,189,000 (L)	20.35%	4.74%
Vistra Trust (Singapore) Pte. Limited[7]	Trustee	H Shares	37,189,000 (L)	20.35%	4.74%
Sun Yongjian 孫勇堅[9]	Interest of controlled corporation	H Shares	10,106,000 (L)	5.53%	1.29%
Eminent Azure Limited[9]	Interest of controlled corporation	H Shares	10,106,000 (L)	5.53%	1.29%
Prosperous Wealth Global Limited[9]	Interest of controlled corporation	H Shares	10,106,000 (L)	5.53%	1.29%
Highbury Investment Pte Ltd[10]	Beneficial owner	H Shares	18,190,000 (L)	9.95%	2.32%
	Interest of controlled corporation	H Shares	12,127,000 (L)	6.64%	1.55%
GIC (Ventures) Pte. Ltd. [10]	Interest of controlled corporation	H Shares	30,317,000 (L)	16.59%	3.87%
GIC Special Investments Private Limited[10]	Investment manager	H Shares	30,317,000 (L)	16.59%	3.87%
GIC Private Limited[10]	Interest of controlled corporation	H Shares	30,317,000 (L)	16.59%	3.87%
Wang Shujun 王樹君	Beneficial owner	H Shares	13,339,000 (L)	7.30%	1.70%
Yu Jianwu 俞建午	Beneficial owner	H Shares	13,339,000 (L)	7.30%	1.70%
Gaoling Fund, L.P. [11]	Beneficial owner	H Shares	10,715,000 (L)	5.86%	1.37%
Hillhouse Capital Advisors, Ltd.[11]	Investment manager	H Shares	11,400,000 (L)	6.24%	1.45%
China International Capital Corporation Limited[12]	Beneficial owner	H Shares	9,271,700 (L)	5.07%	1.18%

REPORT OF THE DIRECTORS

Notes:

1. The letter "L" denotes the long position in the Shares, the letter "S" denotes short position in the Shares and the letter "P" denotes lending pool.

2. As at 31 December 2019, the Company had an issued share capital of 784,146,500 Shares, comprising 601,400,000 Domestic Shares and 182,746,500 H Shares.

3. As at 31 December 2019, Mr. Xiong Fengxiang directly held 41,060,000 Domestic Shares. Pursuant to the 2017 Concert Party Agreement, Mr. Xiong Fengxiang was deemed to be interested in an aggregate of 154,490,736 Domestic Shares held by the other parties to the 2017 Concert Party Agreement under the SFO (including the 87,252,968 Domestic Shares directly held by Mr. Xiong Jun, son of Mr. Xiong Fengxiang).

4. Each of them is a party to the 2017 Concert Party Agreement, and was therefore deemed to be interested in the Domestic Shares held by the other parties to the 2017 Concert Party Agreement under the SFO.

5. Ms. Zhou Yuqing is a party to the 2019 Concert Party Agreement, and was therefore deemed to be interested in the Domestic Shares held by Mr. Xiong Jun who was the other party to the 2019 Concert Party Agreement under the SFO.

6. As at 31 December 2019, Shanghai Tanying Investment Partnership ("Shanghai Tanying") was directly interested in 76,590,000 Domestic Shares. Shanghai Shengge Asset Management Co., Ltd. ("Shanghai Shengge") was the general partner of Shanghai Tanying. Shanghai Shengdao Investment Partnership ("Shanghai Shengdao") was the general partner of Shanghai Lejin Investment Partnership ("Shanghai Lejin"), which in turn held 99.99% interest in Shanghai Tanying. Therefore, each of Shanghai Shengge, Shanghai Shengdao and Shanghai Lejin was deemed to be interested in the 76,590,000 Domestic Shares held by Shanghai Tanying under the SFO. Shanghai Shengge was also the general partner of Shanghai Tanzheng Investment Partnership ("Shanghai Tanzheng"), which directly held 2,262,000 Domestic Shares. Therefore, Shanghai Shengge was deemed to be interested in the Domestic Shares held by Shanghai Tanzheng under the SFO.

7. As at 31 December 2019, Loyal Valley Capital Advantage Fund LP ("LVC Fund I"), Loyal Valley Capital Advantage Fund II LP ("LVC Fund II") and LVC Renaissance Fund LP ("LVC Renaissance Fund", together with LVC Fund I and LVC Fund II, the "LVC Funds") directly held 10,106,000 H Shares, 12,127,000 H Shares and 14,956,000 H Shares, respectively. Loyal Valley Capital Advantage Fund GP Limited ("LVC Fund I GP") was the general partner of LVC Fund I and was deemed to be interested in the H Shares held by it. Loyal Valley Capital Advantage Fund II Limited ("LVC Fund II GP") was the general partner of LVC Fund II and was deemed to be interested in the H Shares held by it. LVC Renaissance Limited ("LVC Renaissance GP") was the general partner of LVC Renaissance Fund and was deemed to be interested in the H Shares held by it. Each of LVC Fund I GP, LVC Fund II GP and LVC Renaissance GP was wholly-owned by LVC Holdings Limited, which was wholly-owned by LVC Bytes Limited, which was wholly-owned by Jovial Champion Investments Limited, which was in turn wholly-owned by Vistra Trust (Singapore) Pte. Limited. Therefore, each of LVC Holdings Limited, LVC Bytes Limited, Jovial Champion Investments Limited and Vistra Trust (Singapore) Pte. Limited was deemed to be interested in the aggregate H Shares held by the LVC Funds under the SFO.

8. Ms. Gong Ruilin is the spouse of Mr. Lin Lijun and was therefore deemed to be interested in the Shares in which he was interested under the SFO.

9. As at 31 December 2019, Sun Yongjian wholly-owned Eminent Azure Limited, which wholly-owned Prosperous Wealth Global Limited, which held 33.34% interest in LVC Fund I. Each of them was therefore deemed to be interested in the 10,106,000 H Shares held by LVC Fund I under the SFO.

10. As at 31 December 2019, Highbury Investment Pte Ltd ("Highbury") directly held 18,190,000 H Shares. Highbury also held 90.90% interest in LVC Fund II and was deemed to be interested in the 12,127,000 H Shares held by LVC Fund II. Highbury was wholly-owned by GIC (Ventures) Pte. Ltd. ("GIC Ventures"), which was wholly-owned by GIC Special Investments Private Limited ("GIC SIPL"), which was in turn wholly-owned by GIC Private Limited ("GIC Private"). Therefore, each of GIC Ventures, GIC SIPL and GIC Private was interested in the H Shares in which Highbury was interested under the SFO.

11. As at 31 December 2019, Hillhouse Capital Advisors, Ltd. controlled Gaoling Fund, L.P. and YHG Investment, L.P. and was therefore deemed to be interested in the 10,715,000 H Shares and 685,000 H Shares held by Gaoling Fund, L.P. and YHG Investment, L.P., respectively under the SFO.

12. As at 31 December 2019, China International Capital Corporation Limited ("CICC") controlled China International Capital Corporation Hong Kong Securities Limited ("CICC Securities"), which directly held 8,871,700 H Shares, and controlled CICC Financial Trading Limited ("CICC Financial Trading"), which directly held 400,000. Therefore, CICC was deemed to be interested in the H Shares in which CICC Securities and CICC Financial Trading are interested under the SFO.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in the paragraph headed "– 2018 Convertible Bonds" in this annual report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

CONTINUING CONNECTED TRANSACTION

Technical development services from Beijing Zhengdan and its associates

Party and connected relationship	As at the date of the Framework Agreement, Beijing Zhengdan held 40% of the equity interest in Beijing Junkejingde, then 60%-owned subsidiary of the Company. Beijing Zhengdan was a substantial shareholder of Beijing Junkejingde and thus a connected person of the Company at the subsidiary level.
The Framework Agreement	Pursuant to a technical development engagement framework agreement (the "Framework Agreement") dated 4 December 2018 between the Company and Beijing Zhengdan, the Company (together with its subsidiaries) may engage Beijing Zhengdan and/or its associates to provide pharmaceutical research and technical development services, including conducting analysis for biological samples from clinical trials, and from non-clinical trials (including formation of methodology, verification, filter, tests, preparation of reports, sample treatment and related tasks), conducting stability tests, keeping of samples and files, and other services relating to drug studies and technical services. The Framework Agreement commenced from 24 December 2018 (the listing date) and expires on 31 December 2020.
Pricing policy	The fee to be paid by the Group under the Framework Agreement is determined based on parties arm's length negotiations. Factors taken into account include the scope, complexity and nature of research and services sought by the Group, sampling and number of researches and tests to be performed, and the fee is determined with reference to pricing terms determined after due consideration of prevailing market rates from independent third parties for comparable pharmaceutical research and technical development services. The fee for certain frequently adopted services have been agreed in the Framework Agreement. If there is any deviation or additional services demanded by the Group which is not listed in the price list, its price and terms shall be determined with reference to the quotation for identical or similar services contemporaneously from at least two other service providers who are independent third parties so as to confirm that such price and terms to be determined shall be fair and reasonable, and comparable to (or better than) those offered by independent third parties. The Group enters into separate individual agreements with Beijing Zhengdan and/or its associates with respect to its individual service request.
Annual cap for 2019	RMB16,250,000

REPORT OF THE DIRECTORS

Actual transaction amount for 2019	RMB11,955,000
Listing Rules implications and Hong Kong Stock Exchange waiver	As at the date of the Framework Agreement, Beijing Zhengdan was a connected person of the Group at the subsidiary level. The Board has approved the Framework Agreement with all Independent Non-executive Directors confirmed its terms are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. Pursuant to Rule 14A.101 of the Listing Rules, the transaction under the Framework Agreement is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.105 of the Listing Rules, the Company has applied for, and Hong Kong Stock Exchange has granted to the Company, a waiver from strict compliance with the announcement requirement in respect of the above non-exempt continuing connected transaction. Such waiver will expire on 31 December 2020.

Pursuant to Rule 14A.55 of the Listing Rules, the Company's Independent Non-executive Directors have reviewed the above continuing connected transaction and confirmed that such transaction has been entered into (i) in the Group's ordinary and usual course of business; (ii) on normal commercial terms or better; and (iii) according to the agreement governing the transaction on terms which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Company's auditor was engaged to report on the above continuing connected transaction. For the purpose of Rule 14A.56 of the Listing Rules, the Company's auditor has provided a letter to the Board confirming that nothing has come to their attention to cause them to believe that the continuing connected transaction:

(i) has not been approved by the Board;

(ii) was not entered into, in all materiel respects, in accordance with the agreement governing the transaction; and

(iii) has exceeded the relevant annual cap as set by the Company.

A copy of the auditor's letter has been submitted by the Company to Hong Kong Stock Exchange.

On 9 January 2020, Beijing Junkejingde completed industrial and commercial deregistration in the PRC and ceased to be a subsidiary of the Company. Upon the completion of industrial and commercial deregistration of Beijing Junkejingde, Beijing Zhengdan is no longer a connected person of the Company under the Listing Rules and the Framework Agreement is no longer a connected transaction of the Company under the Listing Rules.

Further details of the above transaction are set out in note 39 to the consolidated financial statements of this annual report and in the Prospectus.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with "related parties" as defined under applicable accounting standards. Related party transactions are disclosed in note 39 to the consolidated financial statements. They include the following connected transactions under the Listing Rules:

Our transactions with Beijing Zhengdan and/or its associates, as described in note 39 to the consolidated financial statements	See also "– Continuing Connected Transaction" above
Compensation to the Directors and Supervisors in notes 12 and 39 to the consolidated financial statements	They are exempted under Rule 14A.76 or 14A.95 of the Listing Rules
Loan from Shenzhen Qianhai Hehong Investment Co., Ltd.*, as described in note 39 to the consolidated financial statements	It is exempted under Rule 14A.90 of the Listing Rules

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above related party transactions.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the PRC that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

TAX RELIEF AND EXEMPTION (H SHAREHOLDERS)

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For an individual who has no domicile in the PRC and is not resident in the territory of the PRC or who has no domicile in the PRC and has been resident in the territory of the PRC for less than 183 days cumulatively within a tax year, his/her receipt of dividends from a PRC company is normally subject to a PRC withholding tax of 20% unless specifically exempted or reduced by an applicable tax treaty and other tax laws and regulations.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Holders of H Shares who are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)), a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards to holders of H Shares who are overseas non-resident enterprises, shall withhold the enterprise income tax at a flat rate of 10%.

The Company did not have any distributable profit in 2019. The Company did not pay any dividend. Accordingly, the shareholders of the Company (including the holders of H Shares) are not subject to income tax.

REPORT OF THE DIRECTORS

COMPANY'S COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group is able to comply with relevant requirements of laws, regulations, rules and provisions of the Companies Ordinance, the Listing Rules and SFO in Hong Kong, the PRC Company Law in the PRC, the Drug Administration Law (《藥品管理法》), the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) and the Measures for the Supervision over and Administration of Pharmaceutical Production (《藥品生產監督管理辦法》), etc. regarding information disclosure, corporate governance and standard industry operation, etc. during the Reporting Period.

NEEQ NON-COMPETITION UNDERTAKING

Mr. Xiong Jun and Mr. Xiong Fengxiang entered into the NEEQ Non-Competition Undertaking, pursuant to which they undertook that they would not, and would procure that their controlled corporations would not, directly or indirectly, engage in any business which are or may potentially be in competition with the business carried on or contemplated to be carried on by the Company or any members of the Group.

The Company has received confirmations from Mr. Xiong Jun and Mr. Xiong Fengxiang confirming their compliance with the NEEQ Non-Competition Undertaking during the Reporting Period.

PERMITTED INDEMNITY PROVISION

As at the date of this report, all Directors of the Company were covered under the liability insurance purchased by the Company for its Directors.

COMPLIANCE OF THE MODEL CODE BY THE DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry with each of the Directors and Supervisors, they have confirmed that they had complied with such code of conduct throughout the Reporting Period.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. As at the date of this report, the Board comprises six Executive Directors, four Non-executive Directors and five Independent Non-executive Directors. The Board has adopted the code provisions as set out in the CG Code as its corporate governance code. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 41 to 56 of this annual report.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

The Company has applied for, and Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules that the minimum public float be reduced and the minimum percentage of the H Shares from time to time held by the public to be the highest of:

(a) 16%;

(b) such percentage of H Shares to be held by the public immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised); or

(c) such percentage of H Shares to be held by the public after the exercise of the Over-allotment Option,

but the percentage of minimum public float so decided above shall be reduced as a result of any increase in the Company's issued share capital following any issue of Domestic Shares by the Company upon exercise of any Pre-IPO Options and/or the 2018 Convertible Bonds, provided that (i) the market capitalization of the portion of the total number of the Company's issued shares held by the public shall exceed HK$375 million at the time of Listing pursuant to Rule 18A.07 of the Listing Rules and (ii) the minimum percentage of public float from time to time shall not be lower than 15.71% of the Company's issued share capital.

Further details of the waiver are set out in the Prospectus.

