



Hua Medicine 華領醫藥

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2552



Annual Report 2020

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CORPORATE INFORMATION

Executive directors

Li CHEN (陳力) (*Chief Executive Officer and Chief Scientific Officer*)
George Chien Cheng LIN (林潔誠)
(*Executive Vice President and Chief Financial Officer*)

Non-executive directors

Robert Taylor NELSEN (*Chairman*)
Lian Yong CHEN (陳連勇)

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明)
William Robert KELLER
Junling LIU (劉峻嶺)
Yiu Wa Alec TSUI (徐耀華)

Audit committee

Walter Teh-Ming KWAUK (郭德明) (*Chairman*)
William Robert KELLER
Yiu Wa Alec TSUI (徐耀華) (appointed on June 25, 2020)
Lian Yong CHEN (陳連勇)
(ceased to be member on June 25, 2020)

Remuneration committee

William Robert KELLER (*Chairman*)
Walter Teh-Ming KWAUK (郭德明)
Lian Yong CHEN (陳連勇)

Nomination committee

Robert Taylor NELSEN (*Chairman*)
Junling LIU (劉峻嶺)
William Robert KELLER

Strategy committee

Li CHEN (陳力) (*Chairman*)
Robert Taylor NELSEN
Junling LIU (劉峻嶺)

Company secretary

Wing Yan Winnie YUEN (袁穎欣)

Authorized representatives

George Chien Cheng LIN (林潔誠)
Wing Yan Winnie YUEN (袁穎欣)

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Registered Office

PO Box 309, Ugland House, Grand Cayman,
KY1-1104, Cayman Islands

Corporate headquarters

Hua Medicine, Building 2, Lane 36, Xuelin Road,
Pudong New Area, Shanghai 201203, PRC

Principal place of business in Hong Kong

Suite 2202, Methodist House, 36 Hennessy Road,
Wan Chai, Hong Kong

Cayman Islands share registrar

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman,
KY1-1102, Cayman Islands

Hong Kong share registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Principal bankers

In Hong Kong:

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building, 1 Queen's Road Central, Hong Kong

In the PRC:

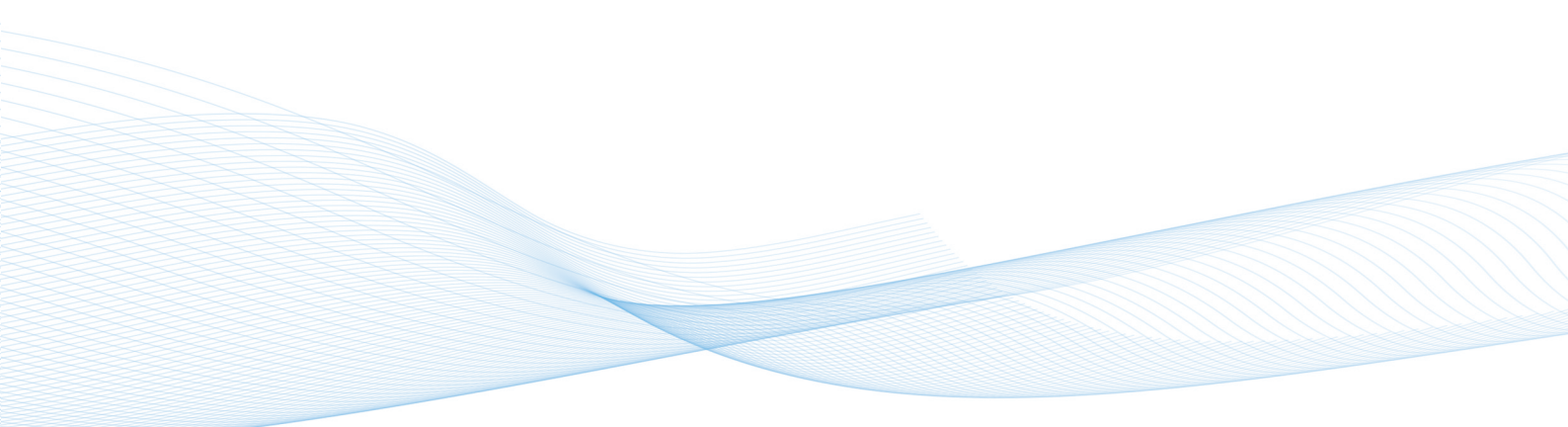
China Construction Bank Corporation Shanghai Zhangjiang Branch
No. 232 Ke Yuan Road, Shanghai, China

Company's website

www.huamedicine.com

Stock code

2552



BUSINESS AND FINANCIAL HIGHLIGHTS

Business highlights

Clinical trials:

- Completed SEED (HMM0301), the first Phase III registration trial in China to investigate the efficacy and safety of dorzagliatin monotherapy in drug naïve Type 2 diabetes (T2D) patients, and announced the 52-week positive topline results with sustained efficacy, and good safety and tolerability profiles
- Completed DAWN (HMM0302), the second Phase III registration trial in China to investigate the efficacy and safety of dorzagliatin in T2D patients inadequately glycemic-controlled with metformin, and announced both the 24-week and 52-week positive topline results with sustained efficacy, and good safety and tolerability profiles
- Presented data from SEED 24-week monotherapy clinical trial at the 80th American Diabetes Association (ADA) Annual Scientific Sessions, which demonstrated significant improvements in β -cell function and 2h-PPG reduction. Presented additional data from DAWN at the Chinese Diabetes Society's 2020 Scientific Meeting, demonstrating improvements in β -cell function and reduction of insulin resistance
- Completed HMM0110, which demonstrated desirable pharmacokinetics profile in patients with end stage chronic kidney disease, indicating the potential use of dorzagliatin with no dose adjustment among T2D patients with moderate, severe and end stage chronic kidney disease (i.e. stages 3-5 of CKD)
- Completed HMM0111, investigating the pharmacokinetic (PK) and pharmacodynamic (PD) parameters of dorzagliatin either alone or in combination with sitagliptin (a DPP-4 inhibitor), and demonstrated a clear synergistic effect in efficacy of blood glucose reduction and improvement of β -cell function in T2D patients through regulation of GLP-1 secretion under combination therapy of dorzagliatin with sitagliptin
- Completed HMM0112, investigating the PK and PD characteristics of dorzagliatin and empagliflozin (a SGLT-2 inhibitor) as either monotherapy or combination therapy, and demonstrated a clear synergistic effect in efficacy of blood glucose reduction under combination therapy of dorzagliatin with empagliflozin with improvement of β -cell function

China commercialization and others:

- Entered into a commercialization agreement and strategic partnership with Bayer Healthcare Company Limited for mainland China
- Entered into a commercial supply agreement with Zhejiang Raybow Pharmaceutical as an additional supplier to existing manufacturing partners
- Granted the Drug Manufacturing Permit for dorzagliatin in China by the Shanghai Municipal Drug Administrative Bureau
- Announced global operation headquarters and research and development centre in Shanghai's ZhangJiang Science City officially established

Financial highlights

- Cash position was approximately RMB1,032.1 million as of December 31, 2020
 - Total expenditures incurred by the Company for the year ended December 31, 2020 was approximately RMB367.2 million, of which approximately RMB221.0 million was research and development expenses
 - For the year ended December 31, 2020, research and development expenses decreased by approximately RMB100.9 million or approximately 31% to approximately RMB221.0 million
 - For the year ended December 31, 2020, loss before tax decreased by approximately RMB32.1 million or approximately 8% to approximately RMB393.1 million
 - For the year ended December 31, 2020, loss and total comprehensive expense for the year decreased by approximately RMB31.7 million or approximately 7% to approximately RMB393.6 million
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CHAIRMAN AND CEO STATEMENT

Dear Shareholders,

We began the year 2020 with a looming new virus that evolved into a global pandemic, placing tremendous stress on healthcare systems worldwide. Our prayers and thanks go to the first-responders and global healthcare workers who rose to the challenge, and worked tirelessly to help those affected. We are also especially proud of our brethren biopharmaceutical peers who rallied against COVID-19, and we are grateful that we ended the year 2020 with numerous COVID-19 vaccines and anti-COVID-19 therapeutics launched as a result of their work. Once again, we are reminded of the power of science, and we remain even more committed than ever to our mission in developing and making effective medicines to address unmet medical needs.

We are very proud to announce that despite the backdrop of the COVID-19 pandemic, Hua Medicine was able to successfully complete its two large scale Phase III registration trials (1,200+ patients total in 110 hospitals) in China without any major disruptions. The top-line results were published in 2020 and are highlighted below, but it is worth noting that in such large scale trials, dorzagliatin proved to be effective in lowering blood glucose levels over the 52-week trial period while exhibiting a safe and tolerable profile. In addition, both improvements were observed in both β -cell function and insulin sensitivity when patients were treated with dorzagliatin. As a result, we are one major step closer to achieving our goal of making our global first-in-class therapeutic, dorzagliatin, available to Type 2 diabetes patients worldwide.

In 2020, we were also excited to have partnered with Bayer AG, to serve as our commercialization partner in mainland China. We are especially proud of Bayer AG's 20+ year history as a leading player in the China diabetes market, and its excellent record of partnering with the leading diabetes and endocrinologist opinion leaders and medical community in China. In addition, we have also expanded our manufacturing capabilities by adding an additional partner, Zhejiang Raybow Pharmaceutical (a wholly-owned subsidiary of Shanghai-listed Zhejiang Jiuzhou Pharmaceutical (603456.SS)), to support the future scale-up of production of dorzagliatin. And a <drug manufacture permit> granted by China regulatory agency enabled Hua Medicine for the NDA filing in 2021.

Key results that we announced in 2020 for our Phase III registration trials are highlighted below:

- In June 2020, we announced that, dorzagliatin successfully completed SEED (HMM0301), a Phase III trial in drug naïve T2D patients, with sustained efficacy during 52 weeks, and very low hypoglycemia incidents and good safety profile. At the CDS 2020 annual conference, the leading principal investigator (PI), Professor Dalong Zhu, President of CDS, shared results that dorzagliatin improves glucose sensitivity and reduces insulin resistance. This is the first example that an antidiabetic agent, the only GKA, can effectively achieve glycemic control by treating the root cause of T2D.
- In July 2020, we announced that, dorzagliatin achieved its primary efficacy endpoint in DAWN (HMM0302), a 24-week double-blinded placebo-controlled Phase III trial in T2D patients whose blood glucose cannot be controlled with the maximum tolerated dose of equal or greater than 1500 mg/day of metformin, with very low hypoglycemia incidents and good safety profile.

- In December 2020, we announced that, dorzagliatin successfully completed DAWN with sustained efficacy during 52 weeks, and very low hypoglycemia incidents and good safety profile. And at the CDS 2020 Annual conference, the leading PI Dr Yang Wenying provided additional results for dorzagliatin which demonstrated very effective control of post-meal glucose levels in the metformin tolerated T2D patients with significant reduction of insulin resistance.

The combined results from SEED and DAWN study firmly demonstrated the clinical advantage of dorzagliatin over existing therapy in both effectiveness and durability in glycemic control, as well as in rescuing the impaired glucose and insulin sensitivity in T2D patients.

Other key milestones:

- In January 2020, we announced positive results for HMM0110, a Phase I studying evaluating whether dorzagliatin can be readily used in T2D patients with impaired renal function, which currently makes up 20-40% of T2D patients.
- In January 2020, we announced positive results for HMM0111, a Phase I studying the pharmacokinetic and pharmacodynamics of dorzagliatin and sitagliptin in T2D patients, supporting the development of a combination therapy of dorzagliatin with sitagliptin, a DPP-IV inhibitor and current best seller of oral anti-diabetics, with additional benefit on the improvement of GLP-1 secretion in T2D patients.
- In March 2020, our senior scientific consultant, Dr. Franz Matschinsky, was awarded the Rolf Luft Award 2020 by the Karolinska Institutet "for the discovery that glucokinase (GK) is the sensor controlling glucose-stimulated insulin secretion in the pancreatic β -cell, and culminating in the discovery of novel allosteric GK activators currently being assessed in phase III clinical trials."
- In April 2020, we announced positive results for HMM0112, a Phase I studying the pharmacokinetic and pharmacodynamics of dorzagliatin and empagliflozin in T2D patients, supporting the development of a combination therapy of dorzagliatin with empagliflozin, a SGLT-2 inhibitor currently recommended for the treatment of T2D with cardiovascular risks.
- In June 2020, we presented additional data from SEED, with data demonstrating that there was significant β -cell function improvement in the treatment group versus the placebo group, demonstrating that dorzagliatin is required to repair the glucose sensitivity in the T2D patients with a good blood glucose lowering outcome from behavior and lifestyle changes.
- In August 2020, we announced a commercialization agreement and strategic China market promotion partnership with Bayer for dorzagliatin, ensuring that dorzagliatin will have a jump start entry into the China market at launch.
- In October 2020, we became one of the first companies to be granted a drug manufacturing permit under the MAH system by China regulatory agency which was set as an example in CCTV news.
- In November 2020, we were invited to attend the 30th Anniversary The Development and Opening-up of Pudong with President Xi Jing. Hua Medicine was one of the examples in the Innovation in Pudong exhibited at CCTV on Pudong 30 Years of Establishment.

In the first half of 2021, we are focused on completing the NDA submission to the NMPA, preparing for commercial launch with our new partners to move ahead with delivering dorzagliatin to T2D patients in China as soon as possible. Looking forward, we are also working on establishing partnerships in other regions, to deliver dorzagliatin to T2D patients globally.

Other milestones to look forward to in 2021:

- NDA submission of dorzagliatin in China.
- Establish commercial distribution partner network and infrastructure to support Dorzagliatin commercial launch in China.
- Establish commercialization partnership in the other regions and bring value to all T2D patients around world.
- Advance Fixed Dose Combination anti-diabetes drug development pipeline to fully leverage the disease modifying potential in the treatment of type 2 diabetes patients across all stages.
- Advance fructose kinase inhibitor (FKI) project and strengthen drug discover pipeline.
- Evaluate dorzagliatin in combination of GLP-1R agonist in diabetes, obesity and neurological disorders.
- Evaluate dorzagliatin in combination with Insulin in T1D patients and late stage T2D patients.
- Announcement of clinical trial results from an investigator initiated trial studying the effects of dorzagliatin on early phase insulin secretion
- Announcement of clinical trial results from an investigator initiated trial studying the lasting effects of dorzagliatin in patients from the SEED trial, including the clinical remission rate and other relevant biomarkers.

Hua Medicine continues our efforts in advancing our knowledge in the regulation of glucose homeostasis in fighting many chronic disease originated from impaired glycemic control, and to developing dorzagliatin as a cornerstone treatment for T2D globally. We remain committed to our goal of focusing on innovative, first-in class medicines. As always, our successes are the combined effort of the Hua Medicine team, our partners and shareholders, and we would like to express our deep appreciation to you all.

Thank you.

Robert Nelsen
Chairman

Li Chen
CEO, Founder, and CSO

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a pre-revenue China-based drug development company currently focusing on the development of dorzagliatin, a first-in-class oral drug for the treatment of Type 2 Diabetes (“T2D”). We filed an Investigational New Drug (“IND”) application with the National Medical Products Administration of the People’s Republic of China (the “NMPA”) for dorzagliatin under Category 1.1 (New Drug) in 2012 and initiated a Phase Ia clinical study of our novel glucokinase activator dorzagliatin in September 2013. We also filed an IND application with the U.S. Food and Drug Administration (“FDA”) for dorzagliatin in March 2015. Since then, we have completed eight Phase I trials in China, four Phase I trials in the United States, one Phase II in China, and two Phase III trials in China. Our two Phase III trials enrolled 1,230 patients across 110 sites throughout China. Both Phase III trials met their primary endpoints, and the safety and tolerability profile of dorzagliatin was good during the trial period. The final 53-week results of both Phase III trials were announced and published in 2020.

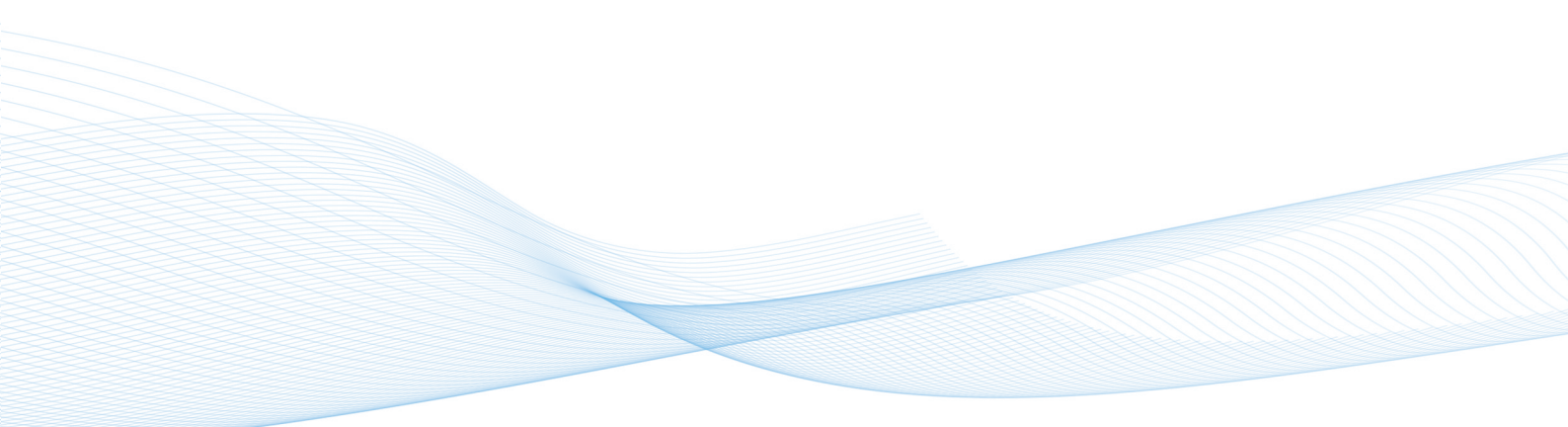
As we continue to progress with our development of our lead candidate, dorzagliatin, we are also moving forward with preparations for the drug’s life cycle management. We filed method of use patents for use of dorzagliatin in diabetic kidney disease (DKD) patients. We have initiated multiple studies on dorzagliatin plus existing anti-diabetes therapies at preclinical development and clinical settings.

During the year ended December 31, 2020 (the “Reporting Period”), despite the spread of the COVID-19 pandemic globally, we have continued to move forward with our clinical development and NDA preparations, as summarized below.

Successful completion of both pivotal Phase III registration trials in China (SEED/HMM0301 and DAWN/HMM0302).

Amidst the COVID-19 pandemic, we ensured the uninterrupted delivery of dorzagliatin to patients and clinical centers, even during the height of the pandemic in China, and associated national lock-down, in February 2020. Both SEED and DAWN were completed on time and in high quality in 2020.

Expansion of dorzagliatin indications. We completed three Phase I trials to set the grounds for expansion of dorzagliatin’s future indications. Two of the Phase I trials, HMM0112 and HMM0111 investigated the pharmacokinetic and pharmacodynamics characteristics of dorzagliatin with empagliflozin (a SGLT-2 inhibitor), and dorzagliatin with sitagliptin (a DPP-4 inhibitor), both indicating a synergistic effect in efficacy under combination therapy. The third Phase I trial was conducted in patients with end stage chronic kidney disease, demonstrating a desirable pharmacokinetic profile in patients, and indicating the potential use of dorzagliatin among T2D patients with moderate, severe and end stage chronic kidney disease.



Collaboration with the leading diabetes partner in China, Bayer. As we approach the commercial launch of dorzagliatin in China, we have entered into a commercialization agreement and strategic partnership with Bayer Healthcare Company Limited. Under the terms of the agreement, we received an upfront payment of RMB300 million in 2020, and additional payments could reach up to RMB4.18 billion if certain milestones are met. We will pay Bayer tiered service fees based on net sales in China, initially sharing equally in sales, with adjusting sales percentages based on agreed China net sales thresholds. We will continue to be the market authorization holder of dorzagliatin, and responsible for clinical development, registration, product supply and distribution, while Bayer, as the promotion service provider, will be responsible for the marketing, promotion, and medical education activities in China.

Rapid progress for dorzagliatin's manufacturing scale up in China. In October 2020, we obtained the drug manufacturing permit for dorzagliatin, indicating that Hua Medicine has established the required systems and capabilities to satisfy national drug quality and pharmacovigilance management standards. We and our CMOs have completed the requisite manufacturing process validation work related to commercialization of the drug. The drug manufacturing permit is a requisite for submitting the NDA, and we are among the first group of biotechnology companies that have obtained the permit since the implementation of the new Drug Administration Law on December 1, 2019. In November 2020, we entered into a commercial supply agreement with Zhejiang Raybow Pharmaceutical as an additional supplier to existing partners, to ensure the API supply of dorzagliatin.

Further validation of the glucokinase activator concept. Our senior scientific consultant, Dr. Franz Matschinsky, Professor of Biochemistry and Biophysics at the Institute for Diabetes, Obesity and Metabolism Perelman School of Medicine, University of Pennsylvania, was awarded the Rolf Luft Award 2020 by the Karolinska Institutet. He was recognized for "the discovery that glucokinase ("GK") is the sensor controlling glucose-stimulated insulin secretion in the pancreatic β -cell". Specifically, his studies led to the experimentation of GK in correcting metabolic defects in human pancreatic islet cells and other tissues involved in Type 2 diabetes, resulting ultimately in the discovery of novel allosteric GK activators, such as our dorzagliatin (HMS5552) which has completed two Phase III trials in China. Dr. Matchinsky's comprehensive work has uniquely advanced the understanding of beta-cell biology and insulin secretion in health and in diabetes. Due to the COVID-19 pandemic in 2020, his presentation to the Nobel Forum at the Karolinska Institutet has been postponed to 2021.

In addition to our late-stage development efforts with dorzagliatin, we also continue to develop various other compounds, currently in the pre-clinical stage. One is focused on mGLUR5 for Parkinson's disease levodopa-induced dyskinesia, and the other is a fructose kinase inhibitor for metabolic disease.

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

Product pipeline

Product Name	Indication	Development phase	Pre-clinical	IND	Phase I	Phase II	Phase III	NDA
Dorzagliatin HMS5552	T2D	NDA Filing (China)	→					
	DKD	Phase I enabling	→					
	T1D	IND-enabling	→					
HMSFDC 6857 Dorzagliatin + Metformin	T2D	Phase I ready	→					
HMSFDC 6868 Dorzagliatin +Sitagliptin	T2D	Phase I ready	→					
	Insulin Sparing	IND-enabling	→					
HMSFDC 5868 Dorzagliatin +Empagliflozin	T2D CVR	Phase I ready	→					
HMSFDC 5688 Dorzagliatin +pioglitazone	NASH	IND-enabling	→					
HMS 5678 Dorzagliatin + GLP -1	Alzheimer Disease	IND-enabling	→					
HMS 6789 Dorzagliatin + Insulin	Late Stage T2D Insulin sparing	IND-enabling	→					
	T1D	IND-enabling	→					
mGLUR5 NAM	PD-L1D	Pre-clinical	→					
Fructose Kinase Inhibitor	Metabolic Disease	Pre-clinical	→					

Clinical trials completed during the Reporting Period:

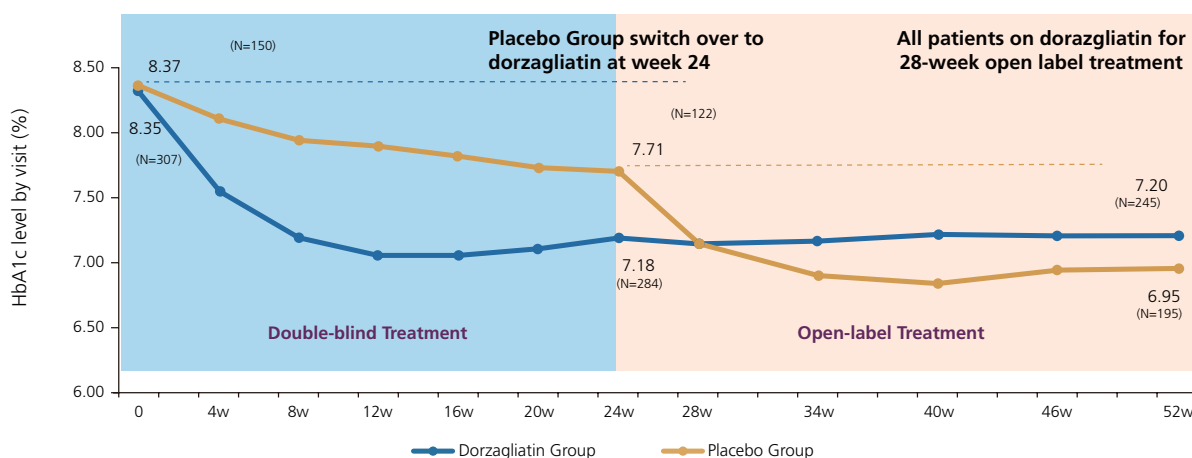
Phase III registration trials:

SEED/HMM0301

SEED is a randomized, double-blind, placebo-controlled Phase III study in 463 drug naïve T2D patients. Patients were treated with twice-daily doses of dorzagliatin (75 mg) or placebo, randomized 2:1. The clinical study evaluated the efficacy and safety of dorzagliatin during 24 weeks of double-blinded treatment, followed by a subsequent 28-week open-label treatment period, for a total of 52 weeks plus one-week follow-up. During the 28-week open-label period, both patient groups were treated with twice-daily doses of dorzagliatin (75 mg). The trial was conducted at 40 clinical sites across China led by Professor Dalong Zhu, President of the Chinese Diabetes Society. (NCT03173391).