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors confirmed that the Company has maintained the required public float under the above public float waiver granted by Hong Kong Stock Exchange.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last four financial years (prepared in accordance with IFRS) are set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee consists of three Independent Non-executive Directors being Dr. He Jia (Chairman), Mr. Chen Xinjun and Mr. Qian Zhi and one Non-executive Director being Mr. Li Cong. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group and overseeing the audit process.

The Audit Committee has reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2019.

REPORT OF THE DIRECTORS

AUDITOR

The financial statements for the year ended 31 December 2019 has been audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu shall retire in the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company and to authorize the Directors to fix its remuneration will be proposed at the forthcoming AGM.

CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES

The register of members of H Shares of the Company is closed from Friday, 10 April 2020 to Monday, 11 May 2020, both days inclusive, during which period no transfer of H Shares will be registered, in order to determine the holders of the H Shares of the Company who are entitled to attend and vote at the forthcoming AGM to be held on Monday, 11 May 2020. In order to be eligible to attend and vote at the AGM, holders of H Shares of the Company whose transfer documents have not been registered are required to deposit all properly completed share transfer forms together with the relevant share certificates to the Company's H Share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) for registration before 4:30 p.m. on Thursday, 9 April 2020 (Hong Kong time, being the last share registration date).

All references above to other sections, reports or notes in this annual report form part of this report.

By order of the Board of
Shanghai Junshi Biosciences Co., Ltd.*
Mr. Xiong Jun
Chairman

27 March 2020

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF SHANGHAI JUNSHI BIOSCIENCES CO., LTD.*
上海君實生物醫藥科技股份有限公司
(incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of 上海君實生物醫藥科技股份有限公司Shanghai Junshi Biosciences Co., Ltd.* (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 134 to 235, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Cut-off of research and development expenses The Group incurred significant research and development ("R&D") expenses of RMB946,100,000 as disclosed in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019. In addition, R&D expenses of RMB98,561,000 were accrued as at 31 December 2019 as set out in Note 26 to the consolidated financial statements. A large portion of these accrued R&D expenses were service fees payable to outsourced service providers including contract research organisations and clinical trial centres (collectively referred to as the "Outsourced Service Providers"). We identified the cut-off of R&D expenses as a key audit matter due to its significant amount and risk of not accruing R&D costs incurred for services provided by the Outsourced Service Providers in the appropriate reporting period.	Our procedures in relation to the cut-off of R&D expenses included: • Obtaining an understanding of key controls, management's basis and assessment in relation to the accrual process of the R&D expenses including service fees paid to Outsourced Service Providers; • For the service fees paid to contract research organisations, reading the key terms set out in research agreements and evaluating the completion status with reference to the progress reported by the representatives of the relevant contract research organisations, on a sample basis, to determine whether the service fees were recorded based on the respective contract sums, progress and/or milestones achieved; and • For the service fees paid to clinical trial centres, testing the accrual of the clinical trial related costs, on a sample basis, against the clinical trial data and terms of services.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Sze On Tat.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
Continuing operations			
Revenue	5	**775,089**	934
Cost of sales and services		**(90,684)**	(267)
Gross profit		**684,405**	667
Other income	6	**60,768**	8,387
Other gains and losses	7	**21,222**	(32,641)
Impairment in respect of trade and other receivables under expected credit loss model, net of reversal		**1,038**	(638)
Research and development expenses		**(946,100)**	(538,183)
Selling and distribution expenses		**(320,056)**	(20,304)
Administrative expenses		**(244,229)**	(124,837)
Share of loss of a joint venture		**(5)**	(4)
Share of losses of associates		**(2,522)**	–
Other expenses		**(4,345)**	(6,097)
Finance costs	8	**(13,300)**	(4,063)
Loss before tax	9	**(763,124)**	(717,713)
Income tax credit	10	**18,891**	1,213
Loss for the year from continuing operations		**(744,233)**	(716,500)
Discontinued operations			
Profit for the year from discontinued operations	34	**–**	147
Loss for the year		**(744,233)**	(716,353)
Other comprehensive income (expense) for the year			
Item that will not be reclassified to profit or loss:			
Fair value loss on financial liability designated at fair value through profit or loss ("FVTPL") attributable to change in credit risk		**–**	(9,367)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,178**	10,638
Fair value gain on investments in debt instrument measured at fair value through other comprehensive income ("FVTOCI")		**–**	227
Reclassification to profit or loss upon disposal of investments measured at FVTOCI		**–**	262
Other comprehensive income for the year		**3,178**	1,760
Total comprehensive expense for the year		**(741,055)**	(714,593)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
(Loss) profit for the year attributable to owners of the company:			
– from continuing operations		**(743,922)**	(716,503)
– from discontinued operations		**–**	89
Loss for the year attributable to owners of the Company		**(743,922)**	(716,414)
(Loss) profit for the year attributable to non-controlling interests:			
– from continuing operations		**(311)**	3
– from discontinued operations		**–**	58
(Loss) profit for the year attributable to non-controlling interests		**(311)**	61
		(744,233)	(716,353)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(740,744)**	(714,654)
Non-controlling interests		**(311)**	61
		(741,055)	(714,593)
Loss per share	*11*		
From continuing and discontinued operations			
Basic (RMB yuan)		**(0.95)**	(1.19)
Diluted (RMB yuan)		**(0.95)**	(1.19)
From continuing operations			
Basic (RMB yuan)		**(0.95)**	(1.19)
Diluted (RMB yuan)		**(0.95)**	(1.19)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2019

	Notes	At 31 December 2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,827,868**	939,341
Right-of-use assets	15	**179,518**	–
Prepaid lease payments	16	**–**	74,408
Goodwill	17	**–**	–
Other intangible assets	18	**6,291**	1,455
Interest in a joint venture	19	**1,022**	1,027
Interests in associates	20	**71,224**	–
Deferred tax assets	32	**20,590**	1,288
Other assets, prepayments and other receivables	23	**335,466**	311,607
Other financial assets	24	**69,345**	18,000
		2,511,324	1,347,126
Current assets			
Inventories	21	**180,666**	48,468
Trade receivables	22	**157,416**	–
Other assets, prepayments and other receivables	23	**352,163**	92,630
Other financial assets	24	**17**	5,516
Restricted bank deposits	25	**6,828**	–
Bank balances and cash	25	**1,214,026**	2,763,570
		1,911,116	2,910,184
Current liabilities			
Trade and other payables	26	**514,639**	291,322
Contract liabilities	27	**–**	1,111
Borrowings	28	**76,891**	178,632
Lease liabilities	31	**13,846**	–
		605,376	471,065
Net current assets		**1,305,740**	2,439,119
Total assets less current liabilities		**3,817,064**	3,786,245

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2019

	Notes	At 31 December 2019 RMB'000	2018 RMB'000
Non-current liabilities			
Borrowings	*28*	**744,896**	150,000
Contract liabilities	*27*	**–**	28,302
Convertible loan notes	*29*	**–**	241,763
Deferred income	*30*	**56,320**	45,047
Lease liabilities	*31*	**27,332**	–
		828,548	465,112
Net assets		**2,988,516**	3,321,133
Capital and reserves			
Share capital	*33*	**784,147**	760,310
Reserves		**2,204,372**	2,561,936
Equity attributable to owners of the Company		**2,988,519**	3,322,246
Non-controlling interests		**(3)**	(1,113)
Total equity		**2,988,516**	3,321,133

The consolidated financial statements on pages 134 to 235 were approved and authorised for issue by the board of directors on 27 March 2020 and are signed on its behalf by:

Xiong Jun
Director

Li Ning
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Financial liability designated at FVTPL credit risk reserve RMB'000 *(Note)*	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	584,750	1,056,407	–	–	(489)	(1,281)	(518,879)	1,120,508	(1,174)	1,119,334
Loss for the year	–	–	–	–	–	–	(716,414)	(716,414)	61	(716,353)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	10,638	–	10,638	–	10,638
Fair value loss on financial liability designated at FVTPL attributable to changes in credit risk	–	–	–	(9,367)	–	–	–	(9,367)	–	(9,367)
Fair value gain on investments in debt instrument measured at FVTOCI	–	–	–	–	227	–	–	227	–	227
Reclassification to profit or loss upon disposal of investments measured at FVTOCI	–	–	–	–	262	–	–	262	–	262
Total comprehensive income (expense) for the year	–	–	–	(9,367)	489	10,638	(716,414)	(714,654)	61	(714,593)
Ordinary shares issued	16,650	283,050	–	–	–	–	–	299,700	–	299,700
Transaction costs attributable to issue of new domestic ordinary shares	–	(1,745)	–	–	–	–	–	(1,745)	–	(1,745)
Recognition of equity settled share-based payment expenses	–	–	21,700	–	–	–	–	21,700	–	21,700
H shares issued upon initial public offering	158,910	2,554,284	–	–	–	–	–	2,713,194	–	2,713,194
Transaction costs attributable to issue of H shares	–	(116,457)	–	–	–	–	–	(116,457)	–	(116,457)
At 31 December 2018	760,310	3,775,539	21,700	(9,367)	–	9,357	(1,235,293)	3,322,246	(1,113)	3,321,133
Loss for the year	–	–	–	–	–	–	(743,922)	(743,922)	(311)	(744,233)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	3,178	–	3,178	–	3,178
Total comprehensive income (expense) for the year	–	–	–	–	–	3,178	(743,922)	(740,744)	(311)	(741,055)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Financial liability designated at FVTPL credit risk reserve RMB'000 *(Note)*	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
New H shares issued upon over-allotment options exercised	23,837	380,001	-	-	-	-	-	403,838	-	403,838
Transaction costs attributable to issue of new H shares	-	(12,146)	-	-	-	-	-	(12,146)	-	(12,146)
Recognition of equity settled share-based payment expenses	-	-	15,638	-	-	-	-	15,638	-	15,638
Redemption of convertible loan notes	-	-	-	9,367	-	-	(9,367)	-	-	-
Acquisition of additional interest of a partially-owned subsidiary	-	-	-	-	-	-	(313)	(313)	313	-
Dissolution of interest in a partially-owned subsidiary	-	-	-	-	-	-	-	-	1,108	1,108
At 31 December 2019	784,147	4,143,394	37,338	-	-	12,535	(1,988,895)	2,988,519	(3)	2,988,516

Note: Financial liability designated at FVTPL credit risk reserve represents the amount of change in fair value of convertible loan notes issued by the Company which is classified as financial liability designated at FVTPL under IFRS 9 *Financial Instruments*, which is attributable to changes in credit risk of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Loss before tax		
– continuing operations	**(763,124)**	(717,713)
– discontinued operations	**–**	147
	(763,124)	(717,566)
Adjustments for:		
Bank and time deposits interest income	**(29,222)**	(3,756)
Finance costs	**13,300**	4,063
Government grants income	**(599)**	(4,631)
Net exchange losses	**7,700**	14,275
Net (gains) losses from changes in fair value of financial instruments designated as at FVTPL and investment income from debt investment	**(700)**	2,085
Net (gains) losses from changes in fair value of convertible loan notes	**(23,426)**	15,374
Depreciation of property, plant and equipment	**41,452**	29,932
Depreciation of right-of-use assets	**17,068**	–
Amortisation of prepaid lease payments	**–**	130
Amortisation of other intangible assets	**1,071**	144
Impairment loss (reversal) recognised on trade and other receivables	**(1,038)**	654
Loss on disposal of property, plant and equipment	**638**	907
Gain on disposal of a subsidiary	**–**	(441)
Share-based payment expenses	**11,797**	21,700
Share of loss of a joint venture	**5**	4
Share of losses of associates	**2,522**	–
Operating cash flows before movements in working capital	**(722,556)**	(637,126)
Increase in inventories	**(132,198)**	(18,963)
Increase in trade receivables	**(157,505)**	–
Increase in other assets, prepayments and other receivables	**(328,230)**	(45,550)
Increase in trade and other payables	**150,664**	153,781
(Decrease) increase in contract liabilities	**(1,111)**	29,554
Increase in deferred income	**4,313**	7,863
Cash used in operations	**(1,186,623)**	(510,441)
Income tax paid	**(411)**	(317)
NET CASH USED IN OPERATING ACTIVITIES	**(1,187,034)**	(510,758)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Interest received		**29,222**	3,756
Payments for property, plant and equipment		**(791,585)**	(546,196)
Payments for prepaid lease payments		**–**	(8,480)
Payments for other intangible assets		**(4,592)**	(2,695)
Upfront payments for right-of-use assets		**(66,972)**	–
Payments for rental deposits		**(881)**	–
Placement of pledged deposits		**–**	(9,739)
Withdrawal of pledged deposits		**–**	36,700
Placement of restricted bank deposit		**(23,310)**	–
Withdrawal of restricted bank deposit		**16,482**	–
Acquisition of associates	*20*	**(73,746)**	–
Net cash inflow on disposal a subsidiary	*34*	**–**	1,254
Acquisition of other financial assets		**(117,346)**	(403,500)
Disposal of other financial assets		**72,200**	509,220
Interest income from debt instrument measured at FVTOCI		**–**	341
Disposal of debt instrument measured at FVTOCI		**–**	4,550
Repayment from a partner of a joint operation		**17,712**	10,953
Advance to a partner of a joint operation		**(16,827)**	(17,145)
Proceeds from disposal of property, plant and equipment		**54**	–
Receipt of government grants		**7,559**	–
NET CASH USED IN INVESTING ACTIVITIES		**(952,030)**	(420,981)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Proceeds on issue of convertible loan notes	**–**	200,000
Payment on redemption of convertible loan notes	**(200,000)**	–
Payments for transaction costs for the issue of convertible loan notes	**–**	(1,981)
Proceeds on issue of domestic ordinary shares	**–**	299,700
Proceeds on issue of new H Shares	**403,838**	2,713,194
Payments for transaction costs for the issue of new domestic ordinary shares	**–**	(1,745)
Payments for transaction costs for the issue of new H Shares	**(26,307)**	(102,042)
Payments for transaction costs for the issue of new shares on STIB (as defined in *Note 23*)	**(1,410)**	–
New borrowings raised	**1,681,516**	434,132
Repayments of borrowings	**(1,189,137)**	(106,000)
Interest paid	**(60,759)**	(2,656)
Repayments for lease liabilities	**(15,267)**	–
Proceeds from dissolution of a subsidiary	**1,108**	–
NET CASH FROM FINANCING ACTIVITIES	**593,582**	3,432,602
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,545,482)**	2,500,863
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**2,763,570**	266,298
Effect of foreign exchange rate changes	**(4,062)**	(3,591)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,214,026**	2,763,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

1. GENERAL

Shanghai Junshi Biosciences Co., Ltd.* (the "Company") was established in the People's Republic of China (the "PRC") on 27 December 2012 and converted into a joint stock company with limited liability in May 2015. In August 2015, the Company's domestic shares became listed on the National Equities Exchange and Quotations ("NEEQ") (stock code 833330). On 24 December 2018, the Company's H shares became listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock code 1877). Its ultimate controlling party is Mr. Xiong Jun, who is also the chairman and executive director of the Company. The respective addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Company and its subsidiaries (the "Group") are mainly discovery, development and commercialisation of innovative drugs.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time in the current year:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases*, and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply these standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected no to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 Leases (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessees' incremental borrowing rate applied is 5.22%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	**51,273**
Lease liabilities discounted at relevant incremental borrowing rates	**47,892**
Less: Recognition exemption – short-term leases	**(1,424)**
Lease liabilities relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	**46,468**
Analysed as:	
Current	**12,182**
Non-current	**34,286**
	46,468

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		46,468
Reclassified from prepaid lease payments	*(a)*	74,408
Reclassified from other assets, prepayments and other receivables	*(b)*	2,256
		123,132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 Leases (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	**Carrying amounts under IFRS 16 at 1 January 2019 RMB'000**
Non-current assets				
Right-of-use assets	*(a), (b)*	–	123,132	**123,132**
Prepaid lease payments	*(a)*	74,408	(74,408)	**–**
Current assets				
Other assets, prepayments and other receivables	*(b)*	92,630	(2,256)	**90,374**
Current liabilities				
Lease liabilities		–	(12,182)	**(12,182)**
Non-current liabilities				
Lease liabilities		–	(34,286)	**(34,286)**

Notes:

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, prepaid lease payments amounting to RMB74,408,000 were reclassified to right-of-use assets.

(b) Prepaid rental expenses were classified as other assets, prepayments and other receivables as at 31 December 2018. Upon application of IFRS 16, the prepayments amounting to RMB2,256,000 were reclassified to right-of-use assets.

(c) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied under other assets, prepayments and other receivables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. However, no adjustments are made as the directors of the Company considered that the discounting effect is immaterial to the consolidated financial statements upon the application of IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 Leases (Continued)

As a lessee (Continued)

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to IFRSs in issue but not effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but not yet effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39, and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to Reference to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that a liability should be classified as non-current if an entity has the right, the classification should not be affected by management intentions or expectations to settle the liability within 12 months;

- clarify that if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

Based on the Group's outstanding liabilities as at 31 December 2019, including borrowings, and the related terms and conditions stipulated in the agreements between the Group and the relevant lenders, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company.

Investments in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and a joint venture (Continued)

The results and assets and liabilities of associates and a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. the associate and the joint venture uses accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the associates' and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or the joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal of the relevant associate or joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and a joint venture (Continued)

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue recognition

The Group recognises revenue from the following major sources:

(a) Sales of goods

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

(b) Consultancy service fee income

The Group primarily earns revenues by providing consulting and researching services to its customers through fee-for-service contracts. Contracts duration ranges from a few weeks to months.

Revenue is recognised at a point of time when performance obligation is completed and has a present right to payment for the services performed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Revenue recognition (Continued)

(b) Consultancy service fee income (Continued)

The Group incurs costs to fulfil a contract in its consulting services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Lease modifications (Continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefits costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction and equipment under installation as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes and equipment under installation are carried at cost, less any recognised impairment losses. Cost include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable to operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than properties under construction and equipment under installation less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the depreciation of right-of-use assets (upon application of IFRS 16) or amortisation of prepaid lease payments (before application of IFRS 16) provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development ("R&D") expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amounts of property, plant and equipment, right-of-use assets, intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories (including raw materials acquired for usage in development activities) are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Trial batches manufactured prior to regulatory approval (including raw materials cost) is charged to development expenses when they are produced.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is collect contractual cash flows; and
- the contractual terms give rise on specified dates to ca sh flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulated gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, restricted bank deposits and bank balances) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate grouping.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status; and
- Nature, size and industry of debtors

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial assets.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment of an investment in debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

(i) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL. A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible loan notes, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities (Continued)

(ii) Financial liabilities at amortised cost

Financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

A conversion option that will be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative. The Group designated the convertible loan notes as at FVTPL upon initial recognition because the convertible loan notes contract contains one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL (see the accounting policy above).

Transaction costs relating to the issue of the convertible loan notes are recognised immediately in profit or loss. The Group issued the convertible loan notes for specific purpose for construction of a new biologics manufacturing facility. Therefore, the effective interest relating to the debt component of the convertible loan notes is eligible for capitalisation and is deducted from the fair value changes of convertible loan notes designated at FVTPL.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgement in applying accounting policies (Continued)

Research and development expenses

Development expenses incurred on the Group's drug product pipelines are capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development expenses which do not meet these criteria are expensed when incurred. Management of the Group will assess the progress of each of the research and development projects and determine the criteria met for capitalisation. All development expenses were expensed when incurred during the current and prior years.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation of uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Deferred tax assets

As at 31 December 2019, deferred tax assets of RMB20,590,000 (2018: RMB1,288,000) in relation to unused tax losses and other deductible temporary differences for certain operating subsidiaries has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB1,975,441,000 (2018: RMB1,469,264,000) for loss-making subsidiaries due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Fair value measurement of financial instruments

As at 31 December 2019, certain of the Group's unlisted equity investments amounting to RMB18,000,000 (2018: convertible loan notes of RMB241,763,000) are measured at fair value determined based on significant unobservable inputs using valuation techniques. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See Note 42b for further disclosures.

Provision of ECL for trade receivables and other receivables

Trade receivables and other receivables with significant balances are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and other receivables are disclosed in Notes 42b, 22 and 23 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

5. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year is as follows:

Continuing operations

	Sales of pharmaceutical products		Others *(Note)*		Total	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At a point in time	**774,124**	–	**965**	934	**775,089**	934

Note: The corresponding revenue represents service income which did not contribute over 10% of the total revenue of the Group and does not constitute as a reportable segment.

For continuing operations, the Group has been operating in one reporting segment, being the discovery, development and commercialisation of drugs. On 25 April 2018, the Group has entered into a contract to sell the equity interest in the subsidiary engaged in the sales of biologic reagent, details of which are set out in Note 34 and accordingly such operating segment has been presented as discontinued operations.

Starting from the year ended 31 December 2019, the Group generated revenue from sales of pharmaceutical products. For the purpose of resources allocation and performance assessment, the Group's management, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole.

No other discrete financial information is provided here, the Group has only one reportable segment and no further analysis of this single segment is presented other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographical information are presented.

Sales of pharmaceutical products

Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 35 to 45 days upon delivery.

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer. All sales of goods are for a period of one year or less.

As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operations are located in the PRC and the United States of America (the "United States").

Information about the Group's revenue from continuing operations from external is presented based on the location of operations. Information about the Group's non-current assets, excluded those relating to discontinued operations located in the PRC, and excluded non-current financial assets and deferred tax assets, is presented based on the geographical location of the assets as below:

	Revenue from external customers Year ended 31 December		Non-current assets As at 31 December	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
The PRC	**775,089**	934	**2,407,578**	1,311,972
The United States	**–**	–	**5,227**	4,846
	775,089	934	**2,412,805**	1,316,818

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Continuing operations		
Customer A[1]	**85,246**	–
Customer B[2]	**–**	472
Customer C[2]	**–**	462

[1] Revenue from sales of pharmaceutical products.

[2] Revenue from service income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

6. OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
Interest income from bank and time deposits	**29,222**	3,756
Government grants *(Note)*	**31,546**	4,631
	60,768	8,387

Note: Government grants include subsidies from the PRC government which are specifically for (i) the capital expenditure incurred for plant and machinery, which is recognised as income over the useful life of the related assets; (ii) the incentives and other subsidies for research and development activities, which are recognised as income upon meeting specific conditions; and (iii) the incentives which have no specific conditions attached to the grants.

7. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
Interest income from debt investment	**–**	119
Net losses on disposal of debt investment	**–**	(262)
Net gains from fair value changes of other financial assets measured at FVTPL	**700**	4,480
Net losses on fair value changes of foreign exchange forward contracts	**–**	(6,422)
Loss on disposal of property, plant and equipment	**(638)**	(907)
Exchange loss, net	**(2,266)**	(14,275)
Gain (loss) on fair value changes of convertible loan notes measured at FVTPL	**13,520**	(32,396)
Exclude: amounts included in the cost of properties under construction *(Note)*	**9,906**	17,022
	21,222	(32,641)

Note: The Group designated the convertible loan notes as a single financial liability which included debt instrument portion. As such, the fair value changes incorporated the effective interest of the convertible loan notes and the portion directly attributable to the construction of qualifying assets are eligible for capitalisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

8. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
Interest on bank and other borrowings	**31,423**	3,156
Less: amounts included in the cost of properties under construction	**(20,412)**	(1,074)
	11,011	2,082
Interest on lease liabilities	**2,289**	–
Transaction costs on issuance of convertible loan notes	**–**	1,981
	13,300	4,063

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

9. LOSS BEFORE TAX

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss before tax from continuing operations has been arrived at after charging:		
Auditor's remuneration	**2,400**	1,800
Amortisation for other intangible assets	**1,071**	144
Amortisation for prepaid lease payments	**–**	3,625
Less: amounts included in the cost of properties under construction	**–**	(3,495)
	–	130
Depreciation of right-of-use assets	**20,563**	–
Less: amounts included in the cost of properties under construction	**(3,495)**	–
	17,068	–
Depreciation for property, plant and equipment	**41,684**	29,923
Less: amounts included in the cost of properties under construction	**(232)**	–
	41,452	29,923
Minimum operating lease payment in respect of rented premises	**–**	10,759
Expenses relating to short-term leases and low value assets	**5,806**	–
Cost of inventories recognised as an expense:		
– Cost of sales	**89,735**	–
– Research and development expenses	**130,676**	–
Staff costs (including directors' emoluments):		
– Salaries and other benefits	**437,175**	131,423
– Retirement benefit scheme contributions	**39,827**	14,175
– Share-based payment expenses	**15,638**	21,700
Less: amounts included in the cost of properties under construction	**(39,167)**	(17,369)
amounts included in the cost of inventories	**(10,755)**	–
	442,718	149,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

10. INCOME TAX CREDIT

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
Current tax		
(Under) overprovision in prior year:		
United States Corporate Income Tax	**(411)**	–
PRC Enterprise Income Tax ("EIT")	**–**	64
	(411)	64
Deferred tax *(Note 32)*	**19,302**	1,149
Total income tax credit recognised in the current year	**18,891**	1,213

Under the law of the PRC Enterprise Income Tax (the "EIT Law") and Implementation regulations of the EIT Law, the basic tax rate of the Company and its PRC subsidiaries is 25% for both years.

上海君實生物工程有限公司Shanghai Junshi Biotechnology Co., Ltd.* has been accredited as a "High and New Technology Enterprise" by the Science and Technology Bureau of Shanghai and relevant authorities on 2 November 2018 for a term of three years, and has been registered with the local tax authorities for enjoying the reduced 15% EIT rate. Accordingly, the profits derived by the subsidiary is subject to 15% EIT rate for the reporting period. The qualification as a High and New Technology Enterprise will be subject to review by the relevant tax authorities in the PRC for every three years.

For both years, the US Tax Cuts and Jobs Act ("Act") reduces the US Federal Corporate Income rate to a flat rate of 21%.

TopAlliance Biosciences Inc., a wholly-owned subsidiary of the Company, is subject to the US California Corporate Income Tax rate of 8.84% (2018: 8.84%) for the year ended 31 December 2019. No provision for taxation in the United States has been made as TopAlliance Biosciences Inc. has sufficient tax losses brought forward to set off against assessable profit for the year ended 31 December 2019. No provision for taxation in the United States has been made as Top Alliance Biosciences Inc. has no assessable profit for the year ended 31 December 2018.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

10. INCOME TAX CREDIT (CONTINUED)

The income tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Continuing operations		
Loss before tax	**(763,124)**	(717,713)
Tax charge at the PRC EIT rate of 25% (2018: 25%)	**(190,781)**	(179,428)
Tax effect of share of loss of a joint venture	**1**	1
Tax effect of share of losses of associates	**631**	–
Tax effect of expenses not deductible for tax purpose	**108,597**	8,072
Tax effect of research and development expenses that are additionally deducted *(Note)*	**(103,478)**	(45,332)
Tax effect on other deductible temporary differences not recognised	**3,666**	3,364
Utilisation of deductible temporary differences previously not recognised	**(5,892)**	(3,176)
Under (over)provision in prior years	**411**	(64)
Tax effect of tax losses not recognised	**219,575**	215,350
Utilisation of tax losses previously not recognised	**(51,621)**	–
Income tax credit recognised in profit or loss	**(18,891)**	(1,213)

Note: Pursuant to Caishui [2018] circular No. 99, the Company and four subsidiaries being Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd.*, Suzhou Junmeng Bioscience Co. Ltd.*, Shanghai Junshi Biotechnology Co., Ltd.* and Suzhou Union Biopharm Bioscience Co. Ltd.* (2018: three subsidiaries being Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd.*, Suzhou Junmeng Bioscience Co., Ltd.* and Shanghai Junshi Biotechnology Co., Ltd.*) enjoy super deduction of 175% (2018: 175%) on qualifying research and development expenditures for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

11. LOSS PER SHARE

(a) Basic

For continuing and discontinued operations

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(743,922)**	(716,414)

Number of shares:

	Year ended 31 December	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic loss per share	**783,624,056**	601,917,890

For continuing operations

The calculation of the basic loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss for the year attributable to owners of the Company	**(743,922)**	(716,414)
Less: Profit for the year from discontinued operations attributable to owners of the Company	**–**	89
Loss for the year for the purpose of basic loss per share from continuing operations	**(743,922)**	(716,503)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

11. LOSS PER SHARE (CONTINUED)

(a) Basic (Continued)

From discontinued operations

Basic earnings per share for the discontinued operations is RMB0.01 cent for the year ended 31 December 2018, based on the profit for the year from the discontinued operations of RMB89,000 for the year ended 31 December 2018, and the denominators detailed above for the basic loss per share from continuing and discontinued operations.