In November 2019, Hua Medicine announced the trial had achieved its primary efficacy and safety endpoints over the initial 24-week double blinded period. For the 52-week treatment period, the efficacy and safety profiles were sustained based on the topline data analysis. During the 28-week open-label period, patients initially receiving a placebo (i.e., the placebo group) were administered dorzagliatin for the first time. Figure 1 below illustrates the efficacy (as measured by HbA1c reduction) for the two-cohort groups for the entire 52-week period.

Figure 1: Change of HbA1c during the 52-week treatment period



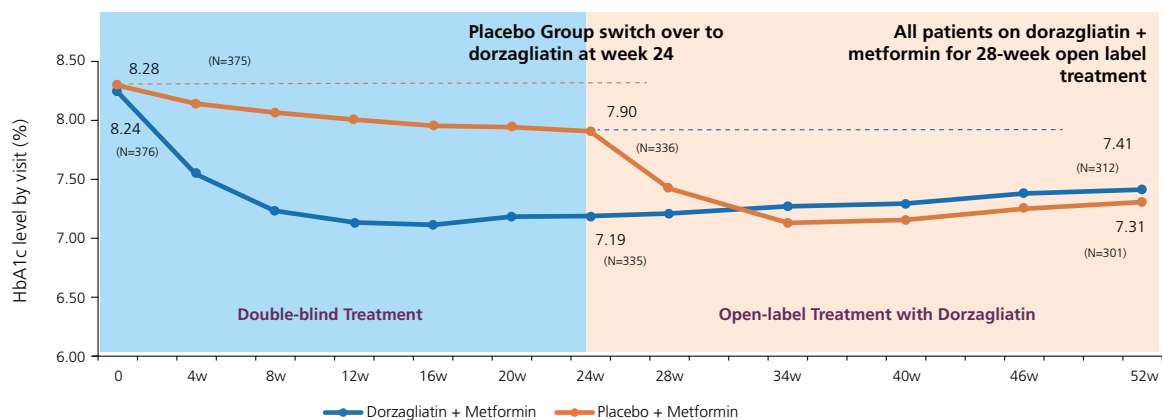
In addition, data from the 24-week double-blinded treatment period demonstrates that there was significant β -cell function improvement (as measured by HOMA2- β 1) in the treatment group versus the placebo group – an increase of 2.56% vs. a decline of 0.72% in β -cell function improvement. The data also indicates significant 2-hour post-prandial glucose reduction (-2.83mmol/L vs -0.50mmol/L, $p < 0.001$).

DAWN/HMM0302

DAWN is a randomized, double-blind, placebo-controlled Phase III study in 767 Type 2 diabetes patients whose blood glucose cannot be controlled with the maximum tolerated dose of equal or greater than 1500 mg/day of metformin. Subjects were treated with metformin (Glucophage®) at 1500mg/day as basic therapy throughout the whole 52-week treatment period. Patients were given twice-daily doses of dorzagliatin (75mg) or placebo, randomized on a 1:1 ratio. The clinical study evaluated the efficacy and safety of dorzagliatin during 24 weeks of double-blinded treatment, followed by a subsequent 28-week open-label treatment period receiving dorzagliatin 75mg twice daily. The primary efficacy endpoint was evaluated at the conclusion of the first 24 weeks. The trial was conducted in 73 clinical sites across China led by Professor Wenying Yang at China-Japan Friendship Hospital. (NCT03141073).

In July 2020, Hua Medicine announced the DAWN Trial had achieved its primary efficacy and safety endpoints over the initial 24-week double blinded period. For the 52-week treatment period, the efficacy and safety profiles were sustained based on the topline data analysis. During the 28-week open-label period, patients initially receiving placebo + metformin (i.e., the placebo group) switched to receive dorzagliatin + metformin. Figure 2 below illustrates the fast onset and sustained efficacy (as measured by HbA1c levels) for the two-cohort groups for the entire 52-week period.

Figure 2: Change of HbA1c during the 52-week treatment period



Similar to observations made in the SEED Trial, conducted with drug-naïve T2D patients with average disease history of one year, a significant increase in HOMA2- β and reduction in HOMA2-IR over placebo were observed in the DAWN Trial, suggesting a consistent improvement of β -cell function and reduction in insulin resistance in diabetes patients with average disease history of almost six years and who had failed glycemic control on maximum daily dose of metformin (1,500mg/day).

Other clinical trials:

HMM0110 demonstrated desirable pharmacokinetics profile in patients with end stage chronic kidney disease, indicating the potential use of dorzagliatin without dose adjustment among T2D patients with renal impairment in mild, moderate, severe and end stage before dialysis. These results supports dorzagliatin as a promising solution and potential supplementary option for T2D patients with diabetic kidney disease, as most current oral anti-diabetic drugs are not readily suitable for patients with renal impairment.

HMM0111, dorzagliatin demonstrated the possibility of administration in combination with sitagliptin, the global top-selling DPP-4 inhibitor, with superior blood glucose reduction over sitagliptin or dorzagliatin monotherapy. The trial also demonstrated that dorzagliatin add-on to sitagliptin increases endogenous GLP-1 secretion.

HMM0112, which successfully demonstrated the possibility of administering dorzagliatin in combination with empagliflozin, a top-selling SGLT-2 inhibitor, also achieved significantly enhanced glucose lowering effect over empagliflozin or dorzagliatin monotherapy. The positive results of HMM0112 indicate enhanced blood sugar control for T2D patients using the dorzagliatin add-on to SGLT-2 inhibitors, which provides an improved solution to T2D patients who benefit from the cardiovascular benefits and weight loss of SGLT-2 inhibitors.

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

To date, except for the RMB300 million upfront payment we received from Bayer in exchange for certain commercialization rights in mainland China as contract liabilities, we have not yet generated any revenue from the sale of goods or from the rendering of services, recognizing only limited income in the form of government grants and interest income. As of December 31, 2020, we expect to incur significant losses for the foreseeable future with no product revenues prior to obtaining marketing approval for dorzagliatin from the NMPA and commercializing dorzagliatin.

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

Business outlook

We plan to submit our NDA for dorzagliatin to the NMPA in China in the first half of 2021. In the second half of 2021, we plan to initiate additional studies for dorzagliatin in DKD and for dorzagliatin combinations, including with GLP-1 and insulin for T2D patients, and insulin for T1D patients. We are also advancing our fixed-dose combination pipeline for dorzagliatin.

Key events after the Reporting Period

Save as disclosed above, there are no important events that have occurred up to the date of this announcement.

Financial review

Other income

Our other income consisted primarily of bank interest income, rent concession and government grants. Our other income decreased by RMB13.7 million to RMB15.9 million for the year ended December 31, 2020 from RMB29.6 million for the year ended December 31, 2019, which was mainly attributable to a decrease of RMB13.6 million in government grants for the year ended December 31, 2020, a decrease of RMB2.9 million in bank interest income from short-term time deposits, adjusted for an increase of RMB2.8 million in rent concession. We received RMB17.3 million government grants from the local governments for research and development and operating activities and rent concession for the year ended December 31, 2020, among which we recorded RMB11.5 million in other income and RMB5.8 million in deferred income.

Other gains and losses

Our other gains and losses consisted primarily of gains or losses due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between the Renminbi and the HK dollar. Our other gains and losses decreased by RMB58.1 million to a loss of RMB41.8 million in the year ended December 31, 2020 from a gain of RMB16.3 million in the year ended December 31, 2019, which was mainly attributable to foreign exchange losses in connection with bank balances and cash denominated in U.S. dollars and HK dollars and the large depreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2020, compared to the small appreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2019.

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

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses decreased by RMB6.5 million to RMB140.1 million in the year ended December 31, 2020 from RMB146.6 million in the year ended December 31, 2019, which was mainly attributable to i) decrease in labour costs which was attributable to the decrease of RMB10.6 million in share-based payment under the accelerated amortization method, adjusted for an increase of RMB1.2 million in cash compensation with headcount increase, ii) decrease of RMB4.2 million in travelling costs and decrease of RMB2.4 million in recruitment cost based on the recruitment plan, iii) increase in consulting fee of RMB3.4 million associated with the qualified collaboration with Bayer, adjusted for a decrease in consulting fee of RMB2.5 million associated with commercialization strategy and market research expense incurred in the year of 2019 and no such cost in the year of 2020, and iv) adjusted for the rental increase of RMB7.4 million with entering into the tenancy agreement for leasing office building in December 2019 to establish the Global Operation Headquarters and Research and Development Center in China and low-value IT consumable expenditure of RMB1.2 million for the office building incurred in the year of 2020.

Other expenses

Our other expenses consist of expense associated with a donation of RMB1.7 million (equivalent to USD250,000) for each of the years ended December 31, 2019 and 2020 to establish the Type 2 Diabetes research fund at the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania.

Finance cost

Our finance cost consisted of expenses associated with the interest on lease liabilities. Our finance cost was RMB4.4 million for the year ended December 31, 2020 as compared to RMB0.9 million for the year ended December 31, 2019, which was mainly attributable to the lease of headquarters building at the end of year 2019.

Research and development expenses

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

	For the year ended December 31,			
	2020		2019	
	RMB' 000	%	RMB' 000	%
Dorzagliatin Clinical Trials	79,964	36.2%	158,900	49.4%
Dorzagliatin Non-clinical Studies	3,996	1.8%	3,124	1.0%
Chemical, Manufacturing and Control	9,780	4.4%	33,061	10.3%
Labor Cost	110,133	49.9%	109,458	34.0%
Dorzagliatin Licensing and Patent Fee	5,189	2.3%	2,018	0.6%
Others	11,900	5.4%	15,343	4.7%
Total	<u>220,962</u>	<u>100.0%</u>	<u>321,904</u>	<u>100.0%</u>

Research and development expenses decreased by RMB100.9 million to RMB221.0 million for the year ended December 31, 2020 from RMB321.9 million for the year ended December 31, 2019. The decrease in research and development expenses included:

- a decrease of RMB78.9 million for dorzagliatin clinical trials, which was primarily attributable to decreased costs associated with the last patient out of the 52-week study period of SEED/HMM0301 in March 2020 and DAWN/HMM0302 in September 2020;
- a decrease of RMB23.3 million in chemical, manufacturing, and control (CMC) expenses, which was primarily attributable to scaling-up development, method validation and process validation for spray dried powder (SDP) manufacturing and drug product manufacturing completed in 2019;
- an increase of RMB0.6 million for increased labor costs, which was primarily attributable to an increase of RMB5.4 million in cash compensation mainly associated with headcount increase, adjusted for a decrease of RMB4.8 million in share-based payment;
- an increase of RMB3.1 million for increased dorzagliatin licensing and patent fee, which was primarily attributable to a Patent Cooperation Treaty (PCT) application for the fixed-dosed combination associated with dorzagliatin;
- a decrease of RMB3.4 million for others, which was primarily attributable to decreased travelling, consulting and meeting costs due to the impact of COVID-19.

Income tax expense

We recognized no income tax expenses for the year ended December 31, 2020 and the year ended December 31, 2019.

Liquidity and capital resources

Since our inception, we have been in a net loss position with and net cash outflows from operations. Our primary use of cash is to fund our research and development activities. Our operating activities used RMB20.9 million for the year ended December 31, 2020. As of December 31, 2020, we had cash and cash equivalents of RMB1,032.1 million.

As of December 31, 2020, there were no significant investments held by the Company (including any investment in an investee company with a value of 5 per cent. or more of the Company's total assets as at 31 December 2020), nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Cash Operating Cost

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

	For the year ended December 31,	
	2020	2019
	RMB' 000	RMB' 000
Research and development costs	161,388	238,337
Administrative costs		
– Workforce employment	48,094	46,267
– Others	111,424	57,463
	<u>159,518</u>	<u>103,730</u>
	<u>320,906</u>	<u>342,067</u>

Cash Flows

The following table provides information regarding our cash flows for the years ended December 31, 2019 and 2020:

	For the year ended December 31,	
	2020	2019
	RMB' 000	RMB' 000
Net cash used in operating activities	(20,906)	(342,067)
Net cash used in investing activities	(14,086)	(9,515)
Net cash used in financing activities	(7,262)	(1,236)
Effect of exchange rate changes	(31,256)	15,108
Net decrease in cash and cash equivalents	<u>(73,510)</u>	<u>(337,710)</u>

Net Cash Used in Operating Activities

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

During the year ended December 31, 2020, our operating activities used RMB20.9 million of cash, which resulted principally from our loss before tax of RMB393.1 million, adjusted for non-cash charges and non-operating cash charges of RMB99.9 million, and by cash used in our operating assets and liabilities of RMB272.3 million. Our net non-cash charges during the year ended December 31, 2020 primarily consisted of RMB4.9 million of depreciation of equipment, RMB13.2 million of depreciation for right-of-use assets, RMB0.3 million of intangible assets amortization, RMB4.4 million of interest on lease liabilities; RMB58.9 million share option expenses, RMB4.4 million of bank interest income, RMB5.8 million of income from government grants; RMB2.6 million of rent concession and RMB30.8 million net foreign exchange losses.

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

Net Cash used in Investing Activities

Net cash used in investing activities was RMB14.1 million for the year ended December 31, 2020, which resulted primarily from the purchase of equipment, partially offset by the interest received from bank. Net cash used in investing activities was RMB9.5 million for the year ended December 31, 2019, which resulted primarily from payments for rental deposits and the purchase of equipment, partially offset by the interest received from bank.

Net Cash used in Financing Activities

Net cash used in financing activities was RMB7.3 million for the year ended December 31, 2020, which resulted from payments relating to lease liabilities, offset by proceeds from exercise of share options. Net cash used in financing activities was RMB1.2 million for the year ended December 31, 2019, which resulted from payments relating to lease liabilities, offset by proceeds from exercise of share options.

Financial position

Our net current assets decreased from RMB1,011.7 million as of December 31, 2019 to RMB938.7 million as of December 31, 2020. Current assets decreased from RMB1,120.5 million as of December 31, 2019 to RMB1,045.3 million as of December 31, 2020, primarily due to a decrease in bank balances and cash from RMB1,105.6 million as of December 31, 2019 to RMB1,032.1 million as of December 31, 2020, which was due primarily to the payments for our research and development activities and daily operation.

Significant change in accounting policy

We have applied the Amendment to IFRS 16 “Covid-19-Related Rent Concessions” issued by the International Accounting Standard Board (the “IASB”).

Indebtedness

As of December 31, 2020 and 2019, our lease liabilities amounted to RMB80.7 million and RMB90.0 million, respectively. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Current portion	11,503	12,019
Non-current portion	69,212	77,959
Total	<u>80,715</u>	<u>89,978</u>

Our lease liabilities as of December 31, 2020 were from leased properties lease contracts with lease terms of two to six years. As of December 31, 2020, we did not have any other indebtedness.

Qualitative and Quantitative Disclosures About Market Risk

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

Currency Risk

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

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

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

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Impact on profit or loss		
US\$	(22,228)	(42,433)
HK\$	(2,210)	(2,634)

Interest Rate Risk

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

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

Liquidity Risk

As of December 31, 2020 and 2019, we recorded net current assets of RMB938.7 million and RMB1,011.7 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key Financial Ratios

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

	As of December 31,	
	2020	2019
Current ratio ⁽¹⁾	9.8	10.3
Quick ratio ⁽²⁾	9.8	10.3

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

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

The current ratio and quick ratio as of December 31, 2020 decreased by 0.5 compared with that as of December 31, 2019, which was mainly due to the cost of research activities and daily operation.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Li CHEN (陳力), aged 58, is our founder, Chief Executive Officer, Chief Scientific Officer, and the Chairman of the Company's Strategy Committee. He was appointed as a Director on June 4, 2010 and re-designated as an executive Director on May 11, 2018. He has been our Chief Executive Officer since June 4, 2010. Since August 2010 and March 2011, respectively, he has served as a director of Hua HK and Hua Shanghai and Hua USA.

Dr. Chen has over 20 years of experience in the biopharmaceutical industry. He is a pioneer in collaborative innovation in China and has been actively involved in the development of dorzagliatin including the years he spent at Roche (from whom we acquired our rights to dorzagliatin in 2011). Dr. Chen joined Roche in 1992 in the United States, focusing on R&D. Dr. Chen held many leadership positions eventually rising to become a member of Roche's Research Leadership Team. In his last position at Roche before joining the Group, he served as the founding director and chief scientific officer of Roche China R&D Center in Shanghai, China. In that role, Dr. Chen was responsible for development and implementation of Roche China drug discovery strategy, creation of China discovery portfolio, and management of China operations with several drugs from the Roche R&D portfolio during his tenure (including dorzagliatin).

Dr. Chen obtained his Bachelor of Science in Chemistry from Zhengzhou University in July 1982, a Master of Science in Chemistry from East China Normal University in November 1985 in Shanghai and a Ph.D. in Organic Chemistry in August 1992 from Iowa State University in the United States. He is an inventor of 38 granted patents and has authored 58 scientific publications. From September 2007 to September 2010, Dr. Chen served as an adjunct professor at Tongji University in Shanghai. In 2001, Dr. Chen served as the President of the Sino-American Pharmaceutical Professionals Association ("SAPA").

From 2014 to October 2020, Dr. Chen has served as an independent director of Coland Pharmaceutical Co., Ltd (康聯藥業有限公司), a company primarily engaged in sales, marketing and distribution of pharmaceutical products and medical devices, listed on Taiwan Stock Exchange (stock code: 4144) and withdrawal from listing due to privatization effective on 30 October 2020.

George Chien Cheng LIN (林潔誠), aged 50, was appointed as our Director on May 11, 2018 and re-designated as an executive Director on the same date. He has been the Company's Executive Vice President and Chief Financial Officer since December 22, 2017. Mr. Lin has been serving as a member of the Biotech Advisory Panel of the Stock Exchange since April 24, 2018. Mr. Lin has over 18 years of experience in investment banking working with numerous private and public companies globally. Prior to joining the Group, he worked for Bank of America Merrill Lynch in Hong Kong as an investment banker, and held a number of senior positions including Asia Pacific head of consumer, retail and healthcare investment banking, and head of Hong Kong and Taiwan investment banking coverage from June 2013 to December 2017. From July 2000 to May 2013, he worked for Credit Suisse as an investment banker in the Los Angeles, San Francisco and Hong Kong offices. At Credit Suisse, he focused on financings and merger and acquisitions for a variety of global clients, including, but not limited to, U.S. biotechnology companies and Chinese healthcare companies. His last position at Credit Suisse was Asia Pacific (ex-Japan) head of consumer, retail and healthcare investment banking based in Hong Kong. Prior to investment banking, Mr. Lin practiced corporate law in Los Angeles including working for O'Melveny & Myers for over 4 years from September 1995 to July 1999.

Mr. Lin obtained his bachelor's degree in biological sciences from the University of California at Davis in June 1992 and a juris doctor degree from The University of Chicago Law School in June 1995. Mr. Lin was admitted to the California State Bar in December 1995.

Non-executive Directors

Robert Taylor NELSEN, aged 57, was appointed as our Director on April 23, 2010 and re-designated as a non-executive Director on May 11, 2018. He is the Chairman of our Board, the Chairman of the Nomination Committee and a member of the Strategy Committee, and has also been a director of our subsidiary, Hua HK, since August 2010.

Since 1994, Mr. Nelsen has served as a co-founder and managing director of ARCH Venture Partners, a venture capital firm focused on early-stage technology companies, and has played a significant role in the early sourcing, financing and development of more than 30 biopharmaceutical companies. Mr. Nelsen has been serving as a director of Karuna Therapeutics Inc. (stock code: KRTX) since August 2018, Beam Therapeutics Inc. (stock code: BEAM) since June 2017, Vir Biotechnology Inc. (stock code: VIR) since January 2017, Denali Therapeutics, Inc. (stock code: DNLI) since May 2015, and Sana Biotechnology (stock code: SANA) since September 2018, and previously served as a director of Sienna Biopharmaceuticals, Inc. (stock code: SNNA) from August 2015 to October 2018, Syros Pharmaceuticals, Inc. (stock code: SYRS) from August 2012 to June 2018, Juno Therapeutics, Inc. (stock code: JUNO) from August 2013 to March 2018, KYTHERA Biopharmaceuticals, Inc. (stock code: KYTH) from January 2006 to December 2014, Agios Pharmaceuticals Inc. (stock code: AGIO) from December 2007 to June 2017, Sage Therapeutics, Inc. (stock code: SAGE) from September 2013 to March 2016, Bellerophon Therapeutics, Inc. (stock code: BLPH) from February 2014 to November 2015, Adolor Corporation (stock code: ADLR) from November 1994 to May 2004, Illumina, Inc. (stock code: ILMN) from June 1998 to August 2006, Fate Therapeutics, Inc. (stock code: FATE) from September 2007 to June 2014, and NeurogesX, Inc. (stock code: NGSX) from July 2000 to July 2013, and Unity Biotechnology, Inc. (stock code: UBX) from November 2011 to December 2020, all of which are companies listed on NASDAQ stock market in the United States. Subsequent to June 29, 2012, NGSX shares were quoted on the Over the Counter Bulletin Board (OTC) in the United States. Mr. Nelsen also previously served as a trustee of Fred Hutchinson Cancer Research Center.

Mr. Nelsen received a Bachelor of Science degree with majors in economics and biology from the University of Puget Sound in the United States in 1985 and an M.B.A. from the University of Chicago in the United States in 1987.

Lian Yong CHEN (陳連勇), aged 58, was appointed as our Director on January 6, 2015 and re-designated as a non-executive Director on May 11, 2018. Dr. Lian Yong Chen is a member of the Remuneration Committee. He has also been a director of our subsidiaries, Hua HK and Hua Shanghai, since January 2015 and April 2016 respectively. Dr. Lian Yong Chen is currently the founding managing partner and chief executive officer of 6 Dimensions Capital. He has over 20 years of experience in the life sciences industry in China and the United States as a venture capitalist, senior management executive, entrepreneur, and scientific inventor. He was the founder and managing partner at Frontline BioVentures and a partner at FIL Capital Management (Hong Kong) Limited in Asia from May 2008 to March 2014.

Since May 2019, he has served as a director at 111, Inc., a company listed on NASDAQ (stock code: YI). Since August 2018, he has served as a director at CStone Pharmaceuticals, a company listed on the main board of the Stock Exchange (stock code: 2616). He has served as a director at Ocumension Therapeutics, a company listed on the main board of the Stock Exchange (stock code: 1477) since May 2018. Dr. Lian Yong Chen has also served as a director of Shanghai Hile Bio-Pharmaceutical Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603718) since December 2014.

Dr. Lian Yong Chen conducted postdoctoral research at the Massachusetts Institute of Technology after obtaining his Ph.D. degree in Chemistry (with top honor) from the University of Louvain, Louvain-La-Neuve in Belgium in July 1991. He obtained his Bachelor of Science degree in Chemistry from Peking University in June 1984.

Independent Non-executive Directors

Walter Teh-Ming KWAUK (郭德明), aged 68, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Kwauk is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Kwauk has been serving as an independent director at Alibaba Group Holding Limited, a company primarily engaged in internet commerce services and listed on the New York Stock Exchange (stock code: BABA) and the Stock Exchange (stock code: 9988), since September 2014 and November 2019, and is currently the chairman of the audit committee and a member of the compensation committee of Alibaba Group Holding Limited. He previously served as an independent non-executive director and chairman of the audit committee of Alibaba.com Limited, a subsidiary of Alibaba Group Holding Limited which was listed on the Stock Exchange, from October 2007 to July 2012. Mr. Kwauk is also currently a senior adviser of Motorola Solutions (China) Co., Ltd., a software and services company primarily engaged in provision of data communications and telecommunications equipment, and serves as an independent non-executive director of Sinosoft Technology Group Limited, a software and services company listed on the Stock Exchange (stock code: 1297), and WuXi Biologics (Cayman) Inc., a company primarily engaged in biologics services provision and listed on the Stock Exchange (stock code: 2269), for both of which Mr. Kwauk is also the chairman of their audit committees.