(b) Diluted

The Company issued the convertible loan notes on 23 February 2018 as set out in Note 29. For the purpose of calculation of diluted loss per share for the years ended 31 December 2019 and 2018, it did not assume the conversion of the convertible loan notes since their assumed conversion would result in a decrease in loss per share. The Group granted share options on 14 May 2018 as set out in Note 37 and over-allotment option as per underwriting agreement entered on 16 December 2018. The over-allotment options was exercised in January 2019. The computation of diluted loss per share for the years ended 31 December 2019 and 2018 does not assume the exercise of the Company's outstanding share options and over-allotment share option since their assumed exercise would result in a decrease in loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

Directors and supervisors

Details of the emoluments paid or payable to the directors and the chief executive and supervisors of the Company for the services provided to the Group during both years are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Performance bonus RMB'000 *(Note k)*	Retirement benefit scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
For the year ended 31 December 2019						
Chief executive and executive director						
Dr. Li Ning *(Note b)*	–	6,809	660	3	–	7,472
Executive directors						
Mr. Xiong Jun *(Note a)*	–	3,672	720	103	–	4,495
Dr. Feng Hui	–	2,997	692	24	–	3,713
Mr. Zhang Zhuobing	–	2,731	600	103	–	3,434
Dr. Wu Hai	–	2,768	692	–	–	3,460
Dr. Yao Sheng	–	2,768	692	–	–	3,460
Non-executive directors						
Mr. Tang Yi	–	–	–	–	–	–
Mr. Li Cong	–	–	–	–	–	–
Mr. Yi Qingqing	–	–	–	–	–	–
Mr. Lin Lijun *(Note g)*	–	–	–	–	–	–
Supervisors						
Mr. Gao Yucai *(Note h)*	–	139	35	29	166	369
Mr. Liu Hongchuan *(Note h)*	–	165	160	36	199	560
Ms. Wang Pingping *(Note d)*	–	–	–	–	–	–
Mr. Yan Jiawei *(Note d)*	–	–	–	–	–	–
Mr. Wu Yu *(Note d)*	–	–	–	–	–	–
Ms. Nie Anna *(Note i)*	–	82	–	27	–	109
Ms. Li Ruolin *(Note i)*	–	125	–	35	–	160
Mr. Liu Jun *(Note j)*	–	–	–	–	–	–
Independent non-executive directors						
Dr. Chen Lieping *(Note e)*	5,536	–	–	–	–	5,536
Dr. He Jia *(Note e)*	266	–	–	–	–	266
Mr. Chen Xinjun *(Note e)*	200	–	–	–	–	200
Mr. Qian Zhi *(Note e)*	200	–	–	–	–	200
Dr. Roy Steven Herbst *(Note e)*	2,076	–	–	–	–	2,076
	8,278	22,256	4,251	360	365	35,510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors and supervisors (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Performance bonus RMB'000 *(Note k)*	Retirement benefit scheme contributions RMB'000	Share-based payment expenses RMB'000	Total RMB'000
For the year ended 31 December 2018						
Chief executive and executive director						
Dr. Li Ning *(Note b)*	–	3,981	–	–	–	3,981
Executive directors						
Mr. Xiong Jun *(Note a)*	–	1,515	432	51	–	1,998
Dr. Feng Hui	–	1,426	672	12	–	2,110
Mr. Zhang Zhuobing	–	889	360	51	–	1,300
Dr. Wu Hai	–	1,344	672	–	–	2,016
Dr. Yao Sheng	–	1,344	672	–	–	2,016
Non-executive directors						
Mr. Chen Bo *(Note f)*	–	–	–	–	–	–
Mr. Tang Yi	–	–	–	–	–	–
Mr. Li Cong	–	–	–	–	–	–
Mr. Yi Qingqing	–	–	–	–	–	–
Mr. Lin Lijun *(Note g)*	–	–	–	–	–	–
Supervisors						
Mr. Wang Miaoxin *(Note c)*	–	274	–	2	–	276
Mr. Gao Yucai	–	372	160	26	375	933
Mr. Liu Hongchuan	–	328	268	26	450	1,072
Ms. Wang Pingping *(Note d)*	–	–	–	–	–	–
Mr. Yan Jiawei *(Note d)*	–	–	–	–	–	–
Mr. Wu Yu *(Note d)*	–	–	–	–	–	–
Independent non-executive directors						
Dr. Chen Lieping *(Note e)*	–	–	–	–	–	–
Dr. He Jia *(Note e)*	–	–	–	–	–	–
Mr. Chen Xinjun *(Note e)*	–	–	–	–	–	–
Mr. Qian Zhi *(Note e)*	–	–	–	–	–	–
Dr. Roy Steven Herbst *(Note e)*	–	–	–	–	–	–
	–	11,473	3,236	168	825	15,702

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors and supervisors (Continued)

Notes:

(a) Mr. Xiong Jun was resigned as general manager (the role is equivalent to chief executive) in January 2018 but continued to serve as the chairman of the board of directors.

(b) Dr. Li Ning was appointed as chief executive of the Company in January 2018 and was appointed as a director of the Company in June 2018. His emoluments disclosed above included those services rendered by him as the chief executive.

(c) Mr. Wang Miaoxin was resigned as a supervisor in April 2018.

(d) Ms. Wang Pingping, Mr. Yan Jiawei and Mr. Wu Yu were appointed as supervisors in June 2018. Mr. Yan Jiawei was resigned as a supervisor in April 2019.

(e) Dr. Chen Lieping, Dr. He Jia, Mr. Chen Xinjun, Mr. Qian Zhi and Dr. Roy Steven Herbst were appointed as independent non-executive directors of the Company in June 2018.

(f) Mr. Chen Bo resigned as general manager of the Company in January 2016 but continued to serve as a director of the Company until June 2018.

(g) Mr. Lin Lijun was appointed as non-executive director in June 2018.

(h) Mr. Gao Yucai and Mr. Liu Hongchuan were resigned as supervisors in April 2019.

(i) Ms. Nie Anna and Ms. Li Ruolin were appointed as supervisors in May 2019.

(j) Mr. Liu Jun was appointed as a supervisor in June 2019.

(k) The performance bonus are determined by the board of directors based on the Group's performance for the years ended 31 December 2019 and 2018.

The executive directors' and supervisors' emoluments shown above were for their services in connection with the management or supervision of the affairs of the Company and the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or chief executive waived or agreed to waive any remunerations during both years.

During the year ended 31 December 2018, certain supervisors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

12. DIRECTORS', CHIEF EXECUTIVE'S, SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Employees

The five highest paid individuals of the Group during the year included five (2018: four) directors, chief executive and supervisors of the Company. Details of their emoluments are set out above. The emoluments of the remaining nil (2018: one) highest paid employee who is neither a director nor chief executive nor supervisor of the Company are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries and other benefits	**–**	1,669
Performance bonus	**–**	535
Retirement benefit scheme contributions	**–**	51
	–	2,255

Emoluments of the five highest paid individuals fell within the following bands:

	Year ended 31 December	
	2019	2018
HK$2,000,001 to HK$2,500,000	**–**	3
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**1**	–
HK$6,000,001 to HK$6,500,000	**1**	–
HK$8,000,001 to HK$8,500,000	**1**	–

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office for both years.

13. DIVIDENDS

No dividend was paid or declared by the Company during the years ended 31 December 2019 and 2018, nor has any dividend been declared since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings situated on leasehold land in the PRC	Machinery	Furniture, fixtures and equipment	Transportation equipment	Leasehold improvement	Properties under construction	Equipment under installation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2018	56,867	159,433	38,858	14,269	1,358	58,431	64,640	393,856
Additions	–	9,380	12,458	6,272	3,215	426,828	152,736	610,889
Transfer	8,681	14,576	2,518	–	–	(8,681)	(17,094)	–
Disposal of a subsidiary *(Note 34)*	–	–	(16)	(120)	–	–	–	(136)
Disposal	–	(103)	(2,072)	–	–	–	–	(2,175)
Exchange realignment	–	–	441	–	–	–	–	441
At 31 December 2018	65,548	183,286	52,187	20,421	4,573	476,578	200,282	1,002,875
Additions	12,752	11,974	48,769	7,938	9,624	559,943	279,894	930,894
Transfer	728	15,288	10,487	–	–	(728)	(25,775)	–
Disposal	–	(40)	(1,579)	(214)	–	–	–	(1,833)
Exchange realignment	–	–	(84)	–	–	–	(1)	(85)
At 31 December 2019	**79,028**	**210,508**	**109,780**	**28,145**	**14,197**	**1,035,793**	**454,400**	**1,931,851**
DEPRECIATION								
At 1 January 2018	738	9,922	19,061	3,744	765	–	–	34,230
Provided for the year	2,740	18,261	5,059	3,385	982	–	–	30,427
Disposal of a subsidiary *(Note 34)*	–	–	(3)	(59)	–	–	–	(62)
Disposal	–	(22)	(1,246)	–	–	–	–	(1,268)
Exchange realignment	–	–	207	–	–	–	–	207
At 31 December 2018	3,478	28,161	23,078	7,070	1,747	–	–	63,534
Provided for the year	3,422	17,951	12,670	4,425	3,216	–	–	41,684
Disposal	–	(26)	(930)	(192)	–	–	–	(1,148)
Exchange realignment	–	–	(87)	–	–	–	–	(87)
At 31 December 2019	**6,900**	**46,086**	**34,731**	**11,303**	**4,963**	**–**	**–**	**103,983**
CARRYING VALUES								
At 31 December 2019	**72,128**	**164,422**	**75,049**	**16,842**	**9,234**	**1,035,793**	**454,400**	**1,827,868**
At 31 December 2018	62,070	155,125	29,109	13,351	2,826	476,578	200,282	939,341

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For the year ended December 31, 2019

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment except for properties under construction and equipment under installation are depreciated on a straight-line basis after taking into account of the residual value as follows:

Buildings situated on leasehold land in the PRC	4.75% per annum
Machinery	9.50% – 31.67% per annum
Furniture, fixtures and equipment	19.00% – 31.67% per annum
Transportation equipment	19.00% – 31.67% per annum
Leasehold improvement	33.33% – 50.00% per annum

As at 31 December 2019, certain of the Group's property, plant and equipment with an aggregate carrying amount of RMB1,607,916,000 (2018: RMB775,938,000) have been pledged to secure bank borrowings (Note 28) granted to the Group.

15. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	**74,408**	**48,724**	**123,132**
As at 31 December 2019			
Carrying amount	**136,628**	**42,890**	**179,518**
For the year ended 31 December 2019			
Depreciation charge	**4,752**	**15,811**	**20,563**
Capitalised in properties under construction	**(3,495)**	**–**	**(3,495)**
	1,257	**15,811**	**17,068**
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16			**5,159**
Expense relating to lease of low-value assets, excluding short-term leases of low value assets			**647**
Total cash outflow for lease			**90,334**
Additions to right-of-use assets			**76,949**

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15. RIGHT-OF-USE ASSETS (CONTINUED)

For both years, the Group leases leasehold lands and leased properties for its operations. Lease contracts are entered into for fixed term of one to five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group, owns several industrial buildings where its manufacturing facilities are primarily located. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for properties. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 9.

As at 31 December 2019, certain of the Group's right-of-use assets with an aggregate carrying amount of RMB62,425,000 have been pledged to secure bank borrowings (Note 28) granted to the Group.

As at 31 December 2019, the Group entered into new leases for several leased properties that have not yet commenced, with average non-cancellable period ranging from one to five years, the total future undiscounted cash flows over the non-cancellable period amounted to RMB10,997,000.

Details of the lease maturity analysis of lease liabilities are set out in Note 31.

16. PREPAID LEASE PAYMENTS

	2018 RMB'000
COST	
At the beginning of the year	73,321
Additions	8,480
At the end of the year	81,801
AMORTISATION	
At the beginning of the year	3,768
Provided for the year	3,625
At the end of the year	7,393
CARRYING VALUES	
At the end of the year	74,408

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16. PREPAID LEASE PAYMENTS (CONTINUED)

The Group's prepaid lease payments comprise leasehold interest in land situated in the PRC on medium term leases.

As at 31 December 2018, certain of the Group's prepaid lease payments with an aggregate carrying amount of RMB62,915,000 have been pledged to secure bank borrowings (Note 28) granted to the Group.

17. GOODWILL

	At 31 December	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**–**	1,519
Disposal of a subsidiary *(Note 34)*	**–**	(1,519)
At the end of the year	**–**	–

18. OTHER INTANGIBLE ASSETS

	At 31 December	
	2019	2018
	RMB'000	RMB'000
COST		
At the beginning of the year	**1,632**	299
Additions	**5,907**	1,333
At the end of the year	**7,539**	1,632
AMORTISATION		
At the beginning of the year	**177**	33
Provided during the year	**1,071**	144
At the end of the year	**1,248**	177
CARRYING VALUES		
At the end of the year	**6,291**	1,455

Other intangible assets represent computer software acquired from third parties.

The above intangible assets have finite useful lives and are amortised on a straight-line basis as follow:

Computer software	20% – 50% per annum

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For the year ended December 31, 2019

19. INTEREST IN A JOINT VENTURE

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of investment in a joint venture	**1,000**	1,000
Share of post-acquisition profits	**22**	27
	1,022	1,027

Details of the Group's interest in a joint venture are as follows:

Name of entity	Form of entity	Country of establishment	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
				As at 31 December 2019	As at 31 December 2018	**As at 31 December 2019**	As at 31 December 2018	
Beijing Tianshi Pharmaceutical Technology Co., Ltd.* (北京天實醫藥科技有限公司)	Limited liability company	The PRC	The PRC	**50%**	50%	**50%**	50%	Inactive

Summarised financial information of joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets	**2,044**	2,054

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss for the year	**(10)**	(8)

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For the year ended December 31, 2019

19. INTEREST IN A JOINT VENTURE (CONTINUED)

Summarised financial information of joint venture (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Net assets of the joint venture	**2,044**	2,054
Proportion of the Group's ownership interest in the joint venture	**50%**	50%
Carrying amount of the Group's interest in a joint venture	**1,022**	1,027

20. INTERESTS IN ASSOCIATES

On 19 March 2019, the Group acquired 36.71% equity interest of Suzhou Rui Ming Bioscience Technology Limited* ("SRBT") for a cash consideration of RMB2,900,000. In addition, on 11 September 2019, the Group acquired 20% equity interest of Anwita Biosciences, Inc. ("Anwita") for a cash consideration of USD10,000,000 (equivalent to RMB70,846,000). Upon the completion of the transactions, SRBT and Anwita became associates of the Group.

	At 31 December 2019
Cost of investments in associates	**73,746**
Share of post-acquisition loss	**(1,181)**
Exchange adjustment	**(1,341)**
	71,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

20. INTERESTS IN ASSOCIATES (CONTINUED)

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of entities	Form of entity	Country of incorporation	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
				As at 31 December 2019	As at 31 December 2018	As at 31 December 2019	As at 31 December 2018	
SRBT (蘇州睿明生物技術有限公司)	Limited liability company	The PRC	The PRC	36.71%	–	36.71%	–	Provision of research and development and consultancy service
Anwita	Limited liability company	USA	USA	20%	–	20%	–	Provision of research and development service

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate are set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using equity method in these consolidated financial statements.

Anwita

	At 31 December 2019 RMB'000
Current assets	73,904
Non-current assets	9,295
Current liabilities	(4,008)
Non-current liabilities	(3,182)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

20. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate (Continued)

Anwita (Continued)

	From 11 September 2019 to 31 December 2019 RMB'000
Revenue	–
Loss and total comprehensive expense for the period	(9,876)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	At 31 December 2019 RMB'000
Net assets of Anwita	**76,009**
Proportion of the Group's ownership interest in the associate	**20%**
The Group's share of net assets of Anwita	**15,202**
Goodwill	**55,010**
Exchange adjustment	**(1,341)**
Carrying amount of the Group's interest in Anwita	**68,871**
Aggregate information of an associate that is not individually material	
The Group's share of loss and total comprehensive expense for the year	**(547)**
Carrying amount of the Group's interest in an associate	**2,353**

21. INVENTORIES

	At 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials	**129,081**	48,468
Work in progress	**35,004**	–
Finished goods	**16,581**	–
	180,666	48,468

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For the year ended December 31, 2019

22. TRADE RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**157,505**	–
Less: Allowance for credit losses	**(89)**	–
	157,416	–

As at 1 January 2018, trade receivable from contracts with customers amounted to RMB220,000.

The aged analysis of the Group's trade receivables, based on invoice date, at the end of each reporting period are as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
0 – 30 days	**96,647**	–
31 – 90 days	**60,235**	–
91 – 180 days	**534**	–
	157,416	–

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB8,540,000 (2018: nil) which are past due as at the reporting date. As there has not been a significant change in the debtors' credit quality, accordingly, the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables are set out in Note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

23. OTHER ASSETS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Deposits *(Note a)*		
– current	**4,548**	4,079
– non-current	**8,584**	8,305
Prepayments		
– current *(Note b)*	**300,927**	48,747
– non-current *(Note c)*	**201,156**	245,249
Amount due from a partner of a joint operation *(Note d)* (current)	**6,099**	6,986
Deposits for leasehold interest in land *(Note e)*		
– current	**5,430**	2,715
– non-current	**–**	2,715
Value added tax recoverable *(Note f)*		
– current	**25,371**	31,004
– non-current	**125,726**	56,152
Deferred issue costs *(Note g)* (current)	**10,376**	–
	688,217	405,952
Less: Allowance for credit losses	**(588)**	(1,715)
	687,629	404,237
Analysis as		
– current	**352,163**	92,630
– non-current	**335,466**	311,607
	687,629	404,237

Notes:

(a) Deposits mainly include rental and utility deposits.

(b) Prepayments mainly include upfront fee paid for research and development services for the clinical and non-clinical study of the drugs. Prepayments also include other prepaid operating expenses and prepayments for purchase of raw materials.

(c) Amount represents prepayments for construction in progress and acquisition of property, plant.

(d) The amount is unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. OTHER ASSETS, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(e) In December 2016, the Group paid a refundable and interest-bearing deposit amounting to RMB13,574,000 to Development and Construction Management Committee of Shanghai Lingang industrial area for acquiring the use right of a land located in Shanghai Lingang Industrial Area ("Shanghai Lingang") in order to construct its industrialisation facility to produce future drug pipelines. 60% of the deposit of RMB8,144,000 with interest income of RMB15,000, of total amount of RMB8,159,000 was refunded upon the commencement of the construction in August 2017, 20% of the deposit will be refunded upon the completion of the construction and the remaining 20% of the deposit will be refunded upon the commencement of production. The management expected the facility will be completed within one year subsequent to the end of the reporting period.

RMB5,430,000 (2018: RMB2,715,000) is expected to be recovered within the next twelve months from the end of the reporting period and therefore presented as current assets as at 31 December 2019 and the remaining balance as non-current assets.

(f) Included in value added tax recoverable are RMB25,371,000 (2018: RMB31,004,000) presented as current assets as at 31 December 2019 since they are expected to be deducted from future value added tax payable arising on the Group's revenue which are expected to be generated within the next twelve months from the end of 31 December 2019. The remaining value added tax recoverable of RMB125,726,000 (2018: RMB56,152,000) are expected to be recoverable after the 31 December 2020 and therefore presented as non-current assets as at 31 December 2019.

(g) The amount represents deferred issue costs for the Company's application for the listing on the Science and Technology Innovation Board ("STIB") of the Shanghai Stock Exchange.

Details of impairment assessment of other receivables are set out in Note 42.

24. OTHER FINANCIAL ASSETS

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets		
Financial assets measured at FVTPL		
– Financial products *(Note a)*	**–**	5,500
– Fund *(Note b)*	**17**	16
	17	5,516
Non-current assets		
Financial assets measured at FVTPL		
– Unlisted equity investment *(Note c)*	**69,345**	18,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. OTHER FINANCIAL ASSETS (CONTINUED)

Notes:

(a) The Group entered into contracts in respect of financial products (the "Financial Products") with financial institutions, with contractual terms from 7 days to 21 days. The principal is not guaranteed by the relevant financial institutions and the expected return rate is 3.95% per annum for the year ended 31 December 2018. No financial products were outstanding as of 31 December 2019.

(b) The Group entered into several contracts of funds (the "Fund") with financial institutions. The principals are not guaranteed and the return of the Fund are determined by reference to the performance of the underlying instruments including equity and debt securities.

(c) The Group invested in Hebei Boke Biotechnology Co., Ltd.* (河北博科生物技術有限公司) ("Boke") at the fair value of RMB15,000,000 in April 2018, representing 5% of the registered capital of Boke. Boke is mainly engaged in drug discovery and development consulting services. The Group also invested in Beijing Zhenzhi Medical Technology Co., Ltd.* (北京臻知醫學科技有限責任公司) ("Zhenzhi") at the fair value of RMB3,000,000 in September 2018, representing 15% of the registered capital of Zhenzhi. Zhenzhi is mainly engaged in technology services and medical research and development. The Group also invested in Hangzhou DAC Biotech Co., Ltd.* (杭州多禧生物科技有限公司) ("Hangzhou DAC") at the fair value of RMB51,345,000 in October 2019, representing 4.5479% of the registered capital of Hangzhou DAC. Hangzhou DAC is mainly engaged in drug discovery.

25. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposits represent the deposits restricted for settlement to the supplier for acquisition of equipment. The restricted bank deposits will be released on 30 April 2020.

Bank balances and cash of the Group comprised of cash and short-term bank deposits with an original maturity of three months or less. Bank balances carrying interest at market rates which ranged from 0.3% to 3.6% per annum at 31 December 2019 (2018: from 0.125% to 1.00% per annum).

Details of the impairment assessment of restricted bank deposits and bank balances are set out in Note 42.

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26. TRADE AND OTHER PAYABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables		
– related parties *(Note a)*	**–**	3,620
– third parties	**74,616**	36,558
Accrued expenses in respect of:		
– construction costs of properties under construction	**112,561**	80,025
– research and development expenses *(Note b)*	**98,561**	81,049
– selling and distribution expenses	**14,979**	7,867
– others	**42,948**	13,394
Salary and bonus payables	**113,311**	50,901
Other tax payables	**10,409**	2,126
Payables for issue costs	**13,565**	14,415
Other payables	**33,689**	1,367
	514,639	291,322

Payment terms with suppliers are mainly with credit term of 15 days to 60 days (2018: 15 days to 60 days) from the time when the goods and services are received from the suppliers. The following is an aging analysis of trade payables presented based on invoice date at the end of the reporting period:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
0 – 30 days	**58,726**	33,372
31 – 60 days	**2,946**	198
61 – 180 days	**11,426**	81
Over 180 days	**1,518**	6,527
	74,616	40,178

Notes:

(a) Amount represents trade payable to United-Power Pharma Tech Co., Ltd.* (軍科正源（北京）藥物研究有限責任公司) ("UPPT"), an associate of Beijing Zhengdan International Technology Co., Ltd. ("BJZD"). BJZD is a non-controlling shareholder of Beijing Junke Jingde Biotechnology Co., Ltd*, a subsidiary of the Company.

(b) Amounts included service fees payable to outsourced service providers including contract research organisations and clinical trial centres.

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27. CONTRACT LIABILITIES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Upfront fee received for collaboration agreement *(Note a)*	**–**	28,302
Other receipt in advance in respect of research and development services *(Note b)*	**–**	1,111
	–	29,413
Analysis as		
– current	**–**	1,111
– non-current	**–**	28,302
	–	29,413

As at 1 January 2018, contract liabilities amounted to RMB646,000.

Notes:

(a) In June 2018, the Group entered into a co-development and strategic collaboration agreement (the "Agreement") with CSPC, under which the Group and CSPC will co-develop PD-1 (the anti-PD-1 monoclonal antibody exclusively supplied by the Group), in combination with albumin-bonded paclitaxel (the "Product") for the treatment of breast cancer the PRC including Hong Kong, Taiwan and Macau. A joint steering committee will be established with equal representation from each party to coordinate and oversee development and commercialisation activities and decisions for the Product. CSPC at its own expense, shall be responsible for designing and executing the clinical trial for the Product, supplying albumin-bonded paclitaxel to the Group for conducting clinical trials, applying and securing approval and commercialisation of the Product. The Group shall be responsible for securing approval of PD-1 single treatment, supplying PD-1 to CSPC for conducting clinical trials and supplying PD-1 to CSPC for sale of the Product. All intellectual property rights related to the Product shall be jointly owned by the Group and CSPC. Further, CSPC was granted an exclusive royalty based license to commercialise the Product within the PRC from the receipt of the relevant regulatory approval in the PRC for 20 years ("Commercialisation Period"). On 11 July 2018, the Group received RMB30,000,000 upfront fee (including value added tax amounting to RMB1,698,000) upon execution of the Agreement. The Group is also entitled to receive an aggregate of RMB120,000,000 future milestone payments from CSPC upon the achievement of contractually specified development milestones in the Agreement. Details of the sales royalty arrangement was to be determined between both parties. On 30 December 2019, the Group and CSPC mutually agreed to terminate the Agreement.

(b) The Group receives payments before service is rendered and this gives rise to contract liabilities until the revenue is recognised. During the year ended 31 December 2019, revenue of RMB965,000 (2018: nil) that was included in the contract liabilities at the beginning of the year was recognised upon service rendered, after deducting value added tax amounting to RMB146,000.

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28. BORROWINGS

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Bank borrowings		
– secured	**746,085**	150,225
– unsecured *(Note a)*	**75,702**	18,132
	821,787	168,357
Other borrowings – unsecured *(Note b)*	**–**	160,275
Total borrowings	**821,787**	328,632
The maturity profile of bank and other borrowings is as follows:		
– within one year	**76,891**	178,632
– within a period of more than two years but not exceeding five years	**744,896**	150,000
	821,787	328,632
Less: Amount due within one year shown under current liabilities	**(76,891)**	(178,632)
Amount shown under non-current liabilities	**744,896**	150,000
The exposure of the Group's borrowings are as follows:		
Fixed-rate borrowings	**821,787**	178,407
Variable-rate borrowings	**–**	150,225
Total borrowings	**821,787**	328,632

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28. BORROWINGS (CONTINUED)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank and other borrowings are as follows:

	At 31 December	
Effective interest rate:	**2019**	2018
Variable-rate bank borrowings	**–**	6.65% per annum
Fixed-rate bank borrowings	**4.35% – 5.23% per annum**	4.35% per annum
Fixed-rate other borrowings	**–**	5.66% – 10.50% per annum

In 2018, the Group's variable-rate bank borrowings carry interest at 40% above the People's Bank of China benchmark lending interest rate for one to five years borrowings.

All bank and other borrowings are denominated in RMB as at 31 December 2019 and 2018.

As at 31 December 2019, the Group has pledged the following assets as securities for the Group's bank borrowings:

	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**1,607,916**	775,938
Prepaid lease payments	**–**	62,915
Right-of-use assets	**62,425**	–
	1,670,341	838,853

Notes:

(a) In December 2018, the Group entered into a 1 year loan facility up to RMB200,000,000 with the China Merchants Bank and drew down RMB18,132,000 with a fixed interest rate of 4.35% under the facility. In December 2019, the loan facility was extended for 1 year and up to RMB900,000,000 and the Group drew down RMB75,702,000 with a fixed interest rate of 4.35% under the facility. The interest rate is based on the borrowing agreement. The loan facility will mature in December 2020.

(b) As at 31 December 2018, the carrying amount of other borrowings includes 4 loans with total principal of RMB140,000,000 and interest payable of RMB275,000 borrowed from Shen Zhen Rui He Xing Ye Asset Management Co., Ltd.* (深圳市瑞和興業資產管理有限公司). The loans are unsecured, unguaranteed, interest bearing from 5.66% to 10.50% per annum and have repayment periods from 1 month to 11 months. The remaining RMB20,000,000 represents loan from Jiangsu Biopharma Co., Ltd* (江蘇泰康生物醫藥有限公司) ("T-mab"), a collaboration party with the Group, which is unsecured, interest bearing at 5.66% per annum and is repayable on demand. The Group paid interest of RMB1,027,000 for the loan from T-mab during the year ended 31 December 2018. The entire balance of other borrowings was settled during the year ended 31 December 2019.

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29. CONVERTIBLE LOAN NOTES

On 9 February 2018, the Company obtained no objection letter from the Shanghai Stock Exchange for the issue of convertible loan notes in a principal amount of no more than RMB500,000,000. On 23 February 2018, the Company issued convertible loan notes in a principal amount of RMB200,000,000 to qualified investors. The major terms and conditions of the convertible loan notes are as follows:

(a) Maturity

The maturity date for the convertible loans notes is 23 February 2024 ("Maturity Date") which is 6 years from the date of issue of the convertible loan notes.

(b) Interest rate

The Company shall pay a non-compound coupon rate at 10.35% per annum. Interest due and repayable on 3rd, 4th, 5th and 6th anniversary dates of bond issuance.

(c) Conversion price

The bond matures in six years from the date of issuance at its nominal value of RMB200,000,000, which can be converted into ordinary shares of the Company at an original conversion price of RMB25 per share, subject to adjustments for distribution of bonus shares or capital, issuance of new shares or rights issue and distribution of cash dividends. In addition, after getting approval from shareholders' meeting, the Company has the right to adjust down the conversion price, which shall not be lower than the audited net assets value per share of the Company in accordance with the latest audited financial statements. The conversion price of the convertible loan note was adjusted to RMB23.19 with effective from 25 December 2018 as a result of the issue of new H Shares, and it was adjusted further down to RMB23.00 with effective from 10 January 2019 as a result of the issuance of over-allotment share.

(d) Redemption

Bondholders are entitled to an option to early redeem at 3 years before Maturity Date the whole or part of the principal outstanding amount of the convertible loan notes at principal amount, together with accrued but unpaid interest thereon.

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem the convertible loan note at 100% of its principal amount, together with accrued but unpaid interest thereon.

The Group and the Company have designated the convertible loan notes as financial liabilities measured at FVTPL as a whole. The change in fair value of the convertible loan notes is charged to profit or loss except for the portion attributable to credit risk change that shall be charged to other comprehensive income.

On 5 July 2019, the Group exercised its right to redeem all the convertible loan notes from the bondholders. The number of convertible loan notes redeemed was 2,000,000 with total amount of RMB228,242,800 (including principal and interest upon redemption date).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

29. CONVERTIBLE LOAN NOTES (CONTINUED)

The movement of the convertible loan notes for the year is set out as below:

	Fair value of convertible loan notes RMB'000
At 23 February 2018 (date of issuance)	200,000
Change in fair value charged to profit or loss *(Note 7)*	32,396
Change in fair value charged to other comprehensive income attributable to change in credit risk	9,367
At 31 December 2018 and 1 January 2019	241,763
Change in fair value charged to profit or loss *(Note 7)*	(13,520)
Payment of interests	(28,243)
Redemption of convertible loan notes	(200,000)
At 31 December 2019	–

The Company has used the binominal option pricing model to determine the fair value of the convertible loan notes as of the date of issuance and as at 31 December 2018.