From June 2014 to August 2016, he served as an independent non-executive director and the chairman of the audit committee of China Fordoo Holding Limited, a menswear design and manufacturing company listed on the Stock Exchange (stock code: 2399), and has been responsible for providing independent judgment to the board of the company. From August 2014 to December 2015, Mr. Kwauk also served as an independent director of WuXi PharmaTech, a biopharmaceutical company formerly listed on the New York Stock Exchange during the same period. Mr. Kwauk was a vice president of Motorola Solutions, Inc., a data communications and telecommunications equipment provider, and its director of corporate strategic finance and tax for Asia Pacific from 2003 to 2012. Mr. Kwauk served with KPMG from 1977 to 2002 and held a number of senior positions, including the general manager of KPMG's joint venture accounting firm in Beijing, the managing partner in KPMG's Shanghai office and a partner in KPMG's Hong Kong office.

Mr. Kwauk has been a member of the Hong Kong Institute of Certified Public Accountants since March 1983. He received a bachelor's degree in science and a licentiate's degree in accounting from the University of British Columbia in Canada in April 1975 and April 1977, respectively.

William Robert KELLER, aged 72, was appointed as independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Remuneration Committee as well as a member of the Audit Committee and Nomination Committee. Mr. Keller is primarily responsible for supervising and providing independent judgment to our Board.

Since May 2017, Mr. Keller has served as an independent non-executive director on the board of WuXi Biologics, a company primarily engaged in biologics services provision and listed on the Stock Exchange (stock code: 2269). Since August 2020, he serves as non executive director on the Board of Cathay Biotech Inc, an industrial biotechnology company and listed on the Shanghai Stock Exchange's STAR market (stock code: SS688065.SS). From December 2010 to October 2020, he holds directorship at Coland Pharmaceutical Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 4144) and withdrawal from listing due to privatization effective on 30 October 2020. From September 2014 to December 2015, Mr. Keller served as an independent director of WuXi PharmaTech, a biopharmaceutical company formerly listed on the New York Stock Exchange during the same period. Between 1974 to 2003, Mr. Keller served in various positions at the Roche Group, including as the general manager of Roche China Ltd. and Shanghai Roche Pharmaceutical Ltd. He has been a vice chairman of the Shanghai Association of Enterprises with Foreign Investment, a senior consultant to the Shanghai Foreign Investment Development Board, and the deputy general manager of Zhangjiang Biotech and Pharmaceutical Base Development Co., Ltd. Mr. Keller previously held directorships in biopharmaceutical companies including Alexion Pharmaceuticals, Inc., a company listed on NASDAQ (stock code: ALXN) from December 2009 to May 2015, China Nuokang Pharmaceutical Inc. a company listed on NASDAQ (stock code: NKBP) from August 2008 to December 2011. He has also served as a chairman of HBM Biomed China Partner and Coland Pharmaceutical Co. Ltd.

Mr. Keller obtained a Bachelor of Science degrees from the School of Economics and Business Administration in Switzerland in July 1972.

Junling LIU (劉峻嶺), aged 56, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also a member of the Nomination Committee and Strategy Committee. Mr. Liu is the chairman and chief executive officer of 111, Inc., a digital and mobile healthcare platform operator in China, a company listed on NASDAQ (stock code: YI). Mr. Liu was a co-founder and chief executive officer of Yihaodian. Before establishing Yihaodian in 2008, Mr. Liu was a co-president of Dell (China) Company Limited from 2006 to 2007. He has been an independent director of Autohome Inc., company listed on the New York Stock Exchange (stock code: ATHM) since January 12, 2015.

Mr. Liu received his Master of International Business Administration degree from Flinders University in Australia in 1998.

Yiu Wa Alec TSUI (徐耀華), aged 71, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also a member of the Audit Committee. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management. He served at various positions, including the chief executive of the Stock Exchange from February 1997 to August 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited from March 2000 to August 2000 and the chairman of Hong Kong Securities Institute from December 2001 to December 2004. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited, a private professional consulting services and financial solutions company from February 2006 to June 2016, and presently serves as a director to WAG Worldsec Management Consultancy Limited.

Mr. Tsui is an independent non-executive director of a number of companies listed in Hong Kong, namely, COSCO Shipping International (Hong Kong) Co., Ltd., (stock code: 517) since February 2004, Pacific Online Limited (stock code: 543) since November 2007. He also serves as independent director of two NASDAQ listed companies, ATA Creativity Global (previous known as ATA Inc.) (stock code: AACG) since January 2008 and Melco Resorts & Entertainment Limited (stock code: MLCO) since December 2006. From December 2012 to November 2020, Mr. Tsui also served as independent director of Melco Resorts and Entertainment (Philippines) Corporation (stock code: MRP), a company listed on the Philippine Stock Exchange and withdrawal from listing effective on 11 June 2019. Mr. Tsui is also an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited, a company previously listed in Hong Kong, since August 2000. He also served as independent non-executive directors in various other Hong Kong listed companies, including China Power International Development Limited (stock code: 2380) from March 2004 to December 2016, China Oilfield Services Limited (stock code: 2883) from June 2009 to June 2015, Summit Ascent Holdings Limited (stock code: 102) from March 2011 to September 2018, Kangda International Environmental Company Limited (stock code: 6136) from July 2014 to April 2019, and DTXS Silk Road Investment Holdings Company Limited (stock code: 620) from December 2015 to May 2020.

Mr. Tsui graduated from the University of Tennessee in the United States, with a bachelor's degree in science in industrial engineering in June 1975 and a master's degree in engineering in June 1976. He completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University in the United States in August 1993.

SENIOR MANAGEMENT

Li CHEN (陳力), see “– Directors” for details.

George Chien Cheng LIN (林潔誠), see “– Directors” for details.

Yi ZHANG (張怡), aged 46, has been serving as the senior vice president of our Clinical R&D department since April 2018. In August 2020, Dr. Zhang was promoted to senior vice president of Pharma Development and Chief Medical Officer – China. Prior to joining our Group in February 2013 as vice president of our Clinical R&D department, Dr. Zhang was the associate medical director of clinical science at Roche Product Development group, Asia Pacific region in early 2010s. She served as a clinical scientist for innovative drug development in the areas of cardiovascular, metabolic and renal diseases. Prior to Roche, Dr. Zhang was a physician at Shanghai Renji Hospital, and worked at Shanghai Renji Hospital, Shanghai Ruijin Hospital, and Shanghai Jiaotong University School of Medicine with 10 years’ clinical experience between December 1999 and October 2009. Dr. Zhang obtained her Ph.D. degree from Shanghai Jiaotong University School of Medicine (specialization in cardiology) in China in June 2004. She was involved in the Framingham Heart Study as a NIH/NHLBI visiting researcher. Dr. Zhang was nominated as a “Shanghai Excelling Academic/ Technical Leader” (上海市優秀學術／技術帶頭人) in 2015 and has authored 60 publications in journals such as Nature Genetics, Circulation: Cardiovascular Genetics, and Human Molecular Genetics, and has invented 3 China patents.

Daniel Yunlong DU (杜雲龍), aged 56, has been serving as the senior vice president of our Regulatory, Clinical and Manufacture department and Drug Safety and Pharmacovigilance department since he joined our Group on August 15, 2017. Prior to joining our Group, he worked in Frontage Clinical Services, Inc. as vice president from March 2016 to August 2017, Akebia Therapeutics, Inc. as clinical director in the mid-2010s, GlaxoSmithKline plc as principal clinical scientist and Pfizer, Inc. as associate director. He is the inventor of 9 patents. Dr. Du received his bachelor’s degree from Beijing Medical University in China in July 1987 and Ph.D. degree in Biological Sciences from Albany Medical College in the United States in May 1995. He received U.S. Education Certificates for Foreign Medical Graduates (ECFMG) in 1996.

Jin SHE (余勁), aged 48, has been serving as the Company’s vice president in our Chemical Manufacturing Control department since June 2015. Prior to joining our Group in June 2015, Dr. She worked at MSD R&D Center (China) from January 2013 to May 2015 and at Roche R&D Center (China) from April 2009 to December 2012. He has 8 publications in peer-reviewed journals and 6 patents. Dr. She received his Ph.D. degree in chemistry from the University of North Carolina at Chapel Hill in August 2004 and his bachelor and master’s degree in chemistry from Peking University in China in July 1996 and July 1999, respectively.

Fuxing TANG (湯福興), aged 54, has been serving as Chief Technology Officer, vice president in our Chemical Manufacturing Control department and head of R&D in USA since February 2020. Dr. Tang obtained his Ph.D. in Pharmaceutical Sciences from the University of Florida and conducted postdoctoral research in peptide delivery in Professor Ronald Borchardt (“Father of Caco-2”) group. Dr. Tang started his career in Forest labs, Inc. During his tenure in Forest labs, Inc./Allergan, Dr. Tang was instrumental in building biopharmaceutical functions and in charging of multi-functions of ADME, preformulation, drug product formulation and post approval drug products manufacturing process trouble-shooting. In addition, Dr. Tang contributed to the development of novel CaCo2 technology for drug discovery and the concept of MDO – multiple dimensional optimization in drug discovery. Prior to joining us, Dr. Tang worked as reviewer in ORS, FDA and worked in TEVA/Allergan as global Director of Biopharmaceutical Sciences. He has led and contributed to multiple products launch and NDA/ANDA filings.

Yilei FU (付宜磊), aged 50, has been serving as the Company’s vice president for the Quality Assurance department since he joined our Group in July 2017. Mr. Fu served as quality director at Boehringer-Ingelheim from September 2010 to July 2017. Mr. Fu also served as senior quality and compliance manager at pharmaceutical company Xian Janssen in the late 2000s. Prior to that, he served as quality assurance manager at pharmaceutical company AstraZeneca. Mr. Fu obtained his bachelor’s degree in pharmaceutical analysis from Shenyang Pharmaceutical University in 1994, his master’s degree of business administration from Shanghai Jiaotong University in China in January 2008 and was certified as a licensed pharmacist by the China Food and Drug Administration in October 2000.

Wenjie XU (徐文潔), aged 49, has been serving as vice president, Head of Commercial Strategy and Marketing since August 9, 2018. Prior to joining our Group, Ms. Xu served as Executive Director of the Cardiovascular, Renal, and Metabolic Business Unit of AstraZeneca China from January 2016 to August 2018. Ms. Xu’s principal responsibility at AstraZeneca China was sales and marketing of their diabetes franchise in China, including the successful launch of Dapagliflozin. Prior to AstraZeneca, she also served in various sales and marketing roles at Eli Lilly from February 2007 to December 2015, focused on diabetes starting in 2009. Prior to Eli Lilly, Ms. Xu served in sales and marketing functions of various pharmaceutical companies, including Amgen China. Ms. Xu obtained her bachelor’s degree in pharmaceutical analysis from the China Pharmaceutical University in 1993, and a master of business administration degree from Goizueta Business School, Emory University in the United States, in 2004.

Subsequent Events after Reporting Period

In the first quarter of 2021, Dr. Jin She was promoted to Senior Vice President, CMC & Chief Manufacturing Officer, and Dr. Yilei Fu was promoted to Senior Vice President, Quality Assurance, Chief Quality Officer. Effective from March 31, 2021, Dr. Daniel Du resigned from Hua Medicine for personal reasons.

REPORT OF DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2020.

Principal activities

The Company, together with its subsidiaries, is principally engaged in the development of a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of diabetes. Dorzagliatin is a first-in-class glucokinase activator, or GKA, designed to control the progressive degenerative nature of diabetes by restoring glucose homeostasis in T2D. The Company in-licensed the global rights to Dorzagliatin from Roche.

Business review

A review of the Company's business, and a discussion of future clinical progress and business development are presented in the sections titled "Chairman and CEO Statement" on pages 6 to 8 of this annual report, "Management discussion and analysis" on pages 9 to 21. The financial risk management objectives and policies of the Company are set out in note 29 of the consolidated financial statements in this annual report. Significant events that have an effect on us subsequent to the financial year ended December 31, 2020 are set out in the "Key events after the reporting period" section of the "Management Discussion and Analysis" on page 14.

More information regarding the Company's performance with regards to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations are discussed in the "Environmental, Social and Governance Report".

Financial key performance indicators

The financial key performance indicators of the Group for the year are set out in the section "Business and Financial Highlights" of this annual report.

Dividend policy and final dividend

Subject to the laws of the Cayman Islands and the Articles of Association, the Company may in general meeting declare dividends in any currency but no dividends shall exceed the amount recommended by the Board, and no dividend will be declared or payable except out of the profits and reserves of the Company lawfully available for distribution including share premium. We do not currently have an expected dividend payout ratio. The determination to pay dividends will be made at the discretion of the Board and will be based upon our cash flow, financial condition, capital requirements and any other conditions that our Directors deem relevant.

The Board did not recommend the payment of final dividend for the year ended December 31, 2020 (December 31, 2019: NIL).

Major suppliers and customers

For the year ended December 31, 2020, the Group's five largest suppliers accounted for 46.1%, as compared to 57.6% of the Group's total purchases for the year ended December 31, 2019. The Group's single largest supplier accounted for 14.5% for the year ended December 31, 2020, as compared to 25.7% of the Group's total purchases for the year ended December 31, 2019. Wuxi App Tec Group, which includes Shanghai SynTheAll Pharmaceuticals Co., Ltd., Shanghai STA Pharmaceuticals Product Co., Ltd., Shanghai STA Pharmaceutical R&D Co., Ltd., Shanghai MedKey Med-Tech Development Co., Ltd., WuXi Clinical Development Services (Shanghai) Co., Ltd., WuXi AppTec (Su Zhou) Co., Ltd., WuXi AppTec (Tianjin) Co., Ltd., WuXi AppTec (Shanghai) Co., Ltd., and Wuxi MedKey Med-Tech Development Co., Ltd., a related group controlled by the substantial shareholder of the Company, was the Group's largest supplier for the year.

Save as disclosed above, during the year ended December 31, 2020, at no time did the other Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of total issued Shares of the Company) had interest in the Group's five largest suppliers.

During the year ended December 31, 2020, there were no sales of goods or rendering of services by the Group and thus, no major customers were identified.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 31 to the consolidated financial statements.

Equipment

Details of the movements in equipment of the Group during the year ended December 31, 2020 are set out in note 16 to the consolidated financial statements.

Share capital

The changes in the share capital of the Company during the year ended December 31, 2020 are set out in note 25 to the consolidated financial statements.

Debentures

As of December 31, 2020 and 2019, our lease liabilities amounted to RMB80.7 million and RMB90.0 million, respectively. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Current portion	11,503	12,019
Non-current portion	69,212	77,959
Total	<u>80,715</u>	<u>89,978</u>

Our lease liabilities as of December 31, 2020 were from buildings and vehicle lease contracts with lease terms of two to six years. As of December 31, 2020, we did not have any other indebtedness.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2020.

Pre-emptive rights

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association"), or the law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, under which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Reserves

Details of the movement in the reserves of the Group and the Company during the year ended December 31, 2020 are set out in the consolidated statement of changes in equity and note 33, respectively, to the consolidated financial statements. The distributable reserve as at December 31, 2020 and 2019 is RMB653,137,000 and RMB736,290,000, respectively.

Borrowings

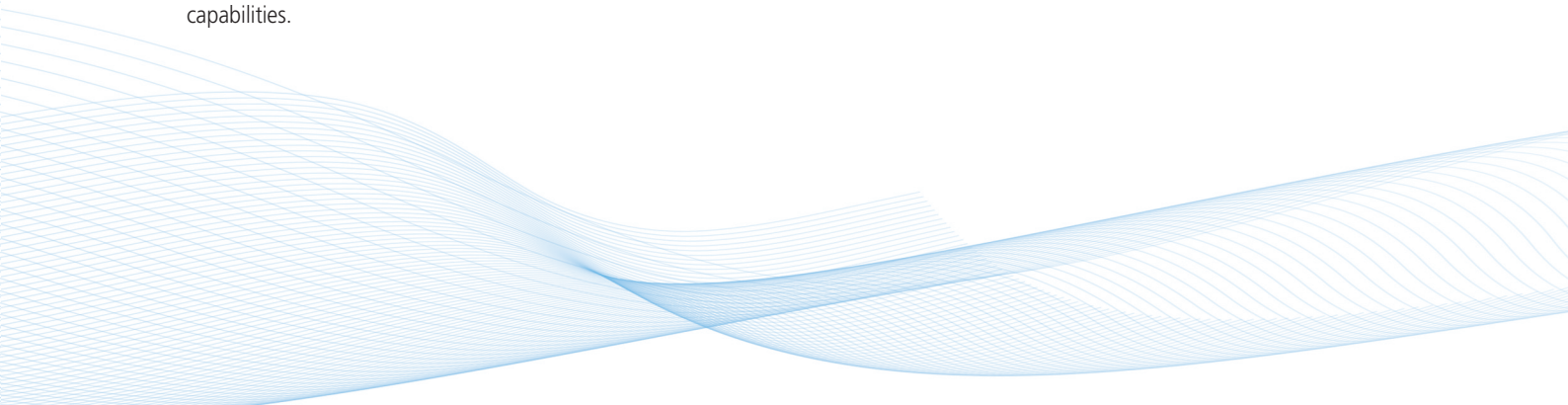
Details of the borrowings of the Group are set out in the section headed "Management Discussion and Analysis" in this annual report.

Tax Relief and Exemption

The Directors are not of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's Shares.

Use of net proceeds from the Global Offering

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



The following table sets forth the status of the Company's use of proceeds raised in the Global Offering as of December 31, 2020:

	% of use of proceeds	Net proceeds from the Global Offering RMB million	Actual usage up to December 31, 2020 RMB million	Unutilized net proceeds as of December 31, 2020 RMB million
(a) Dorzagliatin research and development	39%	291.4	291.4	–
(b) Dorzagliatin lifecycle management and additional indications	9%	67.2	33.1	34.1
(c) Dorzagliatin launch and commercialization	27%	201.8	31.5	170.3
(d) New product and diabetes care technology development	11%	82.2	13.7	68.5
(e) Product licensing and partnership	4%	29.9	–	29.9
(f) General working capital	10%	74.7	74.7	–
Total	100%	747.2	444.4	302.8

Directors

The Directors during the year ended December 31, 2020 and up to the date of this annual report were:

Executive directors

Li CHEN (陳力) (Chief Executive Officer and Chief Scientific Officer)

George Chien Cheng LIN (林潔誠) (Executive Vice President and Chief Financial Officer)

Non-executive directors

Robert Taylor NELSEN (Chairman)

Lian Yong CHEN (陳連勇)

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明)

William Robert KELLER

Junling LIU (劉峻嶺)

Yiu Wa Alec TSUI (徐耀華)

Biographies of the Directors and Senior Management

The biographies of the Directors and senior management of the Company are provided in the section titled “Directors and Senior Management” on pages 22 to 28 of this annual report.

Directors’ Service Contracts

Each of Dr. Li CHEN and Mr. George Chien Cheng LIN, being our executive Directors, has entered into a letter of appointment with us for an initial term of three years commencing from September 14, 2018, the Listing Date, which may be terminated by not less than 30 days’ notice in writing served by either the executive Director or our Company.

Each of Mr. Robert Taylor NELSEN and Dr. Lian Yong CHEN, being our non-executive Directors, has entered into a letter of appointment with us for an initial term of three years commencing from September 14, 2018, the Listing Date, which may be terminated by not less than one month’s notice in writing served by either the non-executive Director or our Company.

Each of Mr. Walter Teh-Ming KWAI, Mr. William Robert KELLER, Mr. Junling LIU, and Mr. Yiu Wa Alec TSUI, being our independent non-executive Directors, has entered into a letter of appointment with us for an initial term of three years commencing from September 14, 2018, the Listing Date, which may be terminated by not less than one month’s notice in writing served by either the independent non-executive Director or our Company.

No Director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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 by the Company or existed during the year ended December 31, 2020.

Emolument policy

In compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director’s and senior management personnel’s performance, qualification, position and seniority, as well as comparable market practices. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme.

Details of the Directors’ remuneration and the five highest paid individuals in the Group are set out in note 12 and note 13 to the consolidated financial statements in this annual report.

None of the Directors waived or agreed to waive any remuneration and there was no emoluments paid by the Group to any of the Directors as an inducement to upon, or upon joining the Group, or as compensation for loss of office.

Directors' interests in transactions, arrangements, or contracts of significance

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance to which the Company, or any of its holding companies or subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, subsisted during or at the end of the reporting period.

Directors' interests in competing business

As of the date of this annual report, none of the Directors nor their respective associates (as defined in the Listing Rules) had interests in businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Dr. Li CHEN has provided a confirmation in respect of the compliance with the deed of non-competition ("Deed of Non-competition") on August 29, 2018.

The independent non-executive Directors have also reviewed the compliance by Dr. CHEN with the Deed of Non-competition during the year ended December 31, 2020. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by Dr. Chen of the Deed of Non-competition.

Permitted indemnity provision


A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the reporting period. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Equity-linked agreement

Save for the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2020.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.



Disclosure of Interests

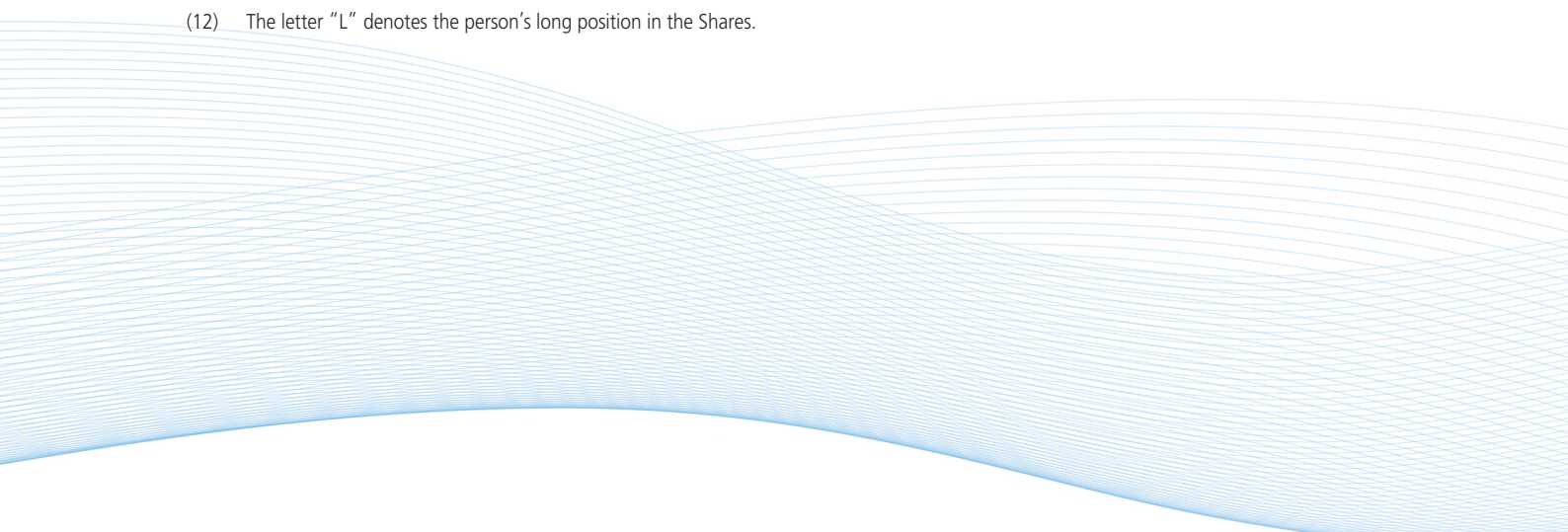
Directors and chief executives' interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations are set forth below:

As of December 31, 2020, the interest or short positions of the Directors or the chief executives of the Company in the Shares or underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the ordinary Shares:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Li CHEN	Interest of spouse ⁽¹⁾	25,220,690(L)	2.39%
	Beneficial Owner ⁽²⁾	26,000,725(L)	2.46%
	Interest of Controlled Corporation ⁽³⁾	10,000,000(L)	0.95%
George Chien Cheng LIN	Founder and beneficiary of trust ⁽⁴⁾	3,633,178(L)	0.34%
	Beneficial Owner ⁽⁵⁾	30,758,522(L)	2.92%
Robert Taylor NELSEN	Interest of Controlled Corporation ⁽⁶⁾	125,088,960(L)	11.86%
	Beneficial Owner ⁽⁷⁾	150,000(L)	0.01%
Lian Yong CHEN	Interest of Controlled Corporation ⁽⁸⁾	8,571,420(L)	0.81%
	Beneficial Owner ⁽⁹⁾	108,486(L)	0.01%
Yiu Wan Alec TSUI	Beneficial Owner ⁽¹⁰⁾	24,000(L)	0.01%

Notes:

- (1) Dr. CHEN is the spouse of Ms. Jane Xingfang HONG. Under the SFO, Dr. CHEN is deemed to be interested in the same number of Shares in which Ms. Jane Xingfang HONG maintains an interest.
 - (2) Being options for Shares granted pursuant to the Pre-IPO and Post-IPO Share Incentive Scheme.
 - (3) On 10 April 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. Jane Xingfang HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.
 - (4) The George and Ann Lin 2005 Trust is a family trust set up by Mr. LIN; therefore, Mr. LIN is deemed to be interested in the same number of Shares held by the George and Ann Lin 2005 Trust.
 - (5) Being options and awards pursuant to the Pre-IPO Share Incentive Scheme and Post-IPO Share Incentive Scheme.
 - (6) ARCH Venture Partners VII, LLC is controlled as to one-third by Mr. Robert Taylor NELSEN and is the general partner of ARCH Venture Partners VII, L.P.. Mr. NELSEN is therefore deemed to be interested in the same number of Shares held by ARCH Venture Fund VII, L.P..
 - (7) Being shares purchased on the secondary exchange market.
 - (8) Dr. Lian Yong CHEN is the general partner of China Life Sciences Access Fund, L.P. and is therefore deemed to be interested in the same number of Shares held by China Life Sciences Access Fund, L.P..
 - (9) Being entitled to these shares as part of employment agreement with Eight Roads Holding Limited.
 - (10) Being shares purchased on the secondary exchange market.
 - (11) The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2020.
 - (12) The letter "L" denotes the person's long position in the Shares.
- 

Substantial Shareholders

Substantial Shareholders' interests and short positions in the Shares, underlying Shares and debentures of the Company

As of December 31, 2020, the interests of relevant persons (other than a Director or the chief executives of the Company) who had interests or short positions in the Shares or the underlying Shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Shares held ⁽⁹⁾	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P. ⁽¹⁾	Beneficial interest	125,088,960(L)	11.86%
ARCH Venture Partners VII, L.P. ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.86%
ARCH Venture Partners VII, LLC ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.86%
Keith Lawrence CRANDELL ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.86%
Clinton Whitewood BYBEE ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.86%
Venrock Associates V, L.P. ⁽²⁾	Beneficial interest	103,475,595(L)	9.81%
Venrock Management V, LLC ⁽²⁾	Interest in controlled corporation	103,475,595(L)	9.81%
FMR LLC ⁽³⁾⁽⁴⁾	Interest in controlled corporation	125,650,606(L)	11.91%
Impresa Fund III Limited Partnership ⁽³⁾⁽⁴⁾	Interest in controlled corporation	80,707,414(L)	7.65%
Impresa Management LLC ⁽³⁾⁽⁴⁾	Interest in controlled corporation	80,707,414(L)	7.65%
Abigail P. JOHNSON ⁽³⁾⁽⁴⁾	Trustee	80,707,414(L)	7.65%
Edward C. JOHNSON IV ⁽³⁾⁽⁴⁾	Trustee	80,707,414(L)	7.65%
FIL Limited ⁽³⁾⁽⁵⁾	Interest in controlled corporation	80,707,873(L)	7.65%
Pandanus Partners L.P. ⁽³⁾⁽⁵⁾	Interest in controlled corporation	80,707,873(L)	7.65%
Pandanus Associates Inc. ⁽³⁾⁽⁵⁾	Interest in controlled corporation	80,707,873(L)	7.65%

Name of Shareholders	Capacity/nature of interest	Number of Shares held ⁽⁹⁾	Approximate percentage of shareholding in the Company
Eight Roads Holding Limited ^(3/5)	Interest in controlled corporation	80,707,873(L)	7.65%
WuXi PharmaTech Healthcare Fund I L.P. ⁽⁶⁾	Beneficial interest	74,029,635(L)	7.02%
WuXi PharmaTech Fund I General Partner L.P. ⁽⁶⁾	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi PharmaTech Investments (Cayman) Inc. ⁽⁶⁾	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi PharmaTech Investment Holdings (Cayman) Inc. ⁽⁶⁾	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi AppTec International Holdings Limited ⁽⁶⁾	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi AppTec Co., Ltd. ⁽⁶⁾	Interest in controlled corporation	74,029,635(L)	7.02%
HLYY Limited ⁽⁷⁾	Nominee of a trust	116,027,398(L)	10.99%
TCT (BVI) Limited ⁽⁷⁾	Interest in controlled corporation	116,027,398(L)	10.99%
The Core Trust Company Limited ⁽⁷⁾	Trustee	116,027,398(L)	10.99%
Jane Xingfang HONG ⁽⁸⁾	Beneficial interest	25,220,690(L)	2.39%
	Interest of spouse	26,000,725(L)	2.46%
	Interest in controlled corporation	10,000,000(L)	0.95%

Notes:

1. To the best of our Directors' knowledge, ARCH Venture Fund VII, L.P. is a Delaware limited partnership established in the United States. The general partner of ARCH Venture Fund VII, L.P. is ARCH Venture Partners VII, L.P., a Delaware limited partnership established in the United States. The general partner of ARCH Venture Partners VII, L.P. is ARCH Venture Partners VII, LLC, a limited liability company incorporated in the United States. ARCH Venture Partners VII, LLC is controlled as to one-third by each of Mr. Robert Taylor NELSEN, our non-executive Director, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE. As such, each of ARCH Venture Partners VII, L.P., ARCH Venture Partners VII, LLC, Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE is deemed to be interested in the equity interest held by ARCH Venture Fund VII, L.P. and the ultimate controllers of ARCH Venture Fund VII, L.P. are Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE.
2. To the best of our Directors' knowledge, Venrock Associates V, L.P. is an exempted limited partnership established in the United States. The general partner of Venrock Associates V, L.P. is Venrock Management V, LLC, an exempted limited liability company established in the United States. Venrock Management V, LLC is ultimately controlled by a group of individuals, none of whom controls, directly or indirectly, one-third or more of the voting power at the general meetings of Venrock Management V, LLC or otherwise is deemed to control Venrock Management V, LLC under the SFO.
3. To the best of our Directors' knowledge, Asia Ventures II L.P. is a limited partnership established in Bermuda and holds approximately 4.08% of the voting rights of the Company. Further, F-Prime Capital Partners Healthcare Fund II LP is a limited partnership established in Delaware and holds approximately 3.57% of the voting rights of the Company.

Furthermore, Fidelity Management & Research (Hong Kong) Limited was established in Hong Kong and controlled by Fidelity Management & Research Company LLC and both of them holds approximately 4.11% of the voting rights of the Company altogether. Fidelity Management & Research Company LLC was incorporated in Delaware, United States and controlled by FMR LLC.

Besides, Fidelity Institutional Asset Management Trust Company and FIAM LLC are controlled by FMR LLC (as defined under the SFO), holds approximately 0.20% of the voting rights of the Company altogether.

As such, under the SFO, FMR LLC is deemed to be interested in the equity interests held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Fidelity Management & Research (Hong Kong) Limited, Fidelity Institutional Asset Management Trust Company, and FIAM LLC which collectively hold 11.91% of the voting rights of the Company.

4. To the best of our Directors' knowledge, Impresa Fund III Limited Partnership is deemed to be interested in the equity interests held by both Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP due to its interests in each of Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP as a limited partner. The general partner of Impresa Fund III Limited Partnership is Impresa Management LLC, which is controlled (as defined under the SFO) by each of Abigail P. JOHNSON and Edward C. JOHNSON IV and owned, directly or indirectly, by various shareholders and employees of FMR LLC. Further, the general partner of F-Prime Capital Partners Healthcare Fund II LP is F-Prime Capital Partners Healthcare Advisors Fund II LP, whose general partner is Impresa Management LLC.

As such, under the SFO, Impresa Fund III Limited Partnership, Impresa Management LLC, Abigail P. JOHNSON, Edward C. JOHNSON IV and FMR LLC are deemed interested in the Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP and Impresa Fund III Limited Partnership, which collectively hold 7.65% of the voting rights of the Company.

5. To the best of our Directors' knowledge, FIL Limited is deemed to be interested in the equity interests held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Eight Roads Investments Limited and Eight Roads GP due to (i) its interests in Asia Ventures II L.P. as a limited partner and the fact that it is the sole shareholder of FIL Capital Management Ltd, the general partner of Asia Partners II L.P., which in turn is the general partner of Asia Ventures II L.P.; (ii) its interests in F-Prime Capital Partners Healthcare Fund II LP as a limited partner; and (iii) the fact that Eight Roads Investments Limited and Eight Roads GP are controlled by FIL Limited (as defined under the SFO). FIL Limited is controlled (as defined under the SFO) by Pandanus Partners L.P., whose general partner is Pandanus Associates Inc.

As such, under the SFO, FIL Limited, Pandanus Partners L.P., and Pandanus Associates Inc. are deemed interested in our Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Eight Roads Investments Limited and Eight Roads GP, which collectively holds 7.65% of the voting rights of the Company.

To the best of our Directors' knowledge, Eight Roads Holding Limited is deemed to be interested in the equity interests held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II L.P., Eight Roads Investments Limited and Eight Roads GP due to (i) F-Prime Capital Partners Healthcare Fund II L.P. and Asia Ventures II L.P. are controlled by Eight Roads Investments (ii) Eight Roads Investments Limited and Eight Roads GP are controlled by Eight Roads Holdings, which collectively holds 7.65% of the voting rights of the Company.

6. To the best of our Directors' knowledge, the general partner of Wuxi Pharmatech Healthcare Fund I L.P. is Wuxi Pharmatech Fund I General Partner L.P., a limited partnership established in the Cayman Islands whose general partner is Wuxi Pharmatech Investments (Cayman) Inc., an exempted limited liability company established in the Cayman Islands. Wuxi Pharmatech Investments (Cayman) Inc. is a wholly-owned subsidiary of Wuxi Pharmatech Investment Holdings (Cayman) Inc., which is in turn wholly-owned by Wuxi AppTec International Holdings Limited, which is in turn wholly-owned by WuXi AppTec Co., Ltd.
7. HLYY Limited is 100% owned by TCT (BVI) Limited. TCT (BVI) Limited is 100% owned by The Core Trust Company Limited. HLYY Limited holds the Shares underlying the option and awards granted under the Pre-IPO Share Incentive Scheme.
8. Ms. Jane Xingfang HONG is the spouse of Dr. Li CHEN, who was granted options for 13,921,725 Shares pursuant to the Pre-IPO Share Incentive Scheme and 12,079,000 Share Options granted pursuant to the Share Option Scheme, respectively. Under the SFO, Ms. HONG is deemed to be interested in the same number of Shares in which Dr. CHEN maintains an interest. She also holds approximately 2.39% of the voting rights of the Company.

On 10 April 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.

9. The letter "L" denotes the person's long position in the Shares.
10. The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2020.

Saved as disclosed above, so far as the Directors are aware, no other persons had registered an interest or short position in any Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Connected Transactions and Continuing Connected Transactions

During the year ended December 31, 2020, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

Related Party Transactions

Details of the related party transactions of the Group for the year ended December 31, 2020 are set out in Note 27 to the consolidated financial statements contained herein.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent shareholders' approval, annual review and disclosure requirements in Chapter 14A of the Listing Rules.

Interests in Competitor

The Company does not hold any interests in our competitors.

Share Incentive Schemes

Pre-IPO Share Incentive Scheme

The Company's Pre-IPO Share Incentive Scheme was adopted pursuant to a resolution passed on March 25, 2013 for the primary purpose of providing incentives to directors, eligible employees and individual consultants who render services to the Group. For the details of the Pre-IPO Share Incentive Scheme, please refer to the disclosure in the Prospectus.

The Company has also established an employee trust to administer the scheme. A total of 117,000,000 Shares, representing all the Shares underlying the options and awards granted under the Pre-IPO Share Incentive Scheme, were issued to HLYY Limited, the nominee under the trust, to hold the Shares to satisfy the options and awards granted upon exercise/vesting. No further Shares will be allotted and issued to the HLYY Limited or the trustee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to Capitalization Issue (as defined in note 26(g) to the consolidated financial statements), rights issue, subdivision or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme. As the Pre-IPO Share Incentive Scheme does not involve the grant of options to subscribe for any new Shares of the Company, it is not required to be subject to the provisions under Chapter 17 of the Listing Rules.

Post-IPO Share Option Scheme

The Company's Post-IPO Share Option Scheme was adopted by the resolutions in writing of all the shareholders passed on August 26, 2018.

The purpose of the Post-IPO Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Post-IPO Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 105,191,330 Shares (the "General Scheme Limit"), but excluding any Shares which may be issued upon the exercise of the Over-allotment Option (as defined in the Prospectus). Unless otherwise approved by the Shareholders in general meeting, the number of Shares that may be granted to a participant under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial Shareholders (as defined in the Listing Rules), or the total number of Shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Post-IPO Share Option Scheme. The exercise price per Share under the Post-IPO Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before Listing); and (iii) the nominal value of a Share on the date of grant.

Grant offer letter and notification of grant of options

An offer shall be made to selected participants by a letter in duplicate which specifies in terms on which the option is to be grant and an offer shall be deemed to have been accepted and the options to which the offer relates shall be able deemed to have been granted and to have taken effective when the duplicate of the offer letter comprising acceptance of the duly signed by the grantee with ordinary shares, together with a remittance in favor of the Company of HK\$1.00 with the Company at the principal place of business of the Company in Hong Kong (or at such other place and in such manner acceptable to the Company) within 20 business days from the date of this letter.

A consideration of HK\$1.00 is payable on acceptance of the grant of an option.

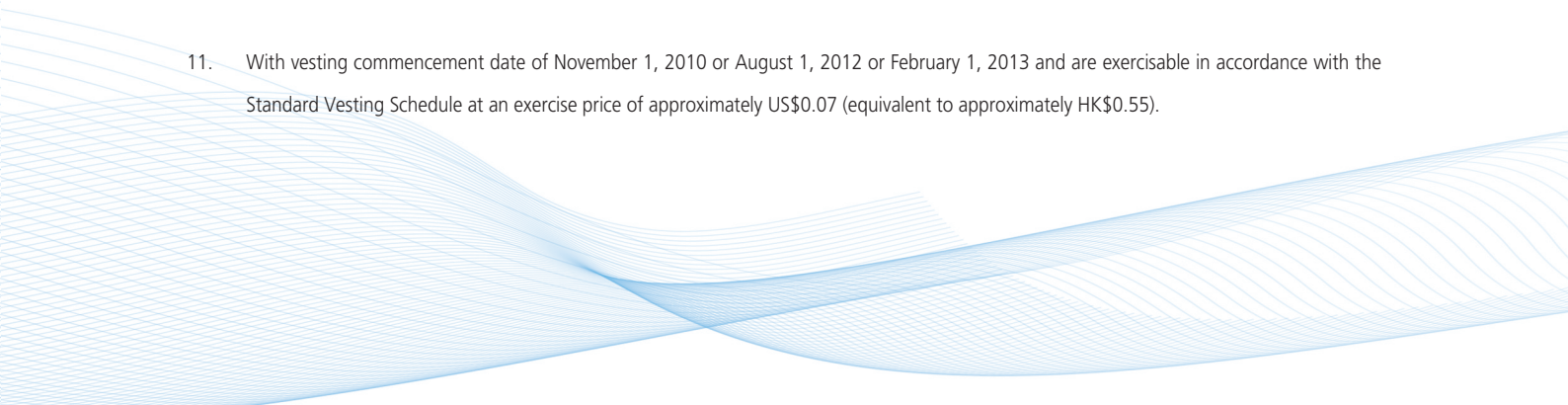
The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to September 14, 2028. The remaining life of the Post-IPO Share Option Scheme is approximately eight years.

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme during the year ended December 31, 2020:

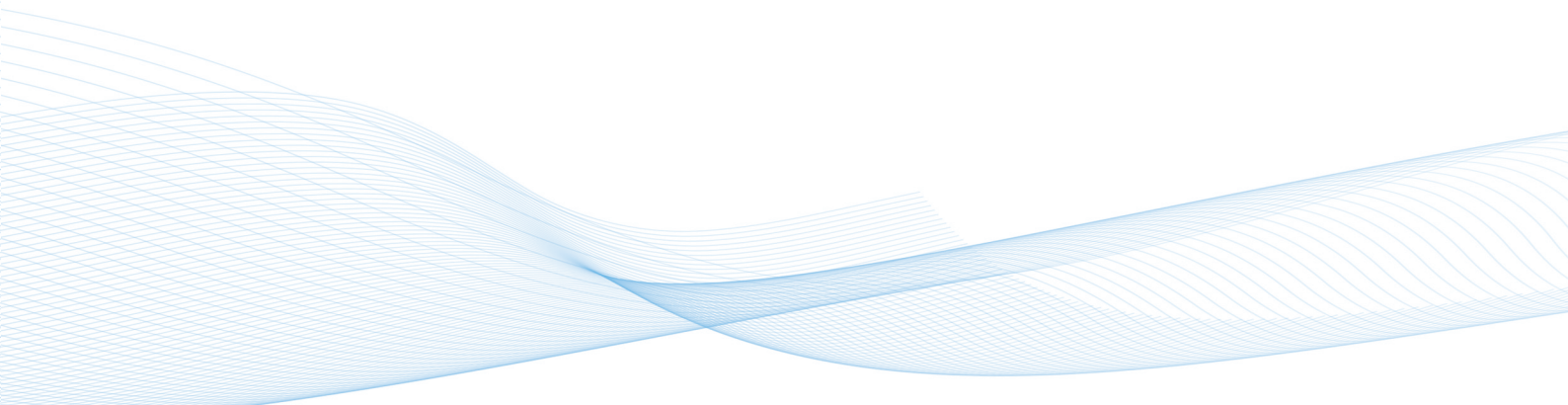
Category	Option type	Notes	Outstanding at January 1, 2020	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding at December 31, 2020
Category 1: Director								
Dr. Li CHEN								
Pre-IPO Scheme								
	December 4, 2014	2	1,700,000	-	(1,000,000)	-	-	700,000
	January 11, 2016	3	750,000	-	-	-	-	750,000
	July 19, 2016	4	750,000	-	-	-	-	750,000
	March 6, 2017	5	1,500,000	-	-	-	-	1,500,000
	January 7, 2018	6	1,362,975	-	-	-	-	1,362,975
	April 3, 2018	7	4,608,750	-	-	-	-	4,608,750
	August 26, 2018	8	2,250,000	-	-	-	-	2,250,000
Post-IPO Scheme								
	June 25, 2019	17	12,079,000	-	-	-	-	12,079,000
			<u>25,000,725</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>24,000,725</u>
Mr. George Chien Cheng LIN								
Pre-IPO Scheme								
	April 3, 2018	9	25,592,405	-	-	-	-	25,592,405
Post-IPO Scheme								
	May 17, 2019	17	300,000	-	-	-	-	300,000
			<u>25,892,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,892,405</u>

Category	Option type	Notes	Outstanding at January 1, 2020	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding at December 31, 2020
Category 2: Employees								
	Pre-IPO Scheme							
	March 25, 2013	10	2,408,000	-	-	-	-	2,408,000
	September 12, 2013	11	1,500,000	-	-	-	-	1,500,000
	December 4, 2014	2	4,480,000	-	-	-	-	4,480,000
	January 11, 2016	3	7,876,551	-	(150,000)	(101,551)	-	7,625,000
	July 19, 2016	4	132,803	-	-	(132,803)	-	-
	March 6, 2017	5	5,512,000	-	(11,000)	(42,157)	(77)	5,458,766
	July 24, 2017	12	2,175,500	-	(1,020,500)	-	-	1,155,000
	January 7, 2018	6	6,924,734	-	(284,634)	(124,375)	(125)	6,515,600
	April 3, 2018	7	12,338,610	-	(418,505)	(214,375)	(375)	11,705,355
	June 1, 2018	13	5,250,000	-	-	-	-	5,250,000
	August 26, 2018	8	5,814,691	-	(94,125)	(146,240)	(504)	5,573,822
	Post-IPO Scheme							
	October 29, 2018	18	75,000	-	-	-	-	75,000
	November 26, 2018	19	500,000	-	-	-	-	500,000
	May 15, 2019	17	7,810,300	-	-	(496,030)	(107,919)	7,206,351
	September 19, 2019	20	500,000	-	-	-	-	500,000
	Accepted: January 3, 2020	21	-	450,000	-	-	-	450,000
	March 17, 2020	22	-	8,905,000	-	(349,157)	-	8,555,843
	April 3, 2020	23	-	200,000	-	-	-	200,000
	April 7, 2020	24	-	200,000	-	-	-	200,000
	August 18, 2020	25	-	500,000	-	-	-	500,000
	Total employees		63,298,189	10,255,000	(1,978,764)	(1,606,688)	(109,000)	69,858,737
Category 3:								
Individual consultants								
	Pre-IPO Scheme							
	September 12, 2013	14	1,799,500	-	(249,500)	-	-	1,550,000
	December 4, 2014	2	150,000	-	-	-	-	150,000
	January 11, 2016	3	3,416,500	-	(89,500)	-	-	3,327,000
	March 15, 2016	15	525,000	-	(500,000)	-	-	25,000
	May 11, 2018	16	1,125,000	-	-	-	-	1,125,000
	Post-IPO Scheme							
	May 15, 2019	17	200,000	-	-	-	-	200,000
	Total individual consultants		7,216,000	-	(839,000)	-	-	6,377,000
	Total all categories		121,407,319	10,255,000	(3,817,764)	(1,606,688)	(109,000)	126,128,867
	Exercisable at the beginning and end of the year		60,864,074					84,050,356
	Weighted average exercise price (HK\$)		3.58	3.90	1.89	4.55	8.80	3.58
	Total directors		50,893,130	-	(1,000,000)	-	-	49,893,130

Notes:

1. Unless stated otherwise, 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date (the "Standard Vesting Schedule"). The Share Options shall be valid for a period of ten years from the date upon which the offer for the grant is options is made by the Company.
 2. With vesting commencement date of November 21, 2014 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.07 (equivalent to approximately HK\$0.55).
 3. With vesting commencement date of December 22, 2015 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.23 (equivalent to approximately HK\$1.79).
 4. With vesting commencement date of April 28, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.40 (equivalent to approximately HK\$3.12).
 5. With vesting commencement date of December 30, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.47 (equivalent to approximately HK\$3.67).
 6. With vesting commencement date of December 29, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.47 (equivalent to approximately HK\$3.67) or approximately US\$0.07 (equivalent to approximately HK\$0.55).
 7. With vesting commencement date of April 4, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.47 (equivalent to approximately HK\$3.67) or approximately US\$0.25 (equivalent to approximately HK\$1.95).
 8. With vesting commencement date of August 1, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.37 (equivalent to approximately HK\$2.89) or US\$0.49 (equivalent to approximately HK\$3.82).
 9. With vesting commencement date of September 14, 2018 or December 22, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.47 (equivalent to approximately HK\$3.67).
 10. With vesting commencement date of September 1, 2013 or November 1, 2012 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.07 (equivalent to approximately HK\$0.55).
 11. With vesting commencement date of November 1, 2010 or August 1, 2012 or February 1, 2013 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.07 (equivalent to approximately HK\$0.55).
- 

12. With vesting commencement date of July 17, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.07 (equivalent to approximately HK\$0.55), or with vesting commencement date of August 15, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.47 (equivalent to approximately HK\$3.67).
13. With vesting commencement date of June 1, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US\$0.25 (equivalent to approximately HK\$1.95) or approximately US\$0.47 (equivalent to approximately HK\$3.67).
14. With vesting commencement date of August 1, 2010 or February 1, 2012 and are exercisable in accordance with the vesting schedule that 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 24 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US\$0.47 (equivalent to approximately HK\$3.67).
15. With vesting commencement date of March 15, 2016 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested in 12 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US\$0.27 (equivalent to approximately HK\$2.11).
16. With vesting commencement date of September 14, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US\$0.47 (equivalent to approximately HK\$3.67).
17. With vesting commencement date of January 23, 2019 or November 11, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$8.866.
18. With vesting commencement date of October 29, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$7.192.
19. With vesting commencement date of November 26, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$7.970.

20. With vesting commencement date of September 19, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$6.80.
 21. With vesting commencement date of November 13, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$6.64.
 22. With grant date of March 17, 2020 and vesting commencement date of March 17, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$3.616. The closing price of the Shares immediately before the date on which the options were granted was HK\$3.40.
 23. With grant date of April 3, 2020 and vesting commencement date of April 3, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$3.000. The closing price of the Shares immediately before the date on which the options were granted was HK\$3.00.
 24. With grant date of April 7, 2020 and vesting commencement date of April 7, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$3.018. The closing price of the Shares immediately before the date on which the options were granted was HK\$3.00.
 25. With grant date of August 18, 2020 and vesting commencement date of August 18, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK\$7.184. The closing price of the Shares immediately before the date on which the options were granted was HK\$6.93.
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Set out below are details of the retrieved share units grated under the Pre-IPO Share Incentive Scheme

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement including equity incentives of options under Pre-IPO Share Incentive Scheme as disclosed above and the restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 Shares of the Company (as adjusted after Capitalization Issue) were granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme on April 3, 2018. Such Shares are to be vested after a qualified HK IPO in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. During the year ended December 31, 2020, the number of vested share units was 1,855,752.

Principal Risks and Uncertainties

The Company has the following risks and uncertainties which may affect the results and business operations, some of which are inherent to the Company, some are inherent to the pharmaceutical sector, and some are from external sources.

- **Drug approval related to dorzagliatin:**

Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and failure can occur at any stage of clinical development. The NMPA NDA submission process for dorzagliatin is complicated and expensive and, even though our Phase III results are successful, we may be required to conduct additional studies as a condition filing, receiving or maintaining NMPA approval. The Company maintains regular dialogue with the NMPA to ensure they are provided with the latest updates with regards to the clinical trials and other NDA enabling processes.