Key valuation assumptions used to determine the fair value of convertible loan notes are as follows:

	As at 31 December 2018
Share price *(Note a)*	RMB19.00
Discount rate	18.00%
Time to maturity	5.15 years
Risk-free rate	3.03%
Expected volatility *(Note b)*	43.00%
Expected dividend yield	0.00%

Notes:

(a) The share price was determined by reference to the price on NEEQ as of valuation date.

(b) The expected volatility was determined by using the historical volatility of the share price of the comparable companies with similar business nature of the Company as of the valuation dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

30. DEFERRED INCOME

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants related to property, plant and equipment *(Note a)*	**35,795**	28,835
Other subsidies *(Note b)*	**20,525**	16,212
	56,320	45,047
Analysis as:		
– non-current	**56,320**	45,047

Notes:

(a) The Group received government grants for capital expenditure incurred for the acquisition of plant and machineries. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

(b) Other subsidies are generally provided in relation to the research and development activities of the Group which are recognised as income upon meeting the attached conditions.

31. LEASE LIABILITIES

	At 31 December 2019
	RMB'000
Lease liabilities payable:	
Within one year	**13,846**
Within a period of more than one year but not more than two years	**11,042**
Within a period of more than two years but no more than five years	**16,290**
	41,178
Less: Amount due for settlement with 12 months shown under current liabilities	**(13,846)**
Amount due for settlement after 12 months Shown under non-current liabilities	**27,332**

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32. DEFERRED TAXATION

The following is a summary of the deferred tax balances for financial reporting purposes:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred tax assets	**20,590**	1,288

The following are the major deferred tax assets and liabilities recognised and movements thereon before offsetting during the current and prior years.

	Doubtful debts	**Deferred income**	**Unused tax losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	139	–	–	139
(Charged) credited to profit or loss	(135)	–	1,284	1,149
At 31 December 2018	4	–	1,284	1,288
Credited to profit or loss	23	939	18,340	19,302
At 31 December 2019	**27**	**939**	**19,624**	**20,590**

As at 31 December 2019, the Group had deductible temporary differences and unused tax losses of RMB41,463,000 (2018: RMB46,520,000) and RMB2,073,125,000 (2018: RMB1,474,400,000), respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of RMB3,864,000 (2018: RMB16,000) and RMB97,684,000 (2018: RMB5,136,000) of such deductible temporary differences and tax losses respectively as at 31 December 2019. Balance of deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised due to the unpredictability of future profit streams are as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Share-based payment expenses	**10,980**	6,124
Fair value change of financial instruments	**–**	22,434
Deferred income	**23,764**	16,247
Tax losses	**1,975,441**	1,469,264
Others	**2,855**	1,699
	2,013,040	1,515,768

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32. DEFERRED TAXATION (CONTINUED)

The unused tax losses for the PRC subsidiaries will be carried forward and expire in years as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
2019	**–**	12,880
2020	**45,088**	56,222
2021	**88,263**	111,433
2022	**269,289**	315,529
2023	**492,237**	757,215
2024	**1,071,061**	–
	1,965,938	1,253,279

At the end of reporting period, the Group has net US operating loss carryforwards for federal income tax purposes of RMB9,503,000 (2018: RMB215,985,000) that are available to offset future profits. As at 31 December 2018, the losses of RMB111,799,000 out of total unrecognised tax losses, will expire in various years between 2023 and 2037 and the remaining losses may carry forward indefinitely under the Act but subject to certain limitations. As at 31 December 2019, all tax losses may carry forward indefinitely under the Act but subject to certain limitations.

33. SHARE CAPITAL

	Total number of shares	**Amount** RMB'000
Registered, issued and fully paid at RMB1.0 per share:		
At 1 January 2018	584,750,000	584,750
Issue of domestic ordinary shares by private equity placement on 7 March 2018 *(Note a)*	16,650,000	16,650
H shares issued upon initial public offering *(Note b)*	158,910,000	158,910
At 31 December 2018	760,310,000	760,310
New H shares issued upon over-allotment options exercised *(Note c)*	23,836,500	23,837
At 31 December 2019	**784,146,500**	**784,147**

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33. SHARE CAPITAL (CONTINUED)

Notes:

(a) On 7 March 2018, the Company completed an issue of 16,650,000 domestic ordinary shares. The net proceeds received from the issue amounted to RMB297,955,000, after deduction of issue expenses of RMB1,745,000. Part of the proceeds, amounting to RMB16,650,000, was credited as issued and fully paid share capital, and the remaining balance (after deduction of issue expenses) of RMB281,305,000 was credited to share premium.

(b) On 24 December 2018, the Company issued 158,910,000 new H shares at HK$19.38 (equivalent to RMB17.07) per share for a total gross proceeds of HK$3,079,676,000 (equivalent to RMB2,713,194,000) by way of initial public offering of the Company on the Stock Exchange. The proceeds of RMB158,910,000 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of RMB2,554,284,000 were credited to share premium account of the Company. On the same date, the Company's H shares were listed on the Main Board of the Stock Exchange.

(c) On 9 January 2019, the Company issued 23,836,500 new H shares at HK$19.38 (equivalent to RMB16.94) per share for a total gross proceeds of HK$461,951,000 (equivalent to RMB403,838,000) from the exercise of over-allotment options from initial public offering of the Company on the Stock Exchange. The proceeds of RMB23,836,500 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of RMB380,001,500 were credited to the share premium account of the Company.

All the new shares rank pari passu with the existing shares in all respects.

34. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY

In April 2018, the shareholder of Beijing Junke Jingde Biotechnology Co., Ltd.* (北京軍科鏡德生物科技有限責任公司) resolved to dispose of the segment of sales of biological reagent. The Group entered into a sales and purchase agreement with an independent third party to dispose of its entire interest in Beijing Xinjingke Biotechnology Co., Ltd. ("Xinjingke") for a cash consideration of RMB2,000,000 (the "Disposal"). The Disposal was completed on 29 June 2018, on which date control of Xinjingke was passed to the acquirer. The reason for the Disposal was that the Group can concentrate its resources on development and documentation of drugs.

Analysis of the profit for the year from the discontinued operations is set out below.

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34. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY (CONTINUED)

The results of the discontinued sales of biological reagent operations for the period from 1 January 2018 to 29 June 2018, which were included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	From 1 January to 29 June 2018 RMB'000
Revenue (sales of goods – at a point in time)	1,994
Cost of sales	(1,686)
Gross profit	308
Other income	1
Selling and distribution expenses	(191)
Impairment loss in respect of trade and other receivables, net of reversal	(16)
Administrative expenses	(396)
	(294)
Gain on disposal	441
Profit for the period from discontinued operations	147

Profit for the period from discontinued operations includes the following:

	From 1 January to 29 June 2018 RMB'000
Depreciation for property, plant and equipment	9
Staff costs	
– Salaries and other benefits	447
– Retirement benefit scheme contributions	55

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34. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY (CONTINUED)

Cash flows from discontinued operations are summarised as follows:

	From 1 January to 29 June 2018 RMB'000
Net cash inflow from operating activities and net cash inflow	117

Note: The Disposal was completed on 29 June 2018, thus no disclosure for the year ended 31 December 2019 is presented.

The major classes of assets and liabilities of Xinjingke as at 29 June 2018 are as follows:

	RMB'000
Goodwill	1,519
Property, plant and equipment	74
Inventories	1,098
Trade receivables	
– third parties	471
– related parties	76
Prepayments and other receivables	227
Bank balances and cash	746
Trade and other payables	(1,865)
Contract liabilities	(787)
	1,559
Gain on disposal of a subsidiary	441
Proceed from disposal of a subsidiary received	2,000
Less: bank balances and cash disposed of	(746)
Net cash inflow on disposal of a subsidiary	1,254

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35. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

The Group as lessee

	At 31 December 2018 RMB'000
Within one year	14,487
In the second to fifth years inclusive	33,362
Over five years	3,424
	51,273

36. CAPITAL COMMITMENTS

	At 31 December	
	2019 RMB'000	2018 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**427,095**	383,929

37. SHARE-BASED PAYMENT TRANSACTIONS

On 12 March 2018, the Company entered into share incentive agreement ("Share Incentive Agreement") with eligible employees pursuant to which the Company agreed to grant up to 6,023,000 share options, with exercise price of RMB9.2 per share. The Company's share option scheme (the "Scheme") was adopted subsequently pursuant to a resolution passed on 14 May 2018, for the primary purpose of providing incentives or rewards to eligible persons for their contribution or potential contribution to the Group. Eligible persons including but not limited to the Group's shareholders, directors, supervisors, senior management and employees. The options are vested as follows:

On 1st anniversary of the first trading day following the end of the 12 months from 12 March 2018	25% vest
On 2nd anniversary of the first trading day following the end of the 24 months from 12 March 2018	further 35% vest
On 3rd anniversary of the first trading day following the end of the 36 months from 12 March 2018	remaining 40% vest

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37. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Subject to the respective terms of issue, options may be exercised at the expiry date. If the employees choose not to exercise the options on the expiry date, the options will expire at the end of the date and no longer exercisable.

On 17 June 2019, a resolution of amendments to the Scheme (the "Amended Scheme") was passed in the Annual General Meeting of the Company and was approved by the board of directors. Additional vesting conditions were added into the Scheme and the expiry date of each unvested tranche was extended for 1 year. The change of fair value of the share options at the date of modification resulting from the Amended Scheme is immaterial and not taken into account. The amount of share-based payment expenses recognised continues to be measured based on the grant date fair value and amortised over the original vesting period under the Scheme.

As at 31 December 2019, the number of options which remain outstanding under the Share Option Scheme was 5,213,000 which, if exercise in full, representing 0.66% of the enlarged capital of the Company.

The table below discloses movement of the Company's share options held by the Group's employees (details as modified by the Amended Scheme):

						Number of share options			
Date of grant	Exercise price RMB	Vesting date (before modification)	Vesting date (after modification)	Expiry date (before modification)	Expiry date (after modification)	Outstanding at 1 January 2019	Granted during the year	Forfeited during the year	Outstanding at 31 December 2019
14 May 2018	9.20	12 March 2019	12 March 2019	12 March 2019	12 March 2020	1,449,500	–	(146,250)	1,303,250
14 May 2018	9.20	12 March 2020	12 March 2020	12 March 2020	12 March 2021	2,029,300	–	(204,750)	1,824,550
14 May 2018	9.20	12 March 2021	12 March 2021	12 March 2021	12 March 2022	2,319,200	–	(234,000)	2,085,200
						5,798,000	–	(585,000)	5,213,000
Exercisable at the end of the year									1,303,250
Weighted average exercise price (RMB)						9.20	–	9.20	9.20

The weighted average remaining contractual lives of the Company's share options as at 31 December 2019 is 1.34 year (2018: 1.34 year).

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37. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The following assumptions were used to calculate the fair values of share options at the date of grant (i.e. 14 May 2018):

	Tranche 1	Tranche 2	Tranche 3
Share price *(Note a)*	RMB18.00	RMB18.00	RMB18.00
Exercise price	RMB9.20	RMB9.20	RMB9.20
Expected volatility *(Note b)*	36.40%	31.40%	43.30%
Dividend yield	0%	0%	0%
Risk-free rate	2.90%	3.10%	3.20%
Fair value per option	RMB9.11	RMB9.47	RMB10.34

Notes:

(a) The share price represents the grant date price of the Company's shares on NEEQ.

(b) The expected volatility was determined by using the historical volatility of the share price of the comparable companies with similar business nature of the Company as of the valuation dates.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

During the year ended 31 December 2019, share-based payment expenses of RMB11,797,000 (net of RMB3,841,000 capitalised in cost of properties under construction) (2018: RMB21,700,000) have been recognised in profit or loss.

38. RETIREMENT BENEFIT SCHEMES

The employees of the Group in the PRC are members of the state-managed retirement benefit schemes operated by the relevant local government. The Company's subsidiaries situated in the PRC are required to contribute a specified percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions.

The Group's subsidiary in the US adopted a defined contributions plan pursuant to which the Group matches 50 cents for every dollar contributed by each qualifying member of staff up to 4% of their salaries. The maximum match is 2% of the qualifying member of staff's gross pay.

During the year ended 31 December 2019, the total amounts contributed by the Group to the schemes and costs charged to the profit or loss represents contributions paid or payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contributions incurred by the Group for employees in the PRC amounted to RMB38,748,000 (2018: RMB13,626,000) while retirement benefits scheme contributions incurred for employees in the United States amounted to RMB1,079,000 (2018: RMB604,000).

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39. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position, the Group had also entered into the following transactions with related parties:

(a) Sales to related parties – discontinued operations

	Year ended 31 December	
Name of related parties	**2019**	2018
	RMB'000	RMB'000
BJZD	**–**	141
UPPT	**–**	105
Beijing Junke Huaren Pharma Tech Co., Ltd.* ("JKHR") (北京軍科華仞生物工程技術研究有限公司) *(Note)*	**–**	2
	–	248

Note: JKHR is a wholly-owned subsidiary of UPPT.

(b) Research and development expense incurred

	Year ended 31 December	
Name of related parties	**2019**	2018
	RMB'000	RMB'000
BJZD	**840**	226
UPPT	**11,115**	10,115
	11,955	10,341

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39. RELATED PARTY DISCLOSURES (CONTINUED)

(c) Interest expense incurred

Name of related party	Year ended 31 December 2019 RMB'000	2018 RMB'000
Shenzhen Qianhai Hehong Investment Co., Ltd.* ("QHHH") (深圳市前海和弘投資有限公司)	**456**	–

Note: QHHH is an entity controlled by Mr. Xiong Jun, the ultimate controlling party of the Group.

(d) Compensation of directors and key management personnel

The remuneration of directors of the Company and other members of key management during both years was as follows:

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Short-term benefits and performance bonus	**42,711**	19,191
Share-based payment expenses	**403**	938
Post-employment benefits	**675**	299
	43,789	20,428

The remuneration of key management personnel is determined by the management of the Group having regard to the performance of individuals and market trends.

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40. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at 31 December 2019 and 2018 are set out below.