- **Our clinical trials may not progress as expected:**

Delays in enrollment and in the completion of our clinical trials could result in increased costs to us and delay or limit our ability to obtain regulatory approval for dorzagliatin. The Company continues to provide regular training sessions for our clinical trial doctors, our CROs, our internal staff.

- **Company reliance on third parties:**

We rely on third-party CROs and SMOs to conduct, supervise, and monitor our clinical trials, and if those third parties perform in an unsatisfactory manner, it may harm our business. We intend to continue to rely on third-party CMOs to produce dorzagliatin both for commercial production requirements in the near future. If we experience problems with our CMOs, the manufacturing of dorzagliatin could be delayed and our efforts to market dorzagliatin compromised. Our quality assurance team conducts regular quality checks, has set up with joint quality committees, and our clinical operations team conducts regular trainings for our CROs.

- **Dorzagliatin as cornerstone therapy:**

Dorzagliatin as a monotherapy or in combination with other T2D treatments may cause undesirable side effects that could delay or prevent its regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following regulatory approval, if any. The Company continues to plan for and conduct additional clinical trials and other studies to establish dorzagliatin's potential as a cornerstone therapy for T2D.

- **National Reimbursement Drug List entry is not certain:**

Reimbursement may not be available for dorzagliatin in China, which could diminish our sales or affect our profitability. The Company continues to maintain regular dialogue with national and provincial level authorities.

- **Retention of key staff members:**

Our continued success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel. The Company has regularly reviewed our compensation packages and benefits to ensure we remain competitive with the market.

- **The Company currently only has one drug in the clinical trial process:**

Our future success depends substantially on the success in China of our only clinical drug candidate, dorzagliatin. We may fail to successfully commercialize dorzagliatin in China or experience significant delays in doing so, or we may not meet our goal of establishing dorzagliatin as a first-line standard of care in China, any of which could materially harm our business. The Company has committed substantial resources to ensuring the quality and development of dorzagliatin.

- **The Company's key operations are in China:**

Currently, our pivotal registration trials are in China, and we expect to launch dorzagliatin in China first. There are potential risks associated with doing business primarily in one geographic region, and our clinical trials and future launch timeline could be impacted.

- We are a pre-revenue biopharmaceutical company with a limited operating history and a history of losses. We must obtain required regulatory approvals before we can market dorzagliatin and generate revenues.

Key Relationships

- **Employees**

The Company's relationship with its employees are discussed in the "Environmental, Social and Governance Report".

- **Key customers**

Since we are a pre-revenue biotech Company, we do not have any customers for the year ended December 31, 2020.

- **Service Providers and Suppliers**

Our service providers and suppliers are mainly CROs, CMOs, SMOs and promotion service providers located in China, providing us with a range of services such as drug discovery, development, clinical trial expertise, and clinical and commercial manufacturing. We are heavily reliant on our suppliers to provide us services regarding our clinical trials, preclinical studies, as well as our manufacturing. We do not make material purchases of raw materials or equipment.

- **Hospitals**

Our clinical trials are conducted in hospitals across China. We remain committed to offering hospitals and doctors related training and full support in conducting the clinical trials. We maintain a close relationship directly, through telephone calls, direct mail, visits, and training sessions. We also work with our CROs and SMOs to ensure that hospitals and doctors have the support they need to guarantee the quality of our clinical trials.

- **Licensing Agreement with Roche**

We have entered into a research, development and commercialization agreement with Hoffmann-La Roche Inc. and F. Hoffmann-La Roche Ltd., or collectively, Roche in December 2011, under which we obtained an exclusive license under certain patents and know-how owned by Roche to develop, make, commission, use, sell, offer for sale, export and import Roche's proprietary GKA, RO5305552 (now referred to as dorzagliatin or HMS5552), worldwide in the licensed field of treatment of diabetes. The key U.S. patent licensed from Roche (U.S. 7,741,327) recites claims to compounds and pharmaceutical compositions thereof, and has an expiration date of March 9, 2029. We have the right to sublicense our rights to third parties. Under our agreement, we are required to make various upfront, milestone and royalty payments.

- **Licensing Agreement with Bayer**

We have entered into a commercialization agreement and strategic partnership with Bayer Healthcare Company Ltd. in August 2020. Under the terms of the agreement, we received an upfront payment of RMB300 million in 2020, and additional payments could reach up to RMB4.18 billion if certain milestones are met. We will pay Bayer tiered service fees based on net sales in China, initially sharing equally in sales, with adjusting sales percentages based on agreed China net sales thresholds. We will continue to be the market authorization holder of dorzagliatin, and responsible for clinical development, registration, product supply and distribution, while Bayer as the promotion service provider will be responsible for the marketing, promotion, and medical education activities in China.

Employees and remuneration policy

As of December 31, 2020, the Group employed a total of 162 employees, as compared to a total of 158 employees as of December 31, 2019. The majority of the employees are employed in mainland China. For the year ended December 31, 2020, staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB183.3 million as compared to RMB191.2 million for the year ended December 31, 2019.

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

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve their working efficiency. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the year ended December 31, 2020.

The Company has also adopted a Pre-IPO Share Incentive Scheme and a Post-IPO Share Option Scheme. Please refer to the section headed "Share Incentive Schemes" in this annual report for further details.

Sufficiency of Public Float

The Company has maintained the public float as required by the Listing Rules during the year ended December 31, 2020.

Review of Annual Results

The consolidated financial results of the Group for the year ended December 31, 2020 has been audited by the Company's auditor, Deloitte Touche Tohmatsu, and reviewed by the Audit Committee of the Company, which consists of Mr. Walter Teh-ming Kwauk, Mr. William Robert Keller and Mr. Yiu Wa Alec TSUI.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2020 have been audited by Deloitte Touche Tohmatsu, auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

A resolution will be proposed at the AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company and to authorize the Board to fix the remuneration of the auditor.

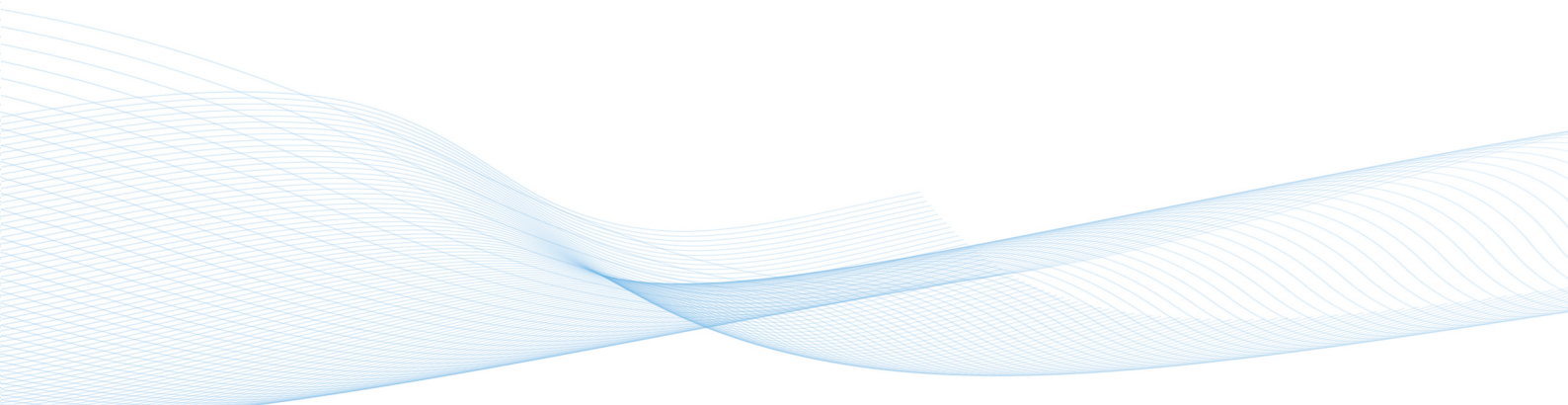
By Order of the Board,

Hua Medicine

Dr. Li CHEN

Chief Executive Officer and Executive Director

Hong Kong, March 19, 2021



CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Board of Directors (the “Board”) of the Company is committed to maintaining 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 as set out in 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”).

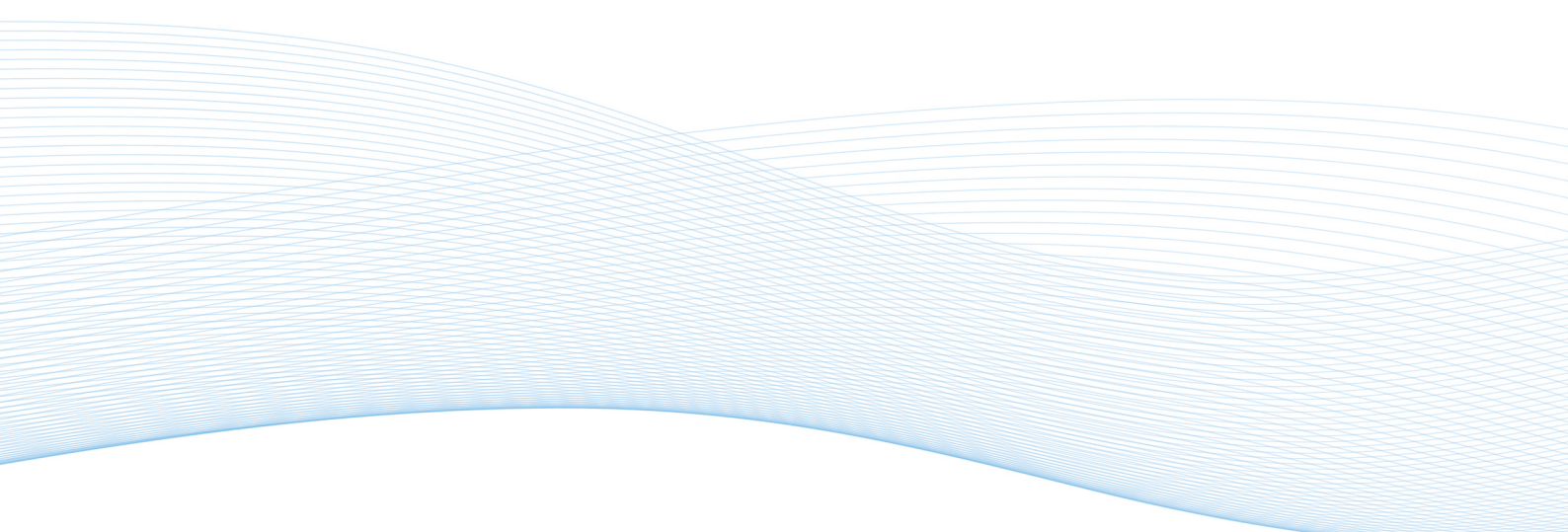
The Board is of the view that the Company has complied with all applicable code provisions as set out in the CG Code throughout the year ended December 31, 2020 (the “Reporting Period”).

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.

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

The Company has also established the Code for Securities Transactions by Relevant Officers of the Company (the “Code”) on terms 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 Code by the relevant officers 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.

Board Composition

The Board currently comprises two executive Directors, two non-executive Directors and four independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors

Li CHEN (*Chief Executive Officer and Chief Scientific Officer*)

George Chien Cheng LIN (*Executive Vice President and Chief Financial Officer*)

Non-executive Directors

Robert Taylor NELSEN (*Chairman*)

Lian Yong CHEN

Independent Non-executive Directors

Walter Teh-Ming KWAUK

William Robert KELLER

Junling LIU

Yiu Wa Alec TSUI

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

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 22 to 28 of this annual report.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Robert Taylor NELSEN and Dr. Li CHEN, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

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

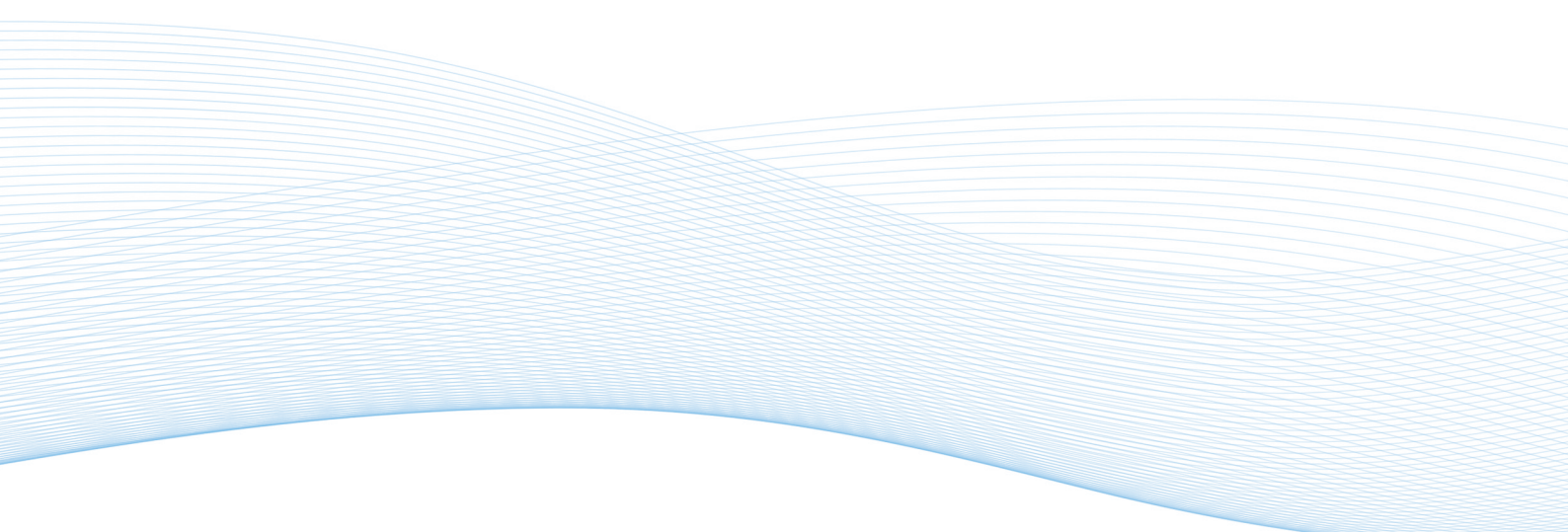
The Company has received written confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Directors

Each Director has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date, subject to renewal after the expiry of the then current term.

According to the Company's Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Besides, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Under the Articles of Association of the Company, every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.



Responsibilities 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.

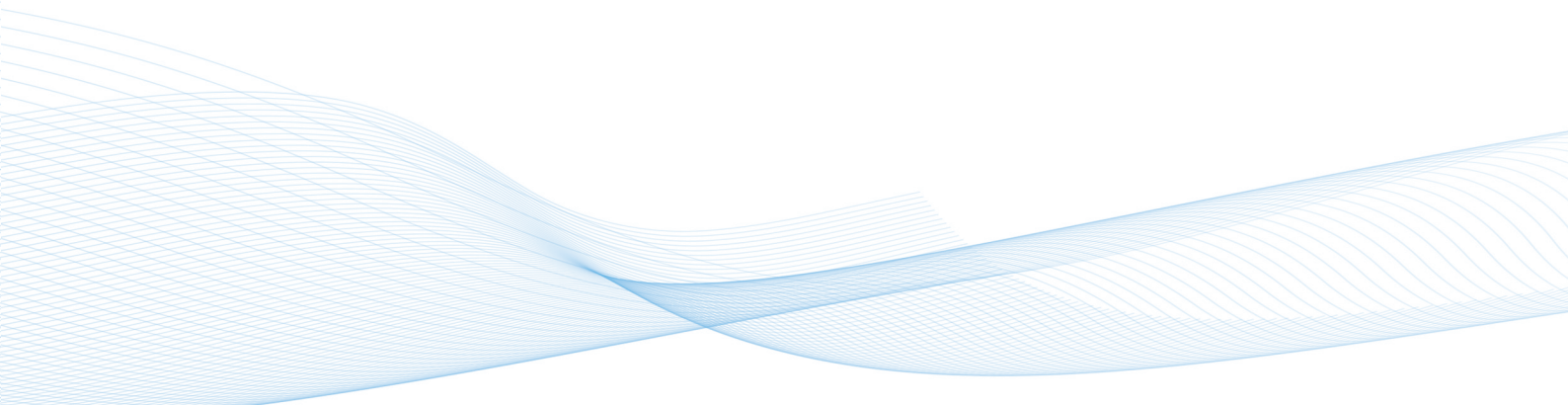
All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

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 Group's senior management is responsible for the day-to-day management of the Group's business and is responsible for overseeing the general operation, business development, finance, marketing, and operations.

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



Continuous Professional Development of Directors

Pursuant to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, in order to ensure compliance and enhance their awareness of good corporate governance practices. The Company also arranges suitable professional development seminars and courses for the Directors from time to time.

The Directors informed the Company that they had received sufficient and relevant training and continuous professional development during the Reporting Period.

Record of training received by the Directors for the year ended December 31, 2020 are summarized as follows:

Directors	Type of Training ^{Note}
<i>Executive Directors</i>	
Li CHEN	A/B
George Chien Cheng LIN	A/B
<i>Non-executive Directors</i>	
Robert Taylor NELSEN	A/B
Lian Yong CHEN	A/B
<i>Independent Non-executive Directors</i>	
Walter Teh-Ming KWAUK	A/B
William Robert KELLER	A/B
Junling LIU	A/B
Yiu Wa Alec TSUI	A/B

Note:

Types of Training

- A. Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
- B. Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Meetings and Directors' Attendance Records

Code provision A.1.1. of the CG Code stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communications.

Apart from regular Board meetings, the Chairman should at least annually hold meetings with the Independent Non-executive Directors without the presence of other Directors under code provision A.2.7 of the CG Code.

The attendance records of the Directors at the Board meetings and general meetings of the Company during the Reporting Period are as follows:

Name of Directors	Attendance/No. of Meeting(s)	
	Board Meetings	Annual General Meeting
<i>Executive Directors</i>		
Li CHEN	9/9	1/1
George Chien Cheng LIN	9/9	1/1
<i>Non-executive Directors</i>		
Robert Taylor NELSEN (Chairman)	9/9	1/1
Lian Yong CHEN	9/9	1/1
<i>Independent Non-executive Directors</i>		
Walter Teh-Ming KWAIK	9/9	1/1
William Robert KELLER	9/9	1/1
Junling LIU	9/9	1/1
Yiu Wa Alec TSUI	9/9	1/1

Board Committees

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Strategy 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 available on the Company's website and the Stock Exchange's website. The terms of reference of the Strategy Committee is available on the Company's website.

The list of the chairman and members of each Board committee is set out under "Corporate Information" in this annual report on page 2.

Audit Committee

The Company established the Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3.3 of the CG Code.

The Audit Committee consists of three members, namely Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER and Mr. Yiu Wa Alec TSUI, Independent Non-executive Directors. Mr. Walter Teh-Ming KWAUK is the chairman of the Audit Committee.

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 assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

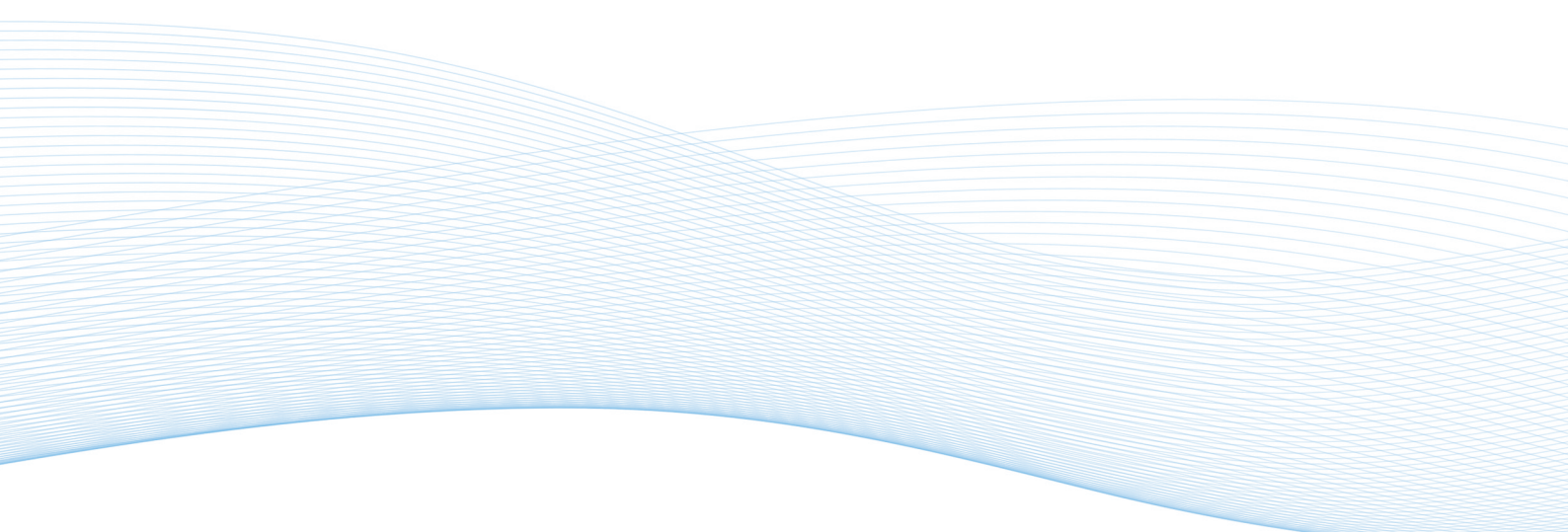
During the Reporting Period, the Audit Committee held 4 meetings to review the annual and interim reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors, engagement of non-audit services, relevant scope of works, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Walter Teh-Ming KWAUK (Chairman)	4/4
William Robert KELLER	4/4
Yiu Wa Alec TSUI (<i>note 1</i>)	2/2
Lian Yong CHEN (<i>note 2</i>)	2/2

Note 1: Appointed as a member of the Audit Committee on June 25, 2020

Note 2: Ceased to be a member of the Audit Committee on June 25, 2020



Remuneration Committee

The Company established the Remuneration Committee in compliance with Rules 3.25 and 3.26 of the Listing Rules and code provision B.1.2 of the CG Code.

The Remuneration Committee consists of three members, namely Mr. William Robert KELLER and Mr. Walter Teh-Ming KWAUK, Independent Non-executive Directors, and Dr. Lian Yong CHEN, Non-executive Director. Mr. William Robert KELLER is the chairman of the Remuneration Committee.

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 reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration.

During the Reporting Period, the Remuneration Committee held 4 meetings to review and make recommendations to the Board on the remuneration policy and packages and other related matters.

Details of the remuneration of the senior management by band are set out in the section headed "REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT".

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
William Robert KELLER (Chairman)	4/4
Walter Teh-Ming KWAUK	4/4
Lian Yong CHEN	4/4

Nomination Committee

The Company established the Nomination Committee in compliance with code provisions A.5.1 and A.5.2 of the CG Code.

The Nomination Committee consists of three members, namely Mr. Robert Taylor NELSEN, Non-executive Director, Mr. Junling LIU and Mr. William Robert KELLER, Independent Non-executive Directors. Mr. Robert Taylor NELSEN is the chairman of the Nomination Committee.

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 Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive 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, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee held 1 meeting to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Robert Taylor NELSEN (Chairman)	1/1
William Robert KELLER	1/1
Junling LIU	1/1

Board Diversity Policy

The Company has adopted a Board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Going forward, we will continue to work to enhance gender diversity of the Board. Our nomination committee will continue to use its best efforts to identify and recommend suitable female candidates to our Board for its consideration on appointment of a Director. We will also ensure that there is gender diversity when recruiting staff at mid to senior level so that we will continue to have a pipeline of female senior management and potential successors to our Board in due time to ensure gender diversity of the Board.

Director Nomination Policy

The Company has adopted a director nomination policy (the “Director Nomination Policy”) which aims to set out the criteria and process in the nomination and appointment of directors of the Company, to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and to ensure the Board continuity and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company’s business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company’s corporate strategy and business needs.

During the reporting period, Mr. Tsui Yiu Wa, Alec has been appointed as a member of the audit committee of the Company as replacement of Dr. Chen Lian Yong on June 25, 2020.

Save as disclosed above, no candidate was nominated for directorship and there was no change in the composition of the Board during the year ended December 31, 2020.

Strategy Committee

The Strategy Committee consists of three members, namely Dr. Li CHEN, Executive Director, Mr. Robert Taylor NELSEN, Non-executive Director, and Mr. Junling LIU, Independent Non-executive Director. Dr. Li CHEN is the chairman of the Strategy Committee.

The principal duties of the Strategy Committee include considering, reviewing and advising on the mid-term and long-term development strategies of the Company's operations and to supervise or monitor the implementation of the development strategies and business plans.

During the Reporting Period, the Strategy Committee held 1 meeting to supervise and monitor the implementation of the development strategies and business plans of the Company.

The attendance records of the members of the Strategy Committee are as follows:

Name of Members of the Strategy Committee	Attendance
Li CHEN (Chairman)	1/1
Robert Taylor NELSEN	1/1
Junling LIU	1/1

Corporate Governance Functions

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

During the year ended December 31, 2020, 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.

Risk Management and Internal Control

The Board acknowledges its responsibility in risk management and internal control systems and reviewing 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 is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and overseeing the management in the design, implementation and monitoring of the risk management and internal control systems.

The Audit Committee assists the Board by forming independent opinion on financial reporting process and the effectiveness of internal control and risk assessment systems, supervises audit process and performs other duties assigned by the Board.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department has 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.

During the reporting period, the Company has assessed the likelihood of risk occurrence, including providing the response plan to the global pandemic, adjusting and monitoring the risk management progress and has reported all the execution results and effectiveness of the systems to the Audit Committee and the 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:

Information Disclosure Policy – The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management 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.

Anti-fraud Policy – The Company has developed anti-fraud policy to implement measures and prevent fraudulent behavior.

Whistleblower Policy – The Company has implemented measures that enable employees to raise concerns on improper conducts related to financial reports, internal control and other aspects, to ensure the strict compliance with the Code of Conduct.

Employee Handbook – The Employee Handbook has been adopted to define the rights and obligations of both the company and employees, to maintain a normal working order in the organization, improve work efficiency and protect the legitimate rights and interests of employees.

Procedural Document Management Policy – The Company has implemented the policy to regulate the lifecycle management of procedural documents and ensure the compliance of various business processes.

Connected Transactions – The Company has adopted the policy ensure connected transactions comply with the Listing Rules.

Internal Audit Policy – The Company has established the policy during reporting period to regulate internal audit procedures and define roles and responsibilities.

Departments also conduct trainings and assessment regularly to identify risks that potentially impact the business of the Group.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including financial, operational and compliance controls, for the year ended December 31, 2020, and considered that such systems are effective and adequate.

Directors’ Responsibility in respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2020.

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 68 to 71 of this annual report.

Auditors’ Remuneration

The remuneration paid to Deloitte Touche Tohmatsu (“Deloitte”), the external auditors of the Company, in respect of audit services and non-audit services for the year ended December 31, 2020 amounted to RMB1.72 million and RMB1.28 million, respectively.

An analysis of the remuneration paid to Deloitte in respect of audit services and non-audit services for the year ended December 31, 2020 is set out below:

Service Category	Fees Paid/Payable (RMB’000)
Audit Services	1,720
Non-audit Services	
– Interim review	680
– Special review	600
	<hr/>
	3,000
	<hr/> <hr/>

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 22 to 28 of this annual report, for the year ended December 31, 2020 are set out below:

Remuneration band	Number of individuals
RMB2,500,001 to RMB3,000,000	1
RMB3,000,001 to RMB3,500,000	3
RMB3,500,001 to RMB4,000,000	0
RMB4,000,001 to RMB4,500,000	1
RMB4,500,001 to RMB5,000,000	1
Above RMB5,000,000	2

Company Secretary

Ms. YUEN Wing Yan, Winnie (“Ms Yuen”) of Tricor Services Limited has been engaged by the Company as the Company’s company secretary. Ms. Yuen’s primary contact person at the Company is Mr. George Chien Cheng LIN, Executive Director and Chief Financial Officer.

Ms. Yuen has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year ended December 31, 2020.

Shareholders’ Rights

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

The Company's shareholders may convene an extraordinary general meeting ("EGM") or put forward proposals at shareholders' meetings as follows:

- Pursuant to Article 12.3 of the Company's Articles of Association, EGM shall be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. EGM may also be convened on the written requisition of any one member which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.
- Pursuant to Article 16.4 of the Company's Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Putting Forwards Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

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

Address : Suite 2202, Methodist House
36 Hennessy Road
Wanchai, Hong Kong
(For the attention of the Director of IR and BD – Ms Emily Yeh)

Tel : +86 (21) 3810 1800 (ext. 1852)

Email : ir@huamedicine.com

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.

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 on-going 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.

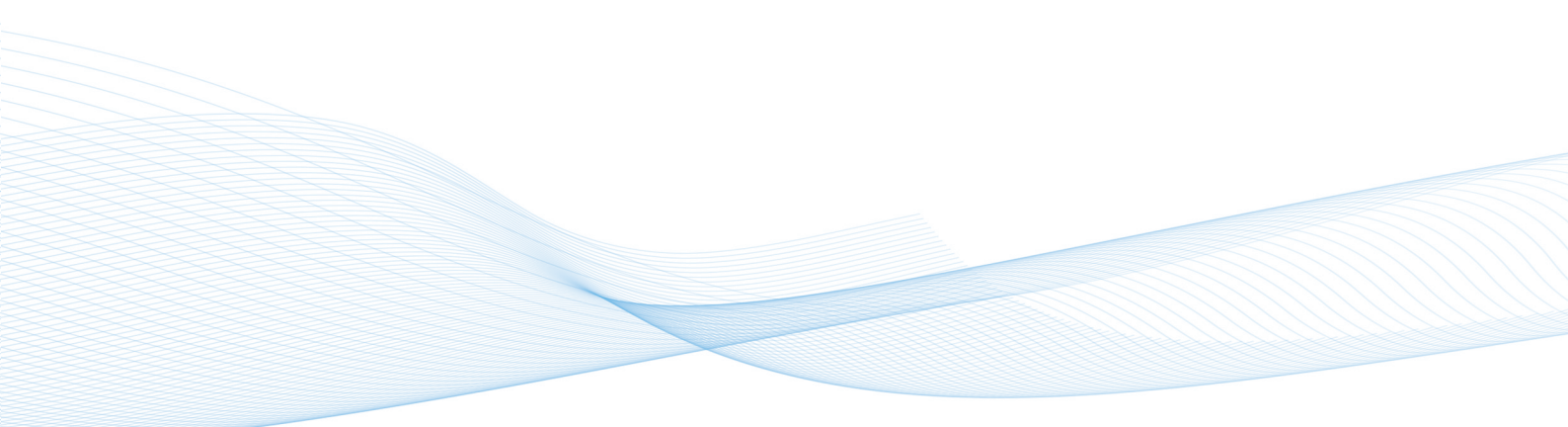
Constitutional Documents

The amended and restated Memorandum and Articles of Association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the year ended December 31, 2020, the Company has not made any changes to its Memorandum and Articles of Association.

The amended and restated Memorandum and Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

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.



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUA MEDICINE

(incorporated in Cayman Islands with limited liability)

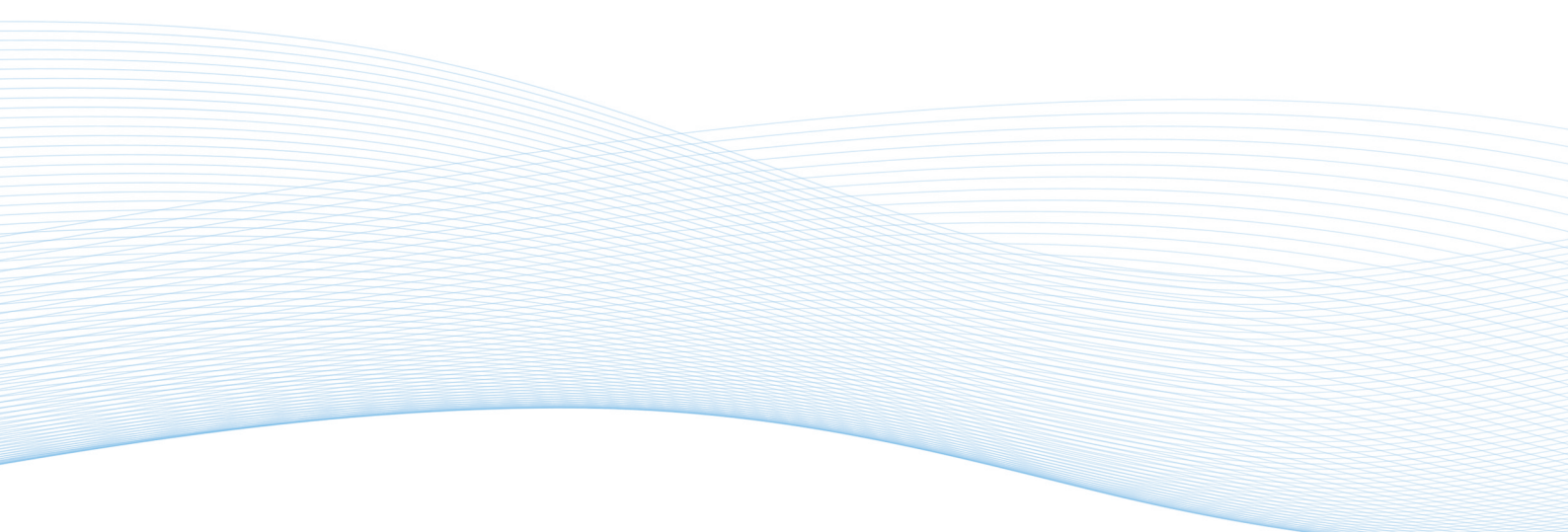
Opinion

We have audited the consolidated financial statements of Hua Medicine (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 135, which comprise the consolidated statement of financial position as of December 31, 2020, 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 of December 31, 2020, 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 the 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 ("HKSA") 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.

Key audit matter

Risk of misstatement of research and development expenses

As disclosed in the consolidated statement of profit or loss and other comprehensive income, for the year ended December 31, 2020, the Group incurred significant research and development (“R&D”) expenses, amounted to approximately RMB221 million. A large portion of the Group’s R&D expenses are service fees paid to contract research organizations (“CROs”), clinical site management operators (“SMOs”), and contract manufacturing organizations (“CMOs”) (collectively referred as “Outsourced Service Providers”).

The R&D activities with these Outsourced Service Providers are documented in detailed agreements and are typically performed over an extended period. Allocation of these expenses to the appropriate financial reporting period based on the progress of the research and development projects involves estimation.

How our audit addressed the key audit matter

Our procedures included, among others:

- Testing the design and implementation of management’s control in relation to the accruals of the R&D expenses;
- Inquiring the project managers and inspecting the relevant supporting documents to understand the progress of R&D projects, on a sample basis;
- Checking to agreements with the Outsourced Service Providers on a sample basis to challenge and evaluate the reasonableness of the key estimation adopted by the management in setting up the accrual basis for R&D projects; and
- Evaluating the reasonableness of the R&D expense accrual by comparing the subsequent billing issued by the Outsourced Service Providers with the accrued R&D expenses at the year end.

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.

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 of the Company 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 HKSAAs 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 HKSAAs, 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 of the Company.

- Conclude on the appropriateness of the directors of the Company's 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, actions taken to eliminate threats or safeguards applied.

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 Chan Men.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 19, 2021



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	Year ended December 31,	
		2020	2019
		RMB' 000	RMB' 000
Other income	6	15,859	29,574
Other gains and losses	7	(41,827)	16,275
Administrative expenses		(140,084)	(146,584)
Finance cost	8	(4,396)	(907)
Other expenses	9	(1,724)	(1,724)
Research and development expenses		<u>(220,962)</u>	<u>(321,904)</u>
Loss before tax	9	(393,134)	(425,270)
Income tax expense	10	<u>—</u>	<u>—</u>
Loss for the year		<u>(393,134)</u>	<u>(425,270)</u>
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(453)	—
Other comprehensive expense for the year, net of income tax		(453)	—
Total comprehensive expense for the year		(393,587)	(425,270)
Loss per share	14	RMB	RMB
Basic and diluted		<u>(0.41)</u>	<u>(0.45)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2020

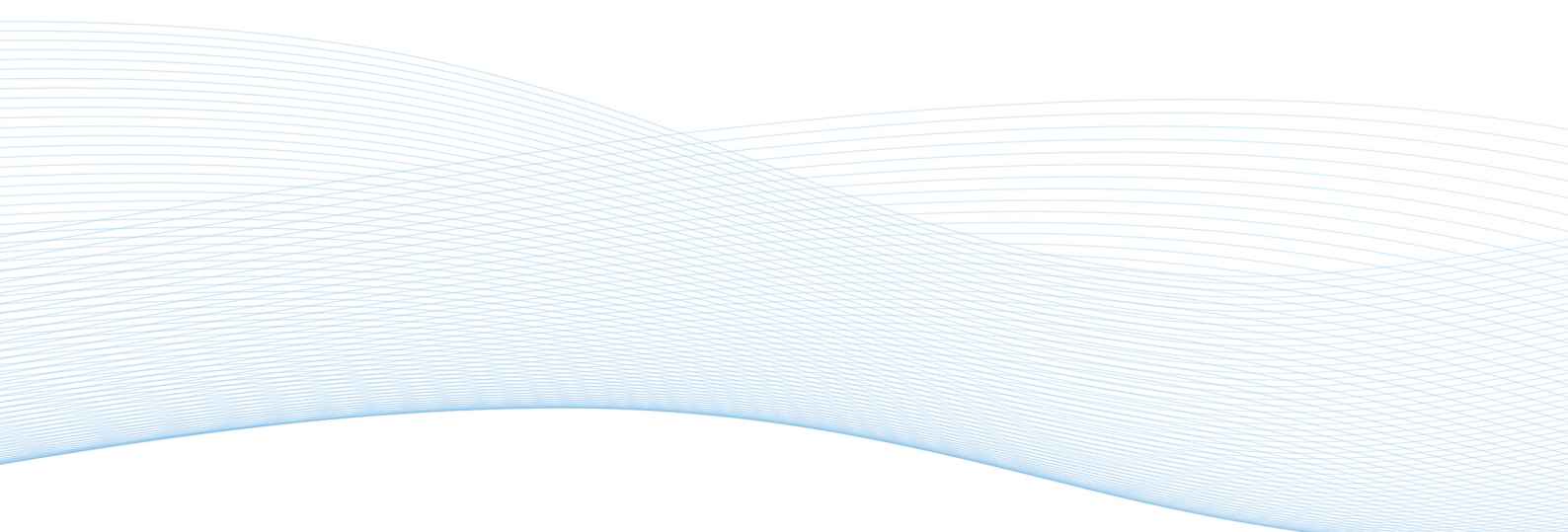
	Notes	As of December 31,	
		2020	2019
		RMB' 000	RMB' 000
Non-current assets			
Equipment	16	49,341	10,988
Right-of-use assets	17	74,177	90,486
Intangible assets	18	3,387	1,980
Prepayments and other receivables	19	26,339	30,707
		<u>153,244</u>	<u>134,161</u>
Current assets			
Prepayments and other receivables	19	13,187	14,852
Bank balances and cash	20	1,032,090	1,105,600
		<u>1,045,277</u>	<u>1,120,452</u>
Current liabilities			
Trade and other payables	21	80,794	88,317
Lease liabilities	22	11,503	12,019
Deferred income	24	14,250	8,450
		<u>106,547</u>	<u>108,786</u>
Net Current Assets		<u>938,730</u>	<u>1,011,666</u>
Total Assets Less Current Liabilities		<u>1,091,974</u>	<u>1,145,827</u>
Non-current liabilities			
Lease liabilities	22	69,212	77,959
Contract liabilities	23	283,019	–
Deferred income	24	7,248	7,248
		<u>359,479</u>	<u>85,207</u>
Net Assets		<u><u>732,495</u></u>	<u><u>1,060,620</u></u>

		As of December 31,	
		2020	2019
	Notes	RMB' 000	RMB' 000
Capital and reserves			
Share capital	25	7,209	7,209
Treasury shares held in trust	25	(690)	(729)
Reserves		<u>725,976</u>	<u>1,054,140</u>
Equity attributable to owners of the Company		<u>732,495</u>	<u>1,060,620</u>
Total Equity		<u><u>732,495</u></u>	<u><u>1,060,620</u></u>

The consolidated financial statements on pages 72 to 135 were approved and authorized for issue by the directors of the Company on March 19, 2021 and are signed on its behalf by:

Dr. Li Chen
DIRECTOR

Mr. George Chien Cheng Lin
DIRECTOR



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2020

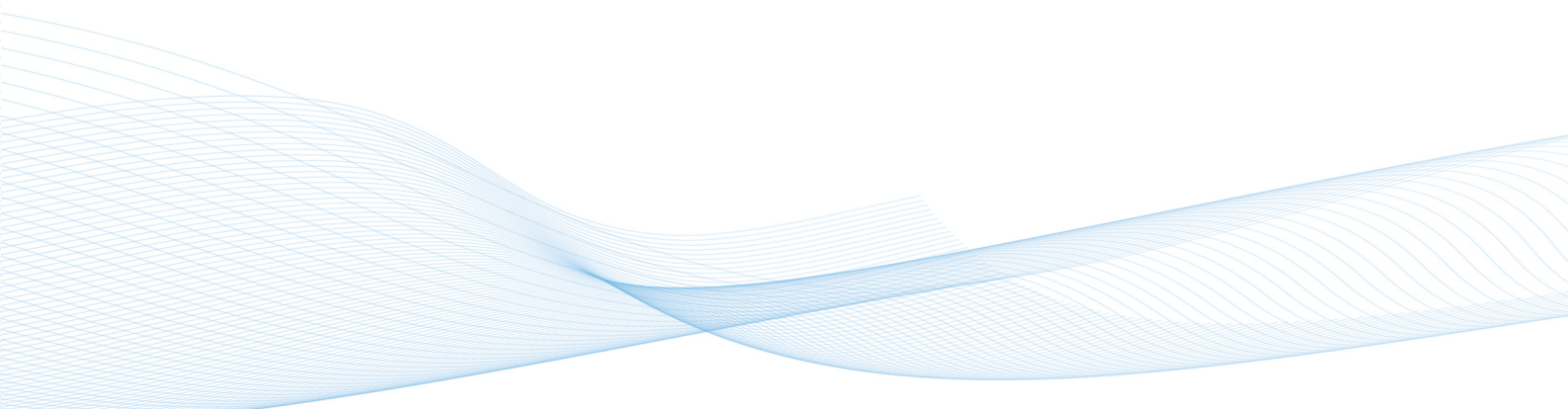
	Attributable to owners of the Company							Total equity RMB' 000
	Share capital RMB' 000	Treasury	Share premium RMB' 000	Other reserve RMB' 000	Share-based	Translation Reserve RMB' 000	Accumulated losses RMB' 000	
		shares held in trust RMB' 000			payment reserve RMB' 000			
As of January 1, 2019	7,209	(797)	5,886,048	(10,033)	73,061	–	(4,552,000)	1,403,488
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(425,270)	(425,270)
Options exercised to purchase ordinary shares under the trust (Note 25 (a))	–	55	7,270	693	–	–	–	8,018
Restricted stock units vested under the trust (Note 25 (b))	–	13	–	(13)	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	74,384	–	–	74,384
As of December 31, 2019	7,209	(729)	5,893,318	(9,353)	147,445	–	(4,977,270)	1,060,620
Loss for the year	–	–	–	–	–	–	(393,134)	(393,134)
Other comprehensive expense for the year	–	–	–	–	–	(453)	–	(453)
Total comprehensive expense for the year	–	–	–	–	–	(453)	(393,134)	(393,587)
Options exercised to purchase ordinary shares under the trust (Note 25 (c))	–	26	6,520	(26)	–	–	–	6,520
Restricted stock units vested under the trust (Note 25 (d))	–	13	–	(13)	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	58,942	–	–	58,942
As of December 31, 2020	7,209	(690)	5,899,838	(9,392)	206,387	(453)	(5,370,404)	732,495

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	Year ended December 31	
	2020	2019
	RMB' 000	RMB' 000
OPERATING ACTIVITIES		
Loss before tax	(393,134)	(425,270)
Adjustments for:		
Bank interest income	(4,370)	(7,317)
Income from government grants	(5,750)	(1,600)
Rent concessions	(2,589)	–
Depreciation of equipment	4,949	3,361
Depreciation of right-of-use assets	13,177	6,920
Amortization of intangible assets	322	151
Finance cost	4,396	907
Share-based payment expense	58,942	74,384
Net unrealized foreign exchange losses (gains)	30,803	(15,108)
	<u>293,254</u>	<u>(363,572)</u>
Operating cash flows before movements in working capital	(293,254)	(363,572)
(Increase) decrease in prepayments and other receivables	(904)	12,484
Decrease in prepayments to related parties	–	6,863
(Decrease) increase in trade and other payables	(19,905)	12,284
Decrease (increase) in value added tax recoverable	4,338	(16,696)
Increase in deferred income	5,800	6,570
Increase in contract liabilities	283,019	–
	<u>283,019</u>	<u>–</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(20,906)</u>	<u>(342,067)</u>
INVESTING ACTIVITIES		
Interest received from bank	6,372	4,538
Purchase of equipment	(24,368)	(9,021)
Purchase of intangible assets	(1,325)	(1,272)
Receipt of government grants	5,750	–
Withdraw of rental deposits	162	–
Payments for rental deposits	(677)	(3,760)
	<u>(14,086)</u>	<u>(9,515)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(14,086)</u>	<u>(9,515)</u>

	Note	Year ended December 31	
		2020	2019
		RMB'000	RMB'000
FINANCING ACTIVITIES			
Proceeds from exercise of share options		7,631	6,620
Repayments of leases liabilities		<u>(14,893)</u>	<u>(7,856)</u>
NET CASH USED IN FINANCING ACTIVITIES	32	<u>(7,262)</u>	<u>(1,236)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(42,254)	(352,818)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,105,600	1,443,310
Effect of exchange rate changes		<u>(31,256)</u>	<u>15,108</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		<u>1,032,090</u>	<u>1,105,600</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

1. General information

Hua Medicine (the “Company”) was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009, and its shares are listed on The Stock Exchange of Hong Kong Limited on September 14, 2018 (the “Listing Date”). The address of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” to the annual report. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as “Group”) are principally engaged in developing a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of Type 2 diabetes.

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

2. Application of new and amendments to International Financial Reporting Standards (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to IFRS 16 “Covid-19-Related Rent Concessions”.

Except for the impact on the early application of amendment to IFRS 16 as detailed below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. Application of new and amendments to International Financial Reporting Standards (“IFRSs”) (Continued)

Amendments to IFRSs that are mandatorily effective for the current year (Continued)

2.1 Impacts on early application of Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening accumulated losses at January 1, 2020. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB2,825,000, which has been recognised as variable lease payments in profit or loss for the current year.

2. Application of new and amendments to International Financial Reporting Standards (“IFRSs”) (Continued)

New and amendments IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments ⁴
Amendments to IFRS 3	Reference to the Conceptual Framework ³
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁴
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ³
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ⁴
Amendments to IAS 8	Definition of Accounting Estimates ⁴
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020 ³

¹ Effective for annual periods beginning on or after January 1, 2021

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after January 1, 2022

⁴ Effective for annual periods beginning on or after January 1, 2023

The directors of the Company anticipate that application of the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Basis of preparation of consolidated financial statements and significant accounting policies

3.1 Basis of preparation of consolidated financial statements

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 of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.1 Basis of preparation of consolidated financial statements (Continued)

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

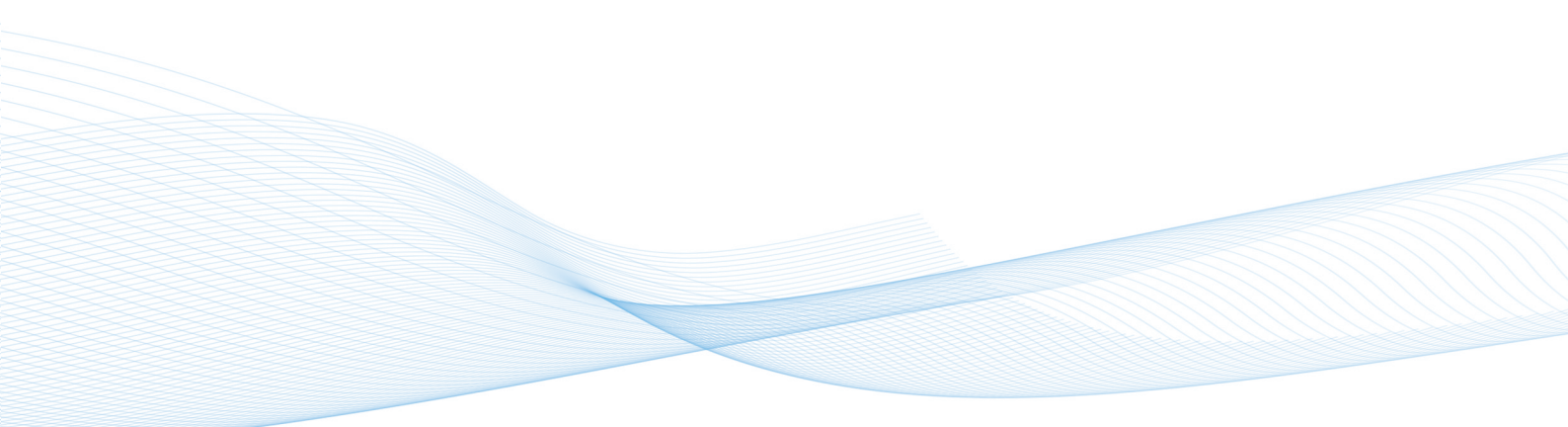
Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized 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.