Name of subsidiaries	Place of operation/ establishment, date of incorporation and form of legal entity	Issued and fully paid share capital/ registered capital	Shareholding/equity interest attributable to the Company		Principal activities
			As at 31 December 2019	As at 31 December 2018	
Directly held:					
Shanghai Junshi Biotechnology Co., Ltd.* (上海君實生物工程有限公司)	The PRC 29 June 2016 Limited liability company	Registered capital of RMB1,000,000,000 and paid-up capital of RMB805,000,000	100%	100%	Discovery, development and commercialisation of innovative drugs
Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd.* (江蘇眾合醫藥科技有限公司)	The PRC 1 April 2013 Limited liability company	Registered capital of RMB45,000,000 and paid-up capital of RMB45,000,000	100%	100%	Discovery, development and commercialisation of innovative drugs
Suzhou Junmeng Biosciences Co., Ltd.* (蘇州君盟生物醫藥科技有限公司)	The PRC 12 October 2013 Limited liability company	Registered capital of RMB500,000,000 and paid-up capital of RMB355,000,000	100%	100%	Discovery, development and commercialisation of innovative drugs
Taizhou Junshi Biosciences Co., Ltd.* (泰州君實生物醫藥科技有限公司)	The PRC 9 May 2014 Limited liability company	Registered capital of RMB5,000,000 and paid-up capital of RMB Nil	100%	100%	Discovery, development and commercialisation of innovative drugs
Suzhou Union Biopharm Biosciences Co., Ltd.* (蘇州眾合生物醫藥科技有限公司)	The PRC 12 October 2013 Limited liability company	Registered capital of RMB700,000,000 and paid-up capital of RMB672,500,000	100%	100%	Discovery, development and commercialisation of innovative drugs
Suzhou Junshi Biosciences Co., Ltd.* (蘇州君實生物醫藥科技有限公司)	The PRC 26 July 2017 Limited liability company	Registered capital of RMB100,000,000 and paid-up capital of RMB51,600,000	100%	100%	Discovery, development and commercialisation of innovative drugs
Beijing Junke Jingde Biotechnology Co., Ltd.* (北京軍科鏡德生物科技有限責任公司)	The PRC 3 April 2015 Limited liability company	Registered capital of RMB8,000,000 and paid-up capital of RMB Nil	N/A *(Note)*	60%	Discovery, development and commercialisation of innovative drugs
Shenzhen Qianhai Junshi Hospital Investment Management Co., Ltd* (深圳前海君實醫院投資管理有限公司)	The PRC 11 December 2015 Limited liability company	Registered capital of RMB50,000,000 and paid-up capital of RMB Nil	51%	51%	Discovery, development and commercialisation of innovative drugs

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40. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of operation/ establishment, date of incorporation and form of legal entity	Issued and fully paid share capital/ registered capital	Shareholding/equity interest attributable to the Company		Principal activities
			As at 31 December 2019	As at 31 December 2018	
TopAlliance Biosciences Inc.	The United States 6 March 2013	Registered capital of USD50,000,000 (equivalent to RMB326,563,000) and paid-up capital of USD50,000,000 (equivalent to RMB326,563,000)	100%	100%	Discovery, development and commercialisation of innovative drugs
Indirectly held:					
Beijing Union Biopharm Junshi Biosciences Co., Ltd.* (北京眾合君實生物醫藥科技有限公司)	The PRC 12 June 2016 Limited liability company	Registered capital of RMB25,000,000 and paid-up capital of RMB9,700,000	100%	100%	Discovery, development and commercialisation of innovative drugs
Suzhou Junao Medicine Co., Ltd.* (蘇州君奧精準醫學有限公司)	The PRC 10 January 2018 Limited liability company	Registered capital of RMB50,000,000 and paid-up capital of RMB Nil	100%	100%	Discovery, development and commercialisation of innovative drugs
Suzhou Junshi Biotechnology Co., Ltd.* (蘇州君實生物工程有限公司)	The PRC 19 June 2018 Limited liability company	Registered capital of RMB51,050,000 and paid-up capital of RMB Nil	100%	51%	Discovery, development and commercialisation of innovative drugs
Junshi Hong Kong Limited (香港君實有限公司)	Hong Kong 23 April 2019 Limited liability company	10,000,000 ordinary shares at HK$1 each	100%	N/A	Inactive

* The English names are for identification purpose only.

Note: The subsidiary was dissolved during December 2019.

None of the subsidiaries had issued any debt securities at the end of both years or at any time during both years.

The Group does not have any subsidiary with significant non-controlling interests and accordingly, no details are presented.

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41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its stakeholders and maintaining an adequate capital structure. The Group's overall strategy remained unchanged throughout the year.

The capital structure of the Group consists of debts, which includes convertible loan notes, borrowings, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the new shares issues as well as the issue of new debts and redemption of existing debts.

42. FINANCIAL INSTRUMENTS

42a. Categories of financial instruments

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Amortised cost	**1,402,343**	2,786,655
Financial assets at FVTPL	**69,362**	23,516
Financial liabilities		
Amortised cost	**916,506**	384,592
Financial liabilities at FVTPL	**–**	241,763

42b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, other financial assets, restricted bank deposits, bank balances and cash, trade and other payables, borrowings, lease liabilities and convertible loan notes. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group has foreign currency bank balances and trade and other payables, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of certain significant foreign currency denominated monetary assets and liabilities other than the functional currency of the entity to which they related at the end of the reporting period are as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Assets		
USD	**610,381**	–
HKD	**14**	2,597,617
Liabilities		
USD	**(7,367)**	(8,865)
HKD	**(255)**	(68)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in RMB against USD and HKD. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation, for a change in foreign currency rates of 5% for the whole year. A negative number below indicates an increase in loss where RMB strengthens 5% against USD and HKD. For a 5% weakening of RMB against USD and HKD, there would be an equal and opposite impact on loss for the year.

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42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Impact on loss for the year		
USD	**(30,151)**	443
HKD	**12**	(129,877)

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during both years.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in related to fixed-rate bank and other borrowings (Note 28), convertible loan notes (Note 29) and lease liabilities (Note 31).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate restricted bank deposits and bank balances (Note 25) and variable-rate bank borrowings (Note 28). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on restricted bank deposits and bank balances and variable-rate bank borrowings. The Group currently does not have interest rate risk hedging policy. However, the directors of the Company closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rate at the end of the reporting period. The analysis is prepared assuming financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 (2018: 50) basis point increase or decrease in interest rate is used which represents management's assessment of the reasonably possible change in interest rate. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate restricted bank deposits and bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

for the interest rate risk arising from variable-rate bank borrowings and convertible loan notes, if the interest rate had been 50 basis points higher/lower as at 31 December 2018 and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would decrease by RMB1,773,000 or increase by RMB1,973,000. No sensitivity analysis was performed by the directors of the Company for the year ended 31 December 2019 because all variable-rate bank borrowings were fully repaid in 2019.

(iii) Other price risk

The Group is exposed to price risk through its unlisted equity investment including in other financial assets (Note 24) and convertible loan notes (Note 29). The management of the Group monitors the price risk and will consider hedging the risk exposure should the need arises.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. Sensitivity analyses for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in Note 42. The sensitivity analyses below have been determined based on the exposure to equity price risk for its convertible loan notes at 31 December 2018.

If the equity price of the Company had been changed based on the 5% higher/lower:

- the loss for the year of the Group for the year ended 31 December 2018 would increase by RMB10,689,000 or decrease by RMB4,807,000, as a result of the changes in fair value of the Company's equity price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, other receivables, restricted bank deposits and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets. Management uses the Group's own historical repayment records to rate other debtors.

The Group determines the ECL on these items based on the financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

Restricted bank deposits and bank balances

Credit risk on restricted bank deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for restricted bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on restricted bank deposits and bank balances is considered to be insignificant.

Trade receivables arising from contracts with customers

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed annually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2018: nil) of the total trade receivables as at 31 December 2019. In addition, the Group has concentration of credit risk as 32% (2018: nil) of the total trade receivables was due from the Group's the five largest customers within the sales of pharmaceutical products segment. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

In addition, the Group performs impairment assessment under ECL model on trade balances individually and based on provision matrix. Except for items that are subject to individual evaluation, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Impairment of RMB89,000 (2018: nil) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Other receivables

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2019 and 2018, the Group assessed the ECL for other receivables and deposits and reversed impairment of RMB1,127,000 (2018: recognised impairment of RMB631,000) during the year.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Other receivables (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

					Gross carrying amount	
Financial assets at amortised cost	*Notes*	External credit rating	Internal credit rating	12-month or lifetime ECL	**2019 RMB'000**	2018 RMB'000
Restricted bank deposits	*25*	AA	Low risk	12-month ECL	**6,828**	–
Bank balances	*25*	AA	Low risk	12-month ECL	**1,214,026**	2,763,570
Other receivables	*23*	N/A	Low risk	12-month ECL	**24,661**	24,800
Trade receivables	*22*	N/A	(Note)	Lifetime ECL (provision matrix)	**99,440**	–
			Low risk	Lifetime ECL (individually assessed)	**58,065**	–
					1,403,020	2,788,370

Note: For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating and past due status.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation of sales of pharmaceutical products. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit impaired).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Gross carrying amount

	2019		2018	
	Average loss rate	**Trade receivables**	Average loss rate	Trade receivables
		RMB'000		RMB'000
Current (not past due)	**0.01% – 0.1%**	**90,901**	N/A	–
1-30 days past due	**0.1% – 5%**	**7,989**	N/A	–
31-60 days past due	**1.5% – 10%**	**550**	N/A	–
		99,440		–

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, the directors consider that the ECL allowance of the trade receivables with significant balances that were assessed individually is insignificant. The Group provided RMB89,000 (2018: nil) impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of RMB89,000 (2018: nil) were made on not credit impaired debtors.

The following table shows the reconciliation of loss, allowances that has been recognised for trade receivables under the simplified approach and other receivables under 12m ECL approach.

	Lifetime ECL (not credit-impaired) RMB'000	12m ECL RMB'000	Total RMB'000
As at 1 January 2018	–	1,084	1,084
Impairment losses recognised	–	631	631
As at 31 December 2018	–	1,715	1,715
Changes due to financial instruments recognised as at 1 January 2019:			
– Impairment losses reversed	–	(1,127)	(1,127)
Impairment losses recognised	89	–	89
As at 31 December 2019	**89**	**588**	**677**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. the directors of the Group monitor the utilisation of bank borrowings and ensure compliance with loan covenants.

The Group relied on borrowings, convertible loan notes and the issuance of shares as a significant source of liquidity. Details of which are set out in Note 28, Note 29 and Note 33, respectively.

The following table details the Group remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following table details the Group liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management of the Group considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity table

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019								
Non-derivative financial liabilities								
Trade and other payables	–	94,719	–	–	–	–	94,719	94,719
Borrowings	5.14	50,221	66,454	38,921	782,087	–	937,683	821,787
Lease liabilities	5.22	4,681	14,194	12,932	16,836	–	48,643	41,178
		149,621	80,648	51,853	798,923	–	1,081,045	957,684
At 31 December 2018								
Non-derivative financial liabilities								
Trade and other payables	–	55,960	–	–	–	–	55,960	55,960
Borrowings	7.81	141,085	39,497	–	189,595	–	370,177	328,632
Convertible loan notes	10.35	–	–	–	103,500	220,700	324,200	241,763
		197,045	39,497	–	293,095	220,700	750,337	626,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Fair value measurements of financial instruments

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Certain of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

	Fair value at				
Financial assets/ financial liabilities	**31 December 2019 RMB'000**	31 December 2018 RMB'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable inputs**
Financial products	–	5,500	Level 2	Discounted cash flow – Future cash flows are estimated based on expected return, discounted at a rate that reflects the risk of underlying investments	N/A
Funds	17	16	Level 2	Fair value determined based on fair value of underlying debt investments using discounted cash flow method based on the return from the underlying investments and quoted market price of underlying equity investments	N/A
Unlisted equity investment	15,000	15,000	2019: Level 3 (2018: Level 2)	2019: Market comparison approach – in this approach, fair value was determined with reference to Enterprise Value-to-Sales multiple ("EV/S multiple").	2019: Discount rate of 24% *(Note a)* and EV/S multiple of 5.44 *(Note b)*, taking into account management's experience and knowledge of market conditions
				2018: Recent transaction price	2018: N/A
Unlisted equity investment	3,000	3,000	2019: Level 3 (2018: Level 2)	2019: Market comparison approach – in this approach, fair value was determined with reference to Price-to-cumulative Research & Development Expenses multiple ("P/R&D multiple").	2019: Discount rate of 26% *(Note c)* and P/R&D multiple of 4.70 *(Note d)*, taking into account management's experience and knowledge of market conditions
				2018: Recent transaction price	2018: N/A
Unlisted equity investment	51,345	–	Level 2	Recent transaction price	N/A
Convertible loan notes designated at FVTPL	–	(241,763)	Level 3	Binomial option pricing model – the key inputs are underlying share price, conversion price, discount rate, expected volatility, debt yield and risk-free rate	Discount rate of 18% *(Note e)* and expected volatility of 43%, taking into account historical volatility of the comparable companies *(Note f)*

There were no transfers between Level 1 and Level 2 during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Notes:

a. A slight increase in the discount rate used in isolation would result in a slight increase in the fair value measurement of unlisted equity investment, and vice versa. If the discount rate was 0.5% higher/lower to 24.5%/23.5% while holding all other variables constant, the carrying amount of the unlisted equity investment would decrease by RMB100,000 or increase by RMB100,000 as at 31 December 2019.

b. A slight increase in the EV/S multiple used in isolation would result in a slight increase in the fair value measurement of unlisted equity investment, and vice versa. If the EV/S multiple was 5% higher/lower to 5.71/5.17 while all other variables constant, the carrying amount of the unlisted equity investment would increase by RMB713,000 or decrease by RMB713,000 as at 31 December 2019.

c. A slight increase in the discount rate used in isolation would result in a slight increase in the fair value measurement of unlisted equity investment, and vice versa. If the discount rate was 0.5% higher/lower to 26.5%/25.5% while holding all other variables constant, the carrying amount of the unlisted equity investment would decrease by RMB21,000 or increase by RMB21,000 as at 31 December 2019.

d. A slight increase in the P/R&D multiple used in isolation would result in a slight increase in the fair value measurement of unlisted equity investment, and vice versa. If the equity value was 5% higher/lower to 4.93/4.46 while all other variables constant, the carrying amount of the unlisted equity investment would increase by RMB157,000 or decrease by RMB157,000 as at 31 December 2019.

e. A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of convertible loan notes, and vice versa. If the discount rate was 0.5% higher/lower to 18.5%/17.5% while all other variables constant, the carrying amount of the convertible loan notes would decrease by RMB1,692,000 or increase by RMB1,892,000 as at 31 December 2018.

f. A slight increase in the expected volatility used in isolation would result in a slight increase in the fair value measurement of convertible loan notes, and vice versa. If the volatility was 5% higher/lower to 48%/38% while holding all other variables constant, the carrying amount of the convertible loan notes would increase by RMB6,048,000 or decrease by RMB4,985,000 as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

42. FINANCIAL INSTRUMENTS (CONTINUED)

42b. Financial risk management objectives and policies (Continued)

Fair value measurements of financial instruments (Continued)

(ii) Reconciliation of Level 3 fair value measurements

	Unlisted equity investments RMB'000	Convertible loan notes designated at FVTPL RMB'000	Total RMB'000
At 23 February 2018 (date of issuance)	–	(200,000)	(200,000)
Change in fair value charged to profit or loss *(Note 7)*	–	(32,396)	(32,396)
Change in fair value charged to other comprehensive income attributable to change in credit risk	–	(9,367)	(9,367)
At 31 December 2018 and 1 January 2019	–	(241,763)	(241,763)
Transfer into Level 3 due to change of valuation technique *(Note)*	18,000	–	18,000
Change in fair value charged to profit or loss *(Note 7)*	–	13,520	13,520
Payments of interests	–	28,243	28,243
Redemption of convertible loan notes	–	200,000	200,000
At 31 December 2019	**18,000**	**–**	**18,000**

Note: These investments were acquired in 2018 and measured by recent transaction price as at 31 December 2018.