3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the 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.

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.

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.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 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 asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Leases

Definition of a lease

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 on or after the date of initial application or arising from business combinations, 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.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee

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.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases

The Group applies the short-term lease recognition exemption to leases vehicles and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

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.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("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 recognizes and measures the lease liabilities 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.

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 paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

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

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, 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.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liabilities 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.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

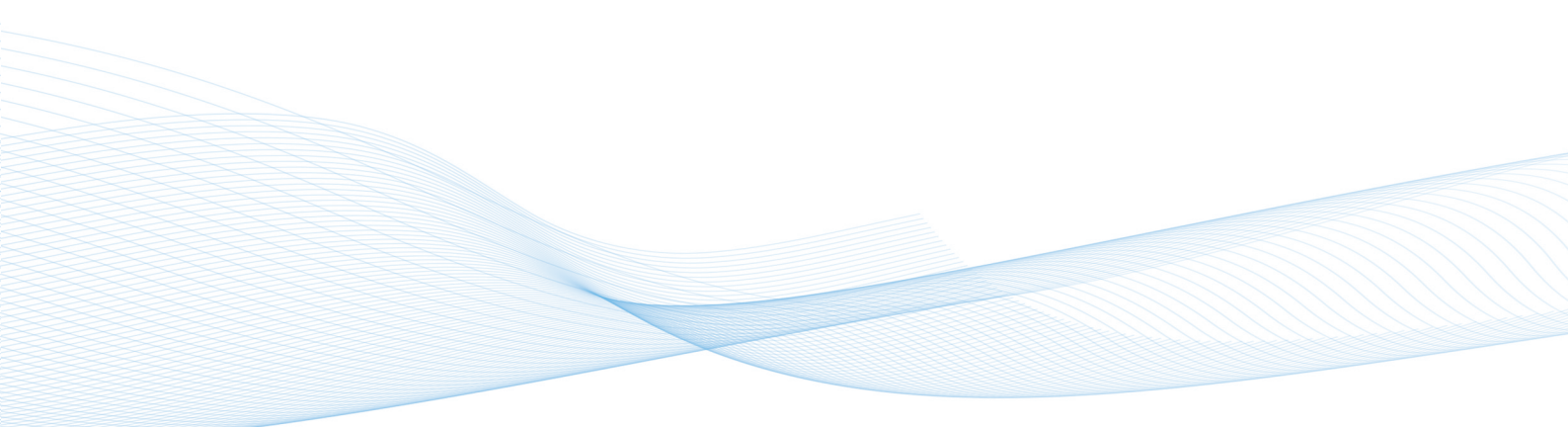
3.2 Significant accounting policies (Continued)

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.



3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

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.

The carrying amount of financial assets and financial liabilities that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets and financial liabilities measured at amortized cost, exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the 'other gains and losses' line item (Note 7).

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 (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, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Government grants

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Government grants (Continued)

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 related to income 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. Such grants are presented under "other income".

Equipment

Equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Leasehold improvement in the course of construction are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of items of equipment other than construction in progress 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 equipment is derecognized 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 equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization 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.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognized 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 assets;
- 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 recognized 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 recognized, development expenditure is recognized 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 amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Employee benefits

Retirement benefit costs

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Share-based payments

Equity-settled share-based payment transactions

Share options/restricted stock units granted to employees

Equity-settled share-based payments to employees and others 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 is determined at the grant date without taking into consideration all non-market vesting conditions and the equity-settled share-based payments are expensed by tranche (each date on which any portion of option granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of option granted shall be vested is hereinafter referred to as a "Tranche") 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-based payment reserve). At the end of each reporting period, the Group reviews its estimates 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 recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share-based payment reserve.

When the share options are exercised or when the restricted stock units are vested, the Company transfers the treasury shares into ordinary shares or issues new ordinary shares, and the amount previously recognized in the share option reserve will continue to be held in share-based payment reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in the share-based payment reserve will continue to be held in share-based payment reserve.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Share-based payments (Continued)

Share options granted to non-employees

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognized as expenses (unless the goods or services qualify for recognition as assets).

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" as reported in the consolidated statement of profit or loss and other comprehensive income 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 each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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 realized, 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 relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms 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 tax are recognized in profit or loss.

Impairment on equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those 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 amount of equipment, right-of-use assets and 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.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Impairment on equipment, right-of-use assets and intangible assets (Continued)

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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) 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 recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized 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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and 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 acquirer of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized 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.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("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.

By default, all other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. 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. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized 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 recognized 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.

Interest income is recognized in profit or loss and is included in the "other income" line item.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

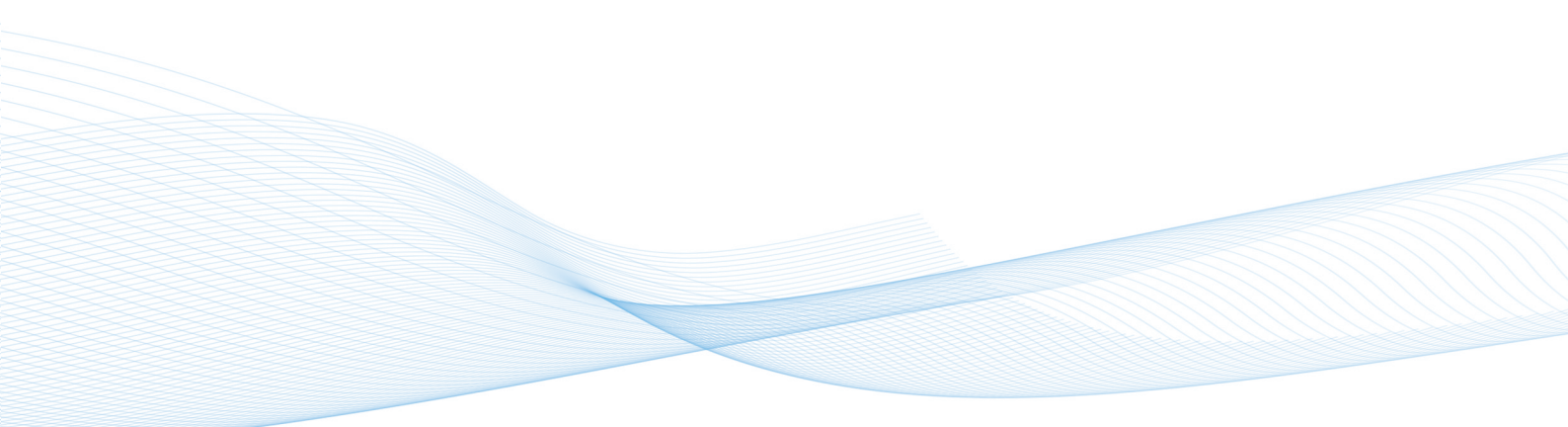
Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including cash and cash equivalents and other receivables) 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. Assessment 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 measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.



3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 of the reporting date with the risk of a default occurring on the financial instrument as of 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.

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, 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 on a financial asset 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.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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.

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.



3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default 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:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) 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; or
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

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, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of other 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 are recognized in profit or loss.

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 and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the 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 all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL (Continued)

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors;
- External credit ratings where available.

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 amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognizes 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 party.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued 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 recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities held by the Group are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

Treasury shares

Own equity instruments which held by the Company or the Group (treasury shares) are recognized directly in equity at cost. No gain or loss is recognized in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

4. Critical accounting judgements and key source 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 recognized 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 judgement, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Research and development expenses

Development expenses incurred on the Group's drug product pipelines are capitalized 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. Research and development expenses which do not meet these criteria are expensed when incurred. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. After assessment, the directors of the Company conclude that all expenses incurred for research and development activities were regarded as research and development expenses which did not meet these criteria and therefore were expensed when incurred.

Key source of estimation uncertainty

Estimation of research and development expenses

The Group rely on global contract research organizations (CROs), clinical site management operators (SMOs), and contract manufacturing organizations (CMOs) to conduct, supervise, and monitor the Group's ongoing clinical trials in China. Determining the amounts of research and development expenses incurred up to the end of each reporting period requires the management of the Group to estimate and measure the progress of receiving research and development services under the CROs, SMOs and CMOs contracts.

Deferred tax assets

As at December 31, 2020, no deferred tax asset has been recognised on the tax losses of RMB1,330,857,000 and other deductible temporary difference of RMB309,864,000 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 recognition takes place.

5. Segment information

For the purpose of resources allocation and performance assessment, the Group's chief executive officer, 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 and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

The Group did not record any revenue during the reporting period and the Group's non-current assets are substantially located in the PRC, accordingly, no analysis of geographical segment is presented.

6. Other income

	Year ended December 31	
	2020	2019
	RMB' 000	RMB' 000
Bank interest income	4,370	7,317
Government grants and subsidies (Note)	8,664	22,257
Rent concessions	2,825	–
	<u>15,859</u>	<u>29,574</u>

Note:

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

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

The government grants related to assets are received to compensate the right of use assets. The grants shall be recognised in profit or loss on a systematic basis over the useful life of the assets.

7. Other gains and losses

Other gains and losses mainly represent the foreign exchange losses and gains during the years ended December 31, 2020 and 2019.

8. Finance cost

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Interest on lease liabilities	4,396	907

9. Loss before tax

Loss before tax for the year has been arrived at after charging (crediting)

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Depreciation for equipment	4,949	3,361
Depreciation of right-of-use assets	20,132	6,920
Amortization for intangible assets	322	151
Total depreciation and amortization	25,403	10,432
Capitalized in construction in progress	(6,955)	–
	<u>18,448</u>	<u>10,432</u>
Other expenses (Note a)	1,724	1,724
Staff costs (including directors' emoluments):		
– Salaries and other benefits	124,339	116,846
– Retirement benefit scheme contributions (Note b)	4,071	9,066
– Share-based payment	58,942	74,384
	<u>187,352</u>	<u>200,296</u>
Covid-19-related rent concessions	(2,825)	–
Auditors' remuneration		
– Audit services	1,720	1,800
– Non-audit services	1,280	680
	<u>3,000</u>	<u>2,480</u>
Expense relating to short-term leases (Note 17)	<u>1,686</u>	<u>2,560</u>

Note a: In 2020, the Company donated US Dollars ("US\$") 0.25 million (equivalent to RMB1,724,000) (2019: US\$0.25 million (equivalent to RMB1,724,000)) for establishing a type 2 diabetes research fund in the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania, USA.

Note b: The local government in mainland China granted the reduction of social insurance contributions from February to December in 2020 due to COVID-19.

10. Income tax expense

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

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax during the reporting period.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiary is 25% during the reporting period.

The subsidiary incorporated in the United States are subject to Federal and State Income taxes, the effective combined income tax rate is 21% for the year ended December 31, 2020.

The tax charge 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 December 31	
	2020	2019
	RMB'000	RMB'000
Loss before tax	393,134	425,270
Income tax credit calculated at 25%	(98,284)	(106,318)
Tax effect of income not taxable for tax purpose	(212)	-
Tax effect of expenses that are not deductible for tax purpose	31,887	25,486
Effect of research and development expenses that are additionally deducted	(30,743)	(50,792)
Effect of other deductible temporary differences not recognised	77,466	-
Effect of tax losses not recognized	19,886	131,624
Income tax expenses recognized in profit or loss	-	-

The Group has unused tax losses of RMB1,330,857,000 and RMB1,308,494,000, and other deductible temporary differences of RMB309,864,000 and nil, available for offset against future profits as of December 31, 2020 and 2019 respectively. Deferred taxation had not been recognized on the unused tax losses due to the unpredictability of future profit streams.

10. Income tax expense (Continued)

The unrecognized tax losses will be carried forward and expire in years as follows:

	As of December 31	
	2020	2019
	RMB' 000	RMB' 000
2020	–	44,942
2021	94,820	94,820
2022	203,120	203,120
2023	439,116	439,116
2024	493,907	526,496
2025	94,313	–
Indefinite	5,581	–
	<u>1,330,857</u>	<u>1,308,494</u>

11. License agreement

In December 2011, the Company entered into a research, development and commercialization agreement (“GKA Agreement”) with Hoffman-La Roche Inc., and F. Hoffman-La Roche AG (collectively referenced as “Roche”) under which Roche granted the Company an exclusive license of patent rights, know-how and regulatory filings with respect to a compound which is a glucokinase activator to research, develop and commercialize products (“Licensed Product”) in the field of diabetes in the licensed territory (“Licensed Territory”). Pursuant to the GKA Agreement, the Company made US\$2,000,000 non-refundable upfront payment and US\$1,000,000 milestone payment upon the commencement of clinical trial Phase III in the mainland China for the Licensed Product to Roche in 2012 and 2017, respectively.

The Company is obligated to make US\$4,000,000 milestone payments upon the achievement of development of the Licensed Product through new drug approval in China (excluding Hongkong and Macau) and US\$33,000,000 in the Licensed Territory other than China (excluding Hongkong and Macau). Upon commercialization, the Company is contingently obligated to make US\$15,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US\$500,000,000 and US\$40,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US\$1,000,000,000. The Company is also obligated to make royalty payments at the applicable incremental royalty rate based on sales of the Licensed Product.

12. Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the service provided to the Group during the reporting period are as follows:

	Fees RMB' 000	Salaries and other benefits RMB' 000	Performance based bonus RMB' 000	Retirement benefit scheme contributions RMB' 000	Share-based payment RMB' 000	Total RMB' 000
For the year ended December 31, 2020						
Executive directors						
Dr. Li CHEN*	-	4,695	2,511	68	20,871	28,145
Mr. George Chien Cheng LIN	-	3,573	2,009	16	5,520	11,118
Non-executive directors						
Mr. Robert T. NELSEN	-	-	-	-	-	-
Dr. Lian Yong CHEN	-	-	-	-	-	-
Independent non-executive directors						
Mr. Walter Teh-Ming KWAIK	450	-	-	-	-	450
Mr. William Robert KELLER	450	-	-	-	-	450
Mr. Junling LIU	450	-	-	-	-	450
Mr. Yiu Wa Alec TSUI	450	-	-	-	-	450
	<u>1,800</u>	<u>8,268</u>	<u>4,520</u>	<u>84</u>	<u>26,391</u>	<u>41,063</u>

12. Directors' and chief executive's emoluments (Continued)

	Fees	Salaries and other benefits	Performance based bonus	Retirement benefit scheme contributions	Share-based payment	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
For the year ended December 31, 2019						
Executive directors						
Dr. Li CHEN*	-	4,075	2,249	114	21,669	28,107
Mr. George Chien Cheng LIN	-	3,544	8,119	16	14,830	26,509
Non-executive directors						
Mr. Robert T. NELSEN	-	-	-	-	-	-
Dr. Lian Yong CHEN	-	-	-	-	-	-
Independent non-executive directors						
Mr. Walter Teh-Ming KWAUK	450	-	-	-	-	450
Mr. William Robert KELLER	450	-	-	-	-	450
Mr. Junling LIU	450	-	-	-	-	450
Mr. Yiu Wa Alec TSUI	450	-	-	-	-	450
	<u>1,800</u>	<u>7,619</u>	<u>10,368</u>	<u>130</u>	<u>36,499</u>	<u>56,416</u>

* Chief Executive Officer

The executive directors' emoluments shown above were for their service in connection with the management 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.

None of the directors of the Company has waived any emoluments during the reporting period.

Certain directors of the Company were granted share options and restricted stock units in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 26.

During the year, there were no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities (2019: nil).

13. Five highest paid employees

The five highest paid individuals of the Group included two directors of the Company (2019: two), details of whose remuneration are set out in Note 12 above. Details of the remuneration for the remaining three highest paid employees (2019: three) are as follows:

	Year ended December 31	
	2020	2019
	RMB' 000	RMB' 000
Salaries and other benefits	5,057	4,062
Retirement benefit scheme contributions	203	341
Performance based bonus	2,709	2,978
Share-based payment	4,588	9,392
	<u>12,557</u>	<u>16,773</u>

The emoluments of these employees (including directors) are within the following bands:

	Year ended December 31	
	2020	2019
	No. of employees	No. of employees
Hong Kong Dollars ("HK\$")		
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$4,500,000	–	2
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$10,000,001 to HK\$10,500,000	–	1
HK\$12,500,001 to HK\$13,000,000	1	–
HK\$29,500,001 to HK\$30,000,000	–	1
HK\$31,500,001 to HK\$32,000,000	1	1

Certain non-directors highest paid employees were granted share options in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 26.

14. Loss per share

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

Loss figures are calculated as follows:

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	<u>(393,134)</u>	<u>(425,270)</u>

Number of Shares:

	Year ended December 31	
	2020	2019
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>950,508,749</u>	<u>942,060,515</u>

The computation of basic and diluted loss per share for the years ended December 31, 2020 and 2019 respectively excluded the unvested restricted stock units of the Company. Details of these restricted stock units are set out in Note 26.

The computation of diluted loss per share for the year ended December 31, 2020 and 2019 did not assume the exercise of share options since their assumed exercise would result in a decrease in loss per share.

15. Dividends

No dividend was paid or declared by the Company during the years ended December 31, 2020 and 2019.

16. Equipment

	Motor vehicles RMB' 000	Experimental equipment RMB' 000	Furniture fixtures and equipment RMB' 000	Leasehold improvement RMB' 000	Construction in progress ("CIP") RMB' 000	Total RMB' 000
Cost						
At January 1, 2019	860	–	5,054	2,110	–	8,024
Additions	93	2,331	2,214	188	4,195	9,021
Transfer from CIP	381	1,557	946	314	(3,198)	–
At December 31, 2019	1,334	3,888	8,214	2,612	997	17,045
Additions	–	992	991	239	41,080	43,302
Transfer from CIP	–	1,146	3,675	36,406	(41,227)	–
At December 31, 2020	1,334	6,026	12,880	39,257	850	60,347
Accumulated depreciation						
At January 1, 2019	575	–	1,733	388	–	2,696
Charge for the year	118	282	1,793	1,168	–	3,361
At December 31, 2019	693	282	3,526	1,556	–	6,057
Charge for the year	224	596	2,290	1,839	–	4,949
At December 31, 2020	917	878	5,816	3,395	–	11,006
Carrying amount						
At December 31, 2020	417	5,148	7,064	35,862	850	49,341
At December 31, 2019	641	3,606	4,688	1,056	997	10,988

The above items of equipment are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

Motor vehicles	4 years
Experimental equipment	7 years
Furniture, fixtures and equipment	3-5 years
Leasehold improvement	Over the shorter of the lease term or five years

17. Right-of-use assets

	Leased properties RMB'000	Motor vehicles RMB'000	Total RMB'000
As of December 31, 2020			
Carrying amount	74,177	–	74,177
As of December 31, 2019			
Carrying amount	90,410	76	90,486
For the year ended December 31, 2020			
Depreciation charge	20,056	76	20,132
Capitalised in construction in progress	(6,955)	–	(6,955)
	<u>13,101</u>	<u>76</u>	<u>13,177</u>
For the year ended December 31, 2019			
Depreciation charge	<u>6,806</u>	<u>114</u>	<u>6,920</u>
		Year ended December 31	
		2020	2019
		RMB'000	RMB'000
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 (Note (a))		1,686	2,560
Total cash outflow for leases (Note (b))		16,343	10,416
Additions to right-of-use assets		<u>3,823</u>	<u>92,695</u>

Notes:

- (a) The Group regularly entered into short-term leases for motor vehicles and offices. As of December 31, 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.
- (b) Amount includes payments of principal and interest portion of lease liabilities and short-term leases. These amounts could be presented in financing or operating cash flows.

These rent concessions occurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in IFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. The effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of RMB2,825,000, among which RMB236,000 is relating to short-term lease, were recognised as negative variable lease payments.

17. Right-of-use assets (Continued)

For both years, the Group leases various offices, and vehicles for its operations. Lease terms are negotiated on an individual basis and contain 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.

Restrictions or covenants on leases

Lease liabilities of RMB80,715,000 are recognised with related right-of-use assets of RMB74,177,000 as of December 31, 2020 (2019: lease liabilities of RMB89,978,000 and related right-of-use assets of RMB90,486,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

18. Intangible assets

	Software RMB'000
Cost	
As of January 1, 2019	866
Additions	<u>1,272</u>
As of December 31, 2019	2,138
Additions	<u>1,729</u>
As of December 31, 2020	<u>3,867</u>
Amortization	
As of January 1, 2019	7
Charge for the year	<u>151</u>
As of December 31, 2019	158
Charge for the year	<u>322</u>
As of December 31, 2020	<u>480</u>
Carrying amount	
As of December 31, 2020	<u><u>3,387</u></u>
As of December 31, 2019	<u><u>1,980</u></u>

The above items of intangible assets are mainly software, which are amortized, using the straight-line method over 8-10 years.

19. Prepayments and other receivables

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Prepayments for research and development services	2,146	2,838
Utility and rental deposits	6,008	5,579
– non-current	4,194	4,117
– current	1,814	1,462
Value add tax recoverable – non-current	21,910	26,248
Interest receivables	704	2,779
Other receivables for considerations of options exercised	287	1,398
Others	8,471	6,717
– current	8,236	6,375
– non-current	235	342
	<u>39,526</u>	<u>45,559</u>
Analysis as		
– current	13,187	14,852
– non-current	26,339	30,707
	<u>39,526</u>	<u>45,559</u>

20. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The short term bank deposits carry interests at market rates which ranged from 0.001% to 2.30% as of December 31, 2020 (2019: 0.05% to 2.80%) per annum.

Bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
US\$	444,063	846,502
HK\$	43,629	51,283
Taiwan Dollars ("TWD")	<u>3</u>	<u>3</u>

21. Trade and other payables

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Trade payables	25,821	47,941
Other Payables	4,179	3,660
Payroll and bonus payables	32,285	28,577
Accrued Leasehold improvement expenditure	12,383	–
Others	6,126	8,139
	<u>80,794</u>	<u>88,317</u>

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

The ageing analysis of the trade payables presented based on the invoice date at the end of reporting period is as follows:

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Uninvoiced or within 30 days	<u>25,821</u>	<u>47,941</u>
	<u>25,821</u>	<u>47,941</u>

Analysis of trade and other payables denominated in currency other than the functional currencies of the relevant group entities is set out below:

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
US\$	<u>493</u>	<u>1,024</u>

22. Lease liabilities

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Lease liabilities payable:		
Within one year	11,503	12,019
Within a period of more than one year but not more than two years	11,720	10,007
Within a period of more than two years but not more than five years	57,492	49,717
Within a period of more than five years	—	18,235
	80,715	89,978
Less: Amount due for settlement with 12 months shown under current liabilities	(11,503)	(12,019)
Amount due for settlement after 12 months shown under non-current liabilities	69,212	77,959

The incremental borrowing rates applied to lease liabilities range from 4.89% to 5.34% (2019: from 4.89% to 5.34%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HK\$
	RMB'000
As of December 31, 2020	698
As of December 31, 2019	261

23. Contract liabilities

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Advance from a customer for exclusive distribution rights	283,019	—

In December 2020, the Group received an advance payment from a customer to grant it the exclusive distribution rights on the licensed products after the Group obtain the new drug approval in China from the local authorities.

24. Deferred income

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Government grants received		
– current liabilities	14,250	8,450
– non-current liabilities	7,248	7,248
	<u>21,498</u>	<u>15,698</u>

During the years ended December 31, 2020 and 2019, the Group received subsidies related to its research and development activities. The grants were recognized in profit or loss as other income upon the Group complying with the conditions attached to the grants and the government acknowledged acceptance.

25. Share capital

The details of the changes of the Company's authorized and issued and fully paid ordinary shares during the year ended December 31, 2020 and 2019 are set out as below:

	Authorized Number of shares	US\$
Ordinary shares of US\$0.001 each		
As of January 1, 2019, December 31, 2019 and December 31 2020	<u>2,000,000,000</u>	<u>2,000,000</u>
	Issued and fully paid Number of shares	Shown in the consolidated statement of financial position as RMB'000
	US\$	
Ordinary shares of US\$0.001 each		
As of January 1, 2019, December 31, 2019 and December 31, 2020	<u>1,054,893,800</u>	<u>1,054,894</u>
		<u>7,209</u>

25. Share capital (Continued)

The details of the treasury shares held in trust are set out as below:

	Number of treasury shares	US\$	Shown in the consolidated statement of financial position as RMB' 000
Treasury shares held in trust as of January 1, 2019	116,536,062	116,536	797
Options exercised to purchase ordinary shares under the trust (Note (a))	(8,096,053)	(8,096)	(55)
Restricted stock units vested under the trust (Note (b))	<u>(1,855,752)</u>	<u>(1,856)</u>	<u>(13)</u>
Treasury shares held in trust as of December 31, 2019	106,584,257	106,584	729
Options exercised to purchase ordinary shares under the trust (Note (c))	(3,817,764)	(3,818)	(26)
Restricted stock units vested under the trust (Note (d))	<u>(1,855,752)</u>	<u>(1,856)</u>	<u>(13)</u>
Treasury shares held in trust as of December 31, 2020	<u>100,910,741</u>	<u>100,910</u>	<u>690</u>

As of December 31, 2020 and 2019, shares are held in trust including 97,663,208 and 101,480,972 shares for outstanding options (including forfeited and lapsed shares of 762,582 and 1,354,953 which were originally entitled by resigned employees in 2020 and 2019, respectively) and 3,247,533 and 5,103,285 shares for unvested restricted stock units and are disclosed separately in treasury shares since the Company has control over the Nominee in 2020 and 2019, respectively.

Notes:

- (a) During the year ended December 31, 2019, several employees and consultants exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 8,096,053 ordinary shares of the Company at the average exercise price of HK\$1.12 per share for an aggregate consideration equivalent to RMB8,018,000.
- (b) During the year ended December 31, 2019, 1,855,752 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US\$0.001 each.
- (c) During the year ended December 31, 2020, several employees and consultants exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 3,817,764 ordinary shares of the Company at the average exercise price of HK\$1.89 per share for an aggregate consideration equivalent to RMB6,520,000.
- (d) During the year ended December 31, 2020, 1,855,752 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US\$0.001 each.

26. Share-based payment transactions

On August 26, 2018, the Company adopted the pre-IPO share incentive scheme (the "Pre-IPO Share Incentive Scheme") and established an employee trust to administer the scheme. A total of 7,800,000 ordinary shares of the Company, representing all the Company's shares underlying the Pre-IPO Scheme (defined as below) and the restricted stock units granted under the Pre-IPO Share Incentive Scheme, were issued to, the Nominee, to hold such shares to satisfy the options and restricted stock units granted upon exercise/vesting. No further Company's shares will be allotted and issued to the Nominee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to the capitalization issue, rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme.

The Company also conditionally adopted a post-IPO share option scheme (the "Post-IPO Scheme") on August 26, 2018, which became effective on the Listing Date.

The history of the issuance of the share option schemes, restricted stock units under the Pre-IPO Share Incentive Scheme and Post-IPO Scheme is set out below.

Equity-settled share option scheme of the Company

The Company's Pre-IPO share option scheme (the "Pre-IPO Scheme") was adopted pursuant to a resolution passed on March 5, 2015 for the primary purpose of providing incentives to directors, eligible employees and individual consultants who render services to the Group.

The Company's Post -IPO Scheme was adopted by the resolutions in writing of all the shareholders passed on August 26, 2018 for the primary purpose of providing incentives to directors of the Company eligible employees and individual consultants who render services to the Group.

Under the Pre-IPO Scheme and Post-IPO Scheme, the directors of the Company may grant options to eligible employees, including the directors of the Company, to subscribe for shares of the Company. The fair value of the services provided by employees are measured at the fair value of options at the grant date. Additionally, the Company may, from time to time, grant share options to individual consultants for settlement in respect of research and development advisory services provided to the Group. The fair value of the services from individual consultants is determined by the fair value of the services received on the services receipt date.

The directors of the Company approved up to 117,000,000 shares of the Company in which options may be granted under the Pre-IPO Scheme and approved up to 105,191,330 shares of the Company in which options may be granted under the Post-IPO Scheme.

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

(1) Details of specific categories of options under the Pre-IPO Scheme are as follows:

Categories	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	December 4, 2014 ~ August 26, 2018	11,921,725	US\$0.07 ~ 0.49
Mr. George Chien Cheng LIN	April 3, 2018	25,592,405	US\$0.47
Employees	March 25, 2013 ~ August 26, 2018	51,671,543	US\$0.07 ~ 0.47
Individual consultants	September 12, 2013 ~ June 1, 2018	6,177,000	US\$0.07 ~ 0.47

(2) Details of specific categories of options under the Post- IPO Scheme are as follows:

Category	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	June 25, 2019	12,079,000	HK\$8.866
Mr. George Chien Cheng LIN	May 17, 2019	300,000	HK\$8.866
Employees	October 29, 2018 ~ September 1, 2020	18,187,194	HK\$3.00~ 8.866
Individual consultants	May 15, 2019	200,000	HK\$8.866

(3) Options granted under the Pre-IPO Scheme and the Post-IPO Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 25% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments except for the options granted to non-employees individual consultants on September 12, 2013 and March 15, 2016. The options granted to individual consultants on September 12, 2013 have a contractual term of 10 years and generally vest over a three year period, with 33% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 67% vesting in 24 substantially equal monthly instalments. The options granted to individual consultants on March 15, 2016 have a contractual term of 10 years and vest in 12 equal monthly instalments. The vesting commencement date of 10,519,300 shares of options granted to Dr. Li CHEN on June 25, 2019 was subject to the positive HMM0301 Phase III results as determined in the directors of the Company's sole discretion (without the participation of the chief executive officer). On November 11, 2019, the directors of the Company approved the 10,519,300 shares of options granted to Dr. Li CHEN should commence the vesting period on November 11, 2019 based on the positive HMM0301 Phase III topline trial results being announced by the Company.

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2020:

Category	Option type	Outstanding	Granted	Exercised	Forfeited	Lapsed	Outstanding
		as of January 1, 2020					as of December 31, 2020
Category 1: Director							
Dr. Li CHEN	Pre-IPO Scheme						
	2014	1,700,000	-	(1,000,000)	-	-	700,000
	2016	1,500,000	-	-	-	-	1,500,000
	2017	1,500,000	-	-	-	-	1,500,000
	2018	8,221,725	-	-	-	-	8,221,725
	Post-IPO Scheme						
	2019	12,079,000	-	-	-	-	12,079,000
	<u>25,000,725</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,000,725</u>
Mr. George Chien Cheng LIN	Pre-IPO Scheme						
	2018	25,592,405	-	-	-	-	25,592,405
	Post-IPO Scheme						
	2019	300,000	-	-	-	-	300,000
	<u>25,892,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,892,405</u>
Total directors	<u>50,893,130</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,893,130</u>

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding	Granted	Exercised	Forfeited	Lapsed	Outstanding
		as of					as of
		January 1, 2020	during year	during year	during year	during year	December 31, 2020
Category 2: Employees	Pre-IPO Scheme						
	2013	3,908,000	-	-	-	-	3,908,000
	2014	4,480,000	-	-	-	-	4,480,000
	2016	8,009,354	-	(150,000)	(234,354)	-	7,625,000
	2017	7,687,500	-	(1,031,500)	(42,157)	(77)	6,613,766
	2018	30,328,035	-	(797,264)	(484,990)	(1,004)	29,044,777
	Post-IPO Scheme						
	2018	575,000	-	-	-	-	575,000
	2019	8,310,300	-	-	(496,030)	(107,919)	7,706,351
	2020	-	10,255,000	-	(349,157)	-	9,905,843
	Total employees	63,298,189	10,255,000	(1,978,764)	(1,606,688)	(109,000)	69,858,737
Category 3:							
Individual consultants	Pre-IPO Scheme						
	2013	1,799,500	-	(249,500)	-	-	1,550,000
	2014	150,000	-	-	-	-	150,000
	2016	3,941,500	-	(589,500)	-	-	3,352,000
	2018	1,125,000	-	-	-	-	1,125,000
	Post-IPO Scheme						
	2019	200,000	-	-	-	-	200,000
	Total individual consultants	7,216,000	-	(839,000)	-	-	6,377,000
	Total all categories	121,407,319	10,255,000	(3,817,764)	(1,606,688)	(109,000)	126,128,867
	Exercisable at the beginning and end of the year	60,864,074					84,050,356
	Weighted average exercise price (HK\$)	3.58	3.90	1.89	4.55	8.80	3.65

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2019:

Category	Option type	Outstanding as of January 1, 2019	Granted during year	Exercised during year	Forfeited during year	Outstanding as of December 31, 2019
Category 1: Director						
Dr. Li CHEN						
	Pre-IPO Scheme					
	2014	2,700,000	-	(1,000,000)	-	1,700,000
	2016	1,500,000	-	-	-	1,500,000
	2017	1,500,000	-	-	-	1,500,000
	2018	8,221,725	-	-	-	8,221,725
	Post-IPO Scheme					
	2019	-	12,079,000	-	-	12,079,000
		<u>13,921,725</u>	<u>12,079,000</u>	<u>(1,000,000)</u>	<u>-</u>	<u>25,000,725</u>
Mr. George Chien Cheng LIN						
	Pre-IPO Scheme					
	2018	25,980,405	-	(388,000)	-	25,592,405
	Post-IPO Scheme					
	2019	-	300,000	-	-	300,000
		<u>25,980,405</u>	<u>300,000</u>	<u>(388,000)</u>	<u>-</u>	<u>25,892,405</u>
	Total directors	<u>39,902,130</u>	<u>12,379,000</u>	<u>(1,388,000)</u>	<u>-</u>	<u>50,893,130</u>

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding	Granted	Exercised	Forfeited	Outstanding
		as of January 1, 2019				as of December 31, 2019
Category 2: Employees	Pre-IPO Scheme					
	2013	5,250,000	–	(1,342,000)	–	3,908,000
	2014	7,050,000	–	(2,570,000)	–	4,480,000
	2016	8,865,615	–	(856,261)	–	8,009,354
	2017	8,033,115	–	(285,935)	(59,680)	7,687,500
	2018	32,718,165	–	(1,094,857)	(1,295,273)	30,328,035
	Post-IPO Scheme					
	2018	1,075,000	–	–	(500,000)	575,000
	2019	–	9,040,300	–	(730,000)	8,310,300
	Total employees	<u>62,991,895</u>	<u>9,040,300</u>	<u>(6,149,053)</u>	<u>(2,584,953)</u>	<u>63,298,189</u>
Category 3: Individual consultants	Pre-IPO Scheme					
	2013	1,800,000	–	(500)	–	1,799,500
	2014	150,000	–	–	–	150,000
	2016	4,500,000	–	(558,500)	–	3,941,500
	2018	1,125,000	–	–	–	1,125,000
	Post-IPO Scheme					
	2019	–	200,000	–	–	200,000
	Total individual consultants	<u>7,575,000</u>	<u>200,000</u>	<u>(559,000)</u>	<u>–</u>	<u>7,216,000</u>
	Total all categories	<u>110,469,025</u>	<u>21,619,300</u>	<u>(8,096,053)</u>	<u>(2,584,953)</u>	<u>121,407,319</u>
	Exercisable at the beginning and end of the year	39,232,575				60,864,074
	Weighted average exercise price (HK\$)	<u>2.46</u>	<u>8.82</u>	<u>1.09</u>	<u>5.11</u>	<u>3.58</u>

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

These fair values were calculated using the Black-Scholes pricing model. These fair values of the options at grant dates and corresponding inputs into the model were as follows:

	May 15&17, 2019	June 25, 2019	September 19, 2019	January 3, 2020	March 24, 2020	March 25, 2020	April 12, 2020	April 13, 2020	April 14, 2020	May 15, 2020	June 15, 2020	September 1, 2020
Grant date option fair value per share	HK\$3.96	HK\$3.96- HK\$4.16	HK\$4.30	HK\$2.86	HK\$1.86	HK\$1.92	HK\$1.88	HK\$1.89	HK\$1.83	HK\$2.97	HK\$3.47	HK\$3.77
Grant date share price	HK\$7.01	HK\$6.96	HK\$6.85	HK\$4.98	HK\$3.15	HK\$3.23	HK\$2.99	HK\$2.99	HK\$3.05	HK\$4.45	HKD\$4.97	HK\$6.05
Exercise price	HK\$8.866	HK\$8.866	HK\$6.80	HK\$6.64	HK\$3.62	HK\$3.62	HK\$3.02	HK\$3.00	HK\$3.62	HK\$3.62	HK\$3.62	HK\$7.18
Expected volatility	68.40%	70.10%- 71.90%	70.00%	69.47%	69.60%	69.67%	71.65%	71.81%	71.95%	72.67%	74.76%	75.80%
Expected life	5.9 years	5.8 years- 6.2 years	6.1 years	6.01 years	6.07 years	6.01 years	6.07 years	6.06 years	6.04 years	6 years	5.96 years	6.06 years
Risk-free rate	1.56%	1.43%	1.33%	1.67%	0.84%	0.75%	0.69%	0.69%	0.66%	0.36%	0.39%	0.39%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Expected volatility was determined by using the historical volatility of the comparable companies and the effect of difference in leverage between the Company and the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. The Group recognized the total expense of RMB56,444,000 and RMB68,905,000 for the years ended December 31, 2020 and 2019, respectively, in relation to share options granted by the Company.

Restricted stock units of the Company

Restricted stock units

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement including equity incentives of options and restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 shares of the Company have been granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme. Such shares were vested after a qualified IPO is achieved in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. The grant date fair value of the restricted stock units of the Company was US\$0.24 per share which was determined by the fair value of ordinary shares on the grant date.

The number of unvested restricted stock units was 3,247,533 and 5,103,285 as of December 31, 2020 and 2019, respectively, and was disclosed in treasury shares held in trust.

The Group recognized RMB2,498,000 and RMB5,479,000 of share-based payment expense in relation to the grants of the above restricted stock units for the year ended December 31, 2020 and 2019, respectively.

27. Related party transactions

Compensation of key management personnel

The remuneration of key management personnel of the Group, who are the directors of the Company during the reporting period, were as follows:

	Year ended December 31,	
	2020	2019
	RMB' 000	RMB' 000
Short term benefits	14,588	19,787
Post-employment benefits	84	130
Share-based payment	26,391	36,499
	<u>41,063</u>	<u>56,416</u>

28. 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 maximizing the return to investors through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of net debts and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

29. Financial instruments

(a) Categories of financial instruments

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Financial assets		
Amortized cost (including cash and cash equivalents)	<u>1,039,154</u>	<u>1,115,484</u>
Financial liabilities		
Amortized cost	<u>30,000</u>	<u>51,601</u>

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include other receivables, bank balances and cash, trade and other payables. Details of these financial assets and liabilities are disclosed in respective notes.

The risks associated with these financial assets and liabilities include market risk (currency risk and interest rate 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.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

Certain bank balances and cash, trade and other payables are denominated in foreign currencies of respective group entities which are exposed 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.

29. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Assets		
US\$	445,071	849,680
TWD	3	3
HK\$	44,209	52,681
Liabilities		
US\$	<u>(493)</u>	<u>(1,024)</u>

Sensitivity analysis

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

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Impact on profit or loss		
US\$	(22,228)	(42,433)
HK\$	<u>(2,210)</u>	<u>(2,634)</u>

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

29. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

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

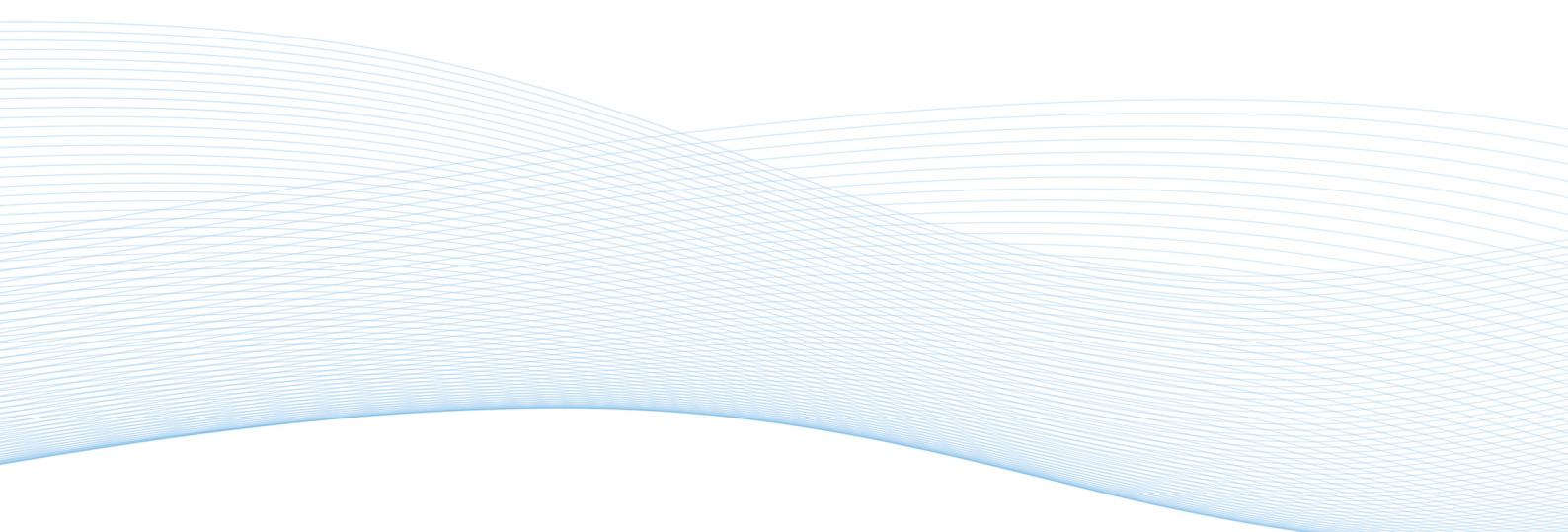
The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The directors of the Company consider that the exposure of cash flow interest rate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

Credit risk

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.



29. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities and lease 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.

	Weighted average effective interest rate	Within 1 year or on demand RMB' 000	1-2 years RMB' 000	2-5 years RMB' 000	Over 5 years RMB' 000	Total undiscounted cash flows RMB' 000	Carrying amount RMB' 000
As of December 31, 2020							
Trade and other payables	N/A	30,000	-	-	-	30,000	30,000
Lease liabilities	5.25%	15,350	15,021	61,966	-	92,337	80,715
As of December 31, 2019							
Trade and other payables	N/A	51,601	-	-	-	51,601	51,601
Lease liabilities	5.25%	16,338	13,764	56,932	18,753	105,787	89,978

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

There are no financial assets and liabilities measured at fair value as of December 31, 2020 and 2019.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amounts of the Group's financial assets and financial liabilities measured at amortized cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

30. Retirement benefit plans

The employees of the Group's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organized by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The Group contributions to the retirement benefit scheme are expensed as incurred and not reduced by contribution forfeited by those employee who leave the plan. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are RMB4,071,000 for the year ended December 31, 2020 (2019: RMB9,066,000).

31. Particulars of subsidiaries of the company

As of December 31, 2020 and 2019, the Company's subsidiaries are as follows:

Name of company	Place of incorporation/ establishment/ operation and nature of the legal entity	Issued and fully paid share capital/ Registered capital	Attributable equity interest held by the Company		Principal activities
			2020	2019	
<i>Directly held</i>					
Hua Medicine Technology (Hong Kong) Limited ("Hua HK") 華領醫藥技術(香港)有限公司 (formerly known as Hua Medicine Limited)	Hong Kong Limited liability company	Registered capital of US\$140,046,243.54	100%	100%	Investment holding company
Hua Medicine USA Inc	The United States Limited Liability company	Registered capital of US\$2,000,000.00	100%	N/A	Development of innovative medicines
<i>Indirectly held</i>					
Hua Shanghai 華領醫藥技術(上海)有限公司	The PRC Limited liability company	Registered capital of US\$45,218,839 and paid-in capital of US\$ 45,218,495	100%	100%	Development of innovative medicines
<i>Indirectly held</i>					
Hua Pharmaceuticals 華領藥業有限公司	The PRC Limited liability company	Registered capital of RMB50,000,000 and paid-in capital of 0	100%	100%	Commercialization of innovative medicines

None of the subsidiaries had issued any debt securities at the end of the year.

32. Reconciliation of assets and liabilities arising from financing activities

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and 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 22)	Other receivables for considerations of options exercised RMB' 000 (Note 19)	Total RMB' 000
As of January 1, 2019	4,232	–	4,232
Financing cash flows	(7,856)	6,620	(1,236)
Non-cash changes			
New leases entered	92,695	–	92,695
Interest expenses	907	–	907
Exercise of options by employees	–	(8,018)	(8,018)
As of December 31, 2019	89,978	(1,398)	88,580
Financing cash flows	(14,893)	7,631	(7,262)
Non-cash changes			
New leases entered	3,823	–	3,823
Interest expenses	4,396	–	4,396
Rent Concession	(2,589)	–	(2,589)
Exercise of options by employees	–	(6,520)	(6,520)
As of December 31, 2020	80,715	(287)	80,428

33. Information of financial position of the company and movements in the company's reserves

The statement of financial position of the Company is as follows:

	As of December 31,	
	2020	2019
	RMB' 000	RMB' 000
Non-current Assets		
Investments in subsidiaries	1,373,324	1,315,601
Current Assets		
Other receivables	2,722	5,342
Amounts due from a subsidiary	1,326	–
Bank balances and cash	668,333	749,767
	<u>672,381</u>	<u>755,109</u>
Current Liabilities		
Trade and other payables	5,817	5,634
Amounts due to a subsidiary	6,218	5,976
	<u>12,035</u>	<u>11,610</u>
Net Current Assets	<u>660,346</u>	<u>743,499</u>
Total Assets Less Current Liabilities	<u>2,033,670</u>	<u>2,059,100</u>
Net Assets	<u>2,033,670</u>	<u>2,059,100</u>
Capital and Reserves		
Share capital	7,209	7,209
Reserves	2,026,461	2,051,891
Total Equity	<u>2,033,670</u>	<u>2,059,100</u>

33. Information of financial position of the company and movements in the company's reserves (Continued)

The movements in the Company's reserves of the Company for the year ended December 31, 2020 and 2019 are as follows:

	Share premium RMB' 000	Share-based payment reserve RMB' 000	Accumulated losses RMB' 000	Total RMB' 000
As of January 1, 2019	5,885,304	73,354	(3,938,877)	2,019,781
Loss and total comprehensive expense for the year	–	–	(50,288)	(50,288)
Options exercised to purchase ordinary shares under the trust	8,014	–	–	8,014
Recognition of equity-settled payment for subsidiary	–	74,384	–	74,384
As of December 31, 2019	5,893,318	147,738	(3,989,165)	2,051,891
Loss and total comprehensive expense for the year	–	–	(90,892)	(90,892)
Options exercised to purchase ordinary shares under the trust	6,520	–	–	6,520
Recognition of equity-settled payment for subsidiary	–	58,942	–	58,942
As of December 31, 2020	5,899,838	206,680	(4,080,057)	2,026,461

FIVE YEAR FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSE

	For the year ended 31 December				
	2016	2017	2018	2019	2020
	(RMB' 000)	(RMB' 000)	(RMB' 000)	(RMB' 000)	(RMB' 000)
Other income	1,030	11,706	10,355	29,574	15,859
Other gains and losses	10,295	(6,557)	63,778	16,275	(41,827)
Administrative expenses	(19,482)	(31,086)	(100,398)	(146,584)	(140,084)
Other expenses	—	—	(38,918)	(1,724)	(1,724)
Finance cost	(4,562)	(2,958)	(3,534)	(907)	(4,396)
Research and Development expenses	(75,272)	(125,337)	(269,065)	(321,904)	(220,962)
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	(274,417)	(126,456)	(3,266,216)	—	—
Other comprehensive expense					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	—	—	—	—	(453)
Loss and total comprehensive expense for the year	(362,408)	(280,688)	(3,603,998)	(425,270)	(393,587)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	For the year ended 31 December				
	2016	2017	2018	2019	2020
	(RMB' 000)	(RMB' 000)	(RMB' 000)	(RMB' 000)	(RMB' 000)
Current assets	224,541	232,288	1,474,510	1,120,452	1,045,277
Prepayments and other receivables	1,306	23,364	24,337	14,852	13,187
Prepayments to related parties	334	20,090	6,863	—	—
Other financial assets	30,000	16,101	—	—	—
Bank balances and cash	192,901	172,733	1,443,310	1,105,600	1,032,090
Current liabilities	25,281	42,997	77,633	108,786	106,547
Trade and other payables	5,307	12,377	76,033	88,317	80,794
Amounts due to related companies	9,690	23,320	—	—	—
Lease liabilities	—	—	—	12,019	11,503
Deferred income	10,284	7,300	1,600	8,450	14,250
Net current assets	199,260	189,291	1,396,877	1,011,666	938,730
Non-current assets	2,191	13,496	15,739	134,161	153,244
Non-current liabilities	867,647	1,145,317	9,128	85,207	359,479
Net assets	(666,196)	(942,530)	1,403,488	1,060,620	732,495
Total equity	(666,196)	(942,530)	1,403,488	1,060,620	732,495

DEFINITIONS

In this annual result, the following expressions have the meanings set out below unless the context requires otherwise.

“API”	active pharmaceutical ingredient
“Board”	the board of Directors of the Company
“Company”	Hua Medicine (華領醫藥), an exempt limited liability company incorporated under the laws of the Cayman Islands on November 10, 2009 and whose Shares are listed on the Stock Exchange
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CMC”	chemistry, manufacturing and control
“CMO”	a contract manufacturing organization, which provides support to the pharmaceutical industry in the form of manufacturing services outsourced on a contract basis
“CRO”	a contract research organization, which