Fair value gains on convertible loan notes designated at FVTPL of RMB13,520,000 (2018: fair value loss of RMB32,396,000) are included in "other gains and losses", in which RMB9,906,000 (2018: RMB17,022,000) was capitalised in construction-in-progress. For the year ended 31 December 2018, RMB9,367,000 are included in other comprehensive income.

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis with the most significant inputs being the discount rate that reflects the credit risk of the counterparty.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements approximate to their fair value based on the discounted cash flow analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000 *(Note 31)*	Borrowings RMB'000 *(Note 28)*	Convertible loan notes RMB'000 *(Note 29)*	Payable for accrued issue costs RMB'000 *(Note 26)*	Total RMB'000
At 1 January 2018	–	–	–	–	–
Financing cash flows	–	325,476	198,019	(103,787)	419,708
Non-cash transactions:					
– Finance costs *(Note)*	–	3,156	–	–	3,156
– Issue costs accrual	–	–	1,981	118,202	120,183
– Change in fair value charged to profit or loss	–	–	32,396	–	32,396
– Change in fair value attributable to change in credit risk charged to other comprehensive income	–	–	9,367	–	9,367
At 31 December 2018	–	328,632	241,763	14,415	584,810
Adjustment upon application of IFRS 16	46,468	–	–	–	46,468
At 1 January 2019 (restated)	46,468	328,632	241,763	14,415	631,278
Financing cash flows	(17,556)	461,312	(228,243)	(27,717)	187,796
Non-cash transactions:					
– Finance costs *(Note)*	2,289	31,423	–	–	33,712
– Issue costs accrual	–	–	–	14,721	14,721
– Capitalised in share premium upon issuance of new H shares	–	–	–	12,146	12,146
– Change in fair value charged to profit or loss	–	–	(13,520)	–	(13,520)
– New lease entered	9,977	–	–	–	9,977
– Others	–	420	–	–	420
At 31 December 2019	**41,178**	**821,787**	**–**	**13,565**	**876,530**

Note: The finance costs include the interest expense of RMB20,412,000 (2018: RMB1,074,000) capitalised as the cost of properties under construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	**37,645**	21,512
Right-of-use assets	**36,558**	–
Investments in subsidiaries	**1,791,838**	1,236,885
Other intangible assets	**4,427**	334
Interest in a joint venture	**1,022**	1,027
Interest in an associate	**68,871**	–
Amounts due from subsidiaries	**–**	123,547
Other assets, prepayments and other receivables	**134,003**	41,248
Other financial assets	**69,345**	18,000
	2,143,709	1,442,553
Current assets		
Inventories	**26,514**	15,847
Trade receivables	**113,416**	–
Other assets, prepayments and other receivables	**226,369**	34,182
Amounts due from subsidiaries	**158,230**	7,342
Bank balances and cash	**944,648**	2,630,582
	1,469,177	2,687,953
Current liabilities		
Trade and other payables	**304,994**	133,759
Borrowings	**75,702**	178,407
Amounts due to subsidiaries	**396,457**	–
Lease liabilities	**10,478**	–
	787,631	312,166
Net current assets	**681,546**	2,375,787
Total assets less current liabilities	**2,825,255**	3,818,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current liabilities		
Contract liabilities	**–**	28,302
Convertible loan notes	**–**	241,763
Deferred income	**21,218**	12,375
Lease liabilities	**25,987**	–
	47,205	282,440
Net assets	**2,778,050**	3,535,900
Capital and reserves		
Share capital	**784,147**	760,310
Reserve	**1,993,903**	2,775,590
Total equity	**2,778,050**	3,535,900

Note: The Company has applied IFRS 16 since 1 January 2019 in accordance with transitional provision stated in Note 2. Lease liabilities amounted to RMB41,803,000 were recognised on initial application of IFRS 16, of which RMB43,257,000 recognised as right-of-use assets. In addition, prepaid rental expenses classified as other assets, prepayments and other receivables of RMB1,454,000 were reclassified as right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserve

	Share premium RMB'000	Share option reserve RMB'000	Financial liability designated at FVTPL credit risk reserve RMB'000 *(Note)*	Investment revaluation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	1,043,588	–	–	(489)	(369,488)	673,611
Loss for the year	–	–	–	–	(629,975)	(629,975)
Fair value loss on financial liability designated at FVTPL to changes in credit risk	–	–	(9,367)	–	–	(9,367)
Fair value gain on investments measured at FVTOCI	–	–	–	227	–	227
Reclassification to profit or loss upon disposal of investments measured at FVTOCI	–	–	–	262	–	262
Total comprehensive income (expense) for the year	–	–	(9,367)	489	(629,975)	(638,853)
Ordinary shares issued	283,050	–	–	–	–	283,050
H shares issued upon initial public offering	2,554,284	–	–	–	–	2,554,284
Transaction costs attributable to issue of new domestic ordinary shares	(1,745)	–	–	–	–	(1,745)
Transaction costs attributable to issue of H shares	(116,457)	–	–	–	–	(116,457)
Recognition of equity-settled share-based payment expenses	–	21,700	–	–	–	21,700
At 31 December 2018	3,762,720	21,700	(9,367)	–	(999,463)	2,775,590
Loss for the year	–	–	–	–	(1,165,180)	(1,165,180)
New H shares issued upon over-allotment options exercised	380,001	–	–	–	–	380,001
Transaction costs attributable to issue of new H shares	(12,146)	–	–	–	–	(12,146)
Recognition of equity-settled share-based payment expenses	–	15,638	–	–	–	15,638
Redemption of convertible loan notes	–	–	9,367	–	(9,367)	–
At 31 December 2019	**4,130,575**	**37,338**	**–**	**–**	**(2,174,010)**	**1,993,903**

Note: Financial liability designated at FVTPL credit risk reserve represents the amount of change in fair value of convertible loan notes issued by the Company which is classified as financial liability designated at FVTPL under IFRS 9, which is attributable to changes in credit risk of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

45. EVENTS AFTER THE REPORTING PERIOD

Impact from COVID-19 to the Group

The outbreak of COVID-19 in the PRC and the US and the subsequent quarantine measures and travel restrictions imposed by the respective local government as well as the travel restrictions imposed by other countries in early 2020 have a negative impact on the operations of the Group and the Group's associates and joint venture, as most of the Group's revenue are derived from the PRC and the US and the Group's associates and joint venture are operating in the PRC. The directors would need to re-assess the key accounting estimates including but not limited to impairment on property, plant and equipment, right-of-use assets, other intangible assets, investments in associates and joint venture.

Due to the inherent nature and unpredictability of future development and market sentiment, the actual financial impacts could be different depending on future development of the outbreak, government policies and measures in response to the outbreak. The actual financial impact, if any, will be reflected in the Group's consolidated financial statements for the year ended 31 December 2020 or beyond.

Acquisition of equity interest of an unlisted company

On 3 February 2020, the Company signed the A+ Round Capital Increase Agreement with Stemirna Therapeutics Ltd. ("Stemirna") and its existing shareholders, pursuant to which, the Company intends to participate in the A+ round financing of Stemirna by making capital contribution of RMB10,000,000 and acquire its 2.86% equity interest.

Amendments to the Amended Scheme (Note 37)

On 27 March 2020, a resolution of amendments to the Amended Scheme was approved by the board of directors and will be submitted and passed in the Annual General Meeting. Additional vesting conditions were added into the Amended Scheme and the expiry date of each unvested tranche was extended. The directors are assessing the financial impact of the modification, the actual financial impact, if any, will be reflected in the Group's consolidated financial statements for the year ended 31 December 2020.

CORPORATE INFORMATION

Listing	H Shares on Hong Kong Stock Exchange (Stock code: 01877) Domestic Shares on NEEQ (Stock code: 833330)
Number of Shares (as of date of this annual report)	784,146,500 Shares (including 601,400,000 Domestic Shares and 182,746,500 H Shares)
H Shares Board lot	200 H Shares
Registered address, headquarters and principal place of business in the PRC	Level 13, Building 2, Nos. 36 and 58, Hai Qu Road, China (Shanghai) Pilot Free Trade Zone, the PRC
Principal place of business in Hong Kong under Part 16 of the Companies Ordinance	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
H share registrar	Tricor Investor Services Limited Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Authorized representatives	Dr. Li Ning Ms. Chen Yingge
Legal advisers	Jones Day (as to Hong Kong law) Jia Yuan Law Offices (as to PRC law)
Auditor	Deloitte Touche Tohmatsu Certified Public Accountants
Company's website	www.junshipharma.com
Investor information	Corporate press releases, financial reports and other investor information on the Group are available on the website of the Company

DEFINITIONS

2018 Convertible Bonds	innovative start-ups convertible bonds 創新創業可轉換公司債券issued by the Company and listed and traded on the Shanghai Stock Exchange
AGM	annual general meeting of the Company to be held on Monday, 11 May 2020
Articles of Association	articles of association of the Company
A Share Listing	the initial public offering and listing of A shares of the Company on the STAR Market of the Shanghai Stock Exchange
Audit Committee	the audit committee of the Company
Beijing Junkejingde	Beijing Junkejingde Biotechnology Co., Ltd. 北京軍科鏡德生物科技有限責任公司, a limited liability company established in the PRC. On 9 January 2020, Beijing Junkejingde was deregistered in the PRC and ceased to be a subsidiary of the Company.
Beijing Tianshi	Beijing Tianshi Pharmaceutical Technology Co., Ltd. 北京天實醫藥科技有限公司, a limited liability company established in the PRC, which is owned as to 50% by the Company
Beijing Union Biopharm	Beijing Union Biopharm Junshi Biosciences Co., Ltd. 北京眾合君實生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
Beijing Zhengdan	Beijing Zhengdan International Technology Co., Ltd. 北京正旦國際科技有限責任公司, a limited liability company established in the PRC and a connected person of the Company at the subsidiary level. On 9 January 2020, Beijing Zhengdan ceased to be a connected person of the Company.
Board or Board of Directors	the Company's board of Directors
Board of Supervisors	the Company's board of Supervisors
CG Code	Corporate Governance Code in Appendix 14 of the Listing Rules
cGMP	Current Good Manufacturing Practice
Companies Ordinance	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong
Company	Shanghai Junshi Biosciences Co., Ltd.* (上海君實生物醫藥科技股份有限公司)
Core Product	as defined in Chapter 18A of the Listing Rules; for the purpose of this annual report, the Group's Core Product is JS001
CSRC	China Securities Regulatory Commission
Director(s)	director(s) of the Company

DEFINITIONS

Domestic Share(s)	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid for in Renminbi and are listed on the NEEQ
Executive Director(s)	executive Director(s) of the Company
FDA	U.S. Food and Drug Administration
Global Offering	as defined in the Prospectus
GMP or Good Manufacturing Practices	Guidelines and regulations from time to time issued pursuant to the Drug Administration Law of the PRC 《中華人民共和國藥品管理法》
Grantee(s)	person(s) being granted Pre-IPO Option(s) under the Share Incentive Scheme and the Share Incentive Agreements
Group	the Company and its subsidiaries
H Share(s)	overseas-listed share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and are listed on Hong Kong Stock Exchange
HKD or HK$	Hong Kong dollars, the official currency of Hong Kong
Hong Kong	Hong Kong Special Administrative Region of PRC
IFRS	International Financial Reporting Standards
Independent Non-executive Director(s)	independent non-executive Director(s) of the Company
Jiangsu Union Biopharm	Jiangsu Union Biopharm Pharmaceutical Technology Co., Ltd. 江蘇眾合醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
Junshi Biotechnology	Shanghai Junshi Biotechnology Co., Ltd. 上海君實生物工程有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules
NEEQ	National Equities Exchange and Quotations
NMPA	National Medical Products Administration of China

DEFINITIONS

Nomination Committee	the nomination committee of the Company
Non-executive Director(s)	non-executive Director(s) of the Company
Over-allotment Option	as defined in the Prospectus
PRC Company Law	the Company Law of the PRC 《中華人民共和國公司法》
PRC or China	the People's Republic of China
PRC GAAP	PRC Generally Accepted Accounting Principles
Pre-IPO Options	option(s) granted by the Company to certain employees as share incentive under the Share Incentive Scheme and the Share Incentive Agreements
Prospectus	the prospectus of the Company dated 11 December 2018
Qianhai Junshi	Shenzhen Qianhai Junshi Hospital Investment Management Co., Ltd. 深圳前海君醫院投資管理有限公司, a limited liability company established in the PRC and a non-wholly-owned subsidiary of the Company
R&D	research and development
Remuneration Committee	the remuneration committee of the Company
Reporting Period	the year ended 31 December 2019
RMB	Renminbi
SFO	the Securities and Futures Ordinance, Charter 571 of the laws of Hong Kong
Shanghai Union Biopharm	Shanghai Union Biopharm Biosciences Co., Ltd.* 上海眾合醫藥科技股份有限公司, a limited liability company established in the PRC and merged with the Company by absorption in June 2016
Share Incentive Agreement(s)	contract(s) entered into between the Company and the respective grantee(s) in March 2018 in relation to the grant of the Pre-IPO Option(s)
Share Incentive Scheme	Company's Share Incentive Scheme approved and adopted by its Shareholders on 14 May 2018
Share(s)	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, comprising H Shares and Domestic Shares
Shareholder(s)	holder(s) of the Share(s)

DEFINITIONS

Stock Exchange or Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Strategic Committee	the strategic committee of the Company
Suzhou Junao	Suzhou Junao Precision Medicine Co., Ltd. 蘇州君奧精準醫學有限公司, a limited liability company established in the PRC, and a wholly-owned subsidiary of the Company
Suzhou Junmeng	Suzhou Junmeng Biosciences Co., Ltd. 蘇州君盟生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
Suzhou Junshi	Suzhou Junshi Biosciences Co., Ltd. 蘇州君實生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
Suzhou Union Biopharm	Suzhou Union Biopharm Biosciences Co., Ltd. 蘇州眾合生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
Taizhou Junshi	Taizhou Junshi Biosciences Co., Ltd. 泰州君實生物醫藥科技有限公司, a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
TopAlliance	TopAlliance Biosciences Inc., a corporation established in the United States and a wholly-owned subsidiary of the Company
USD	United States dollars
US or U.S.	the United States
%	per cent

In this annual report, the terms "associate", "close associate", "connected person", "connected transaction", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

In this annual report, "we", "us" and "our" refer to the Company and where the context otherwise requires, the Group.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese are translations of the Chinese names. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

* *For identification purpose only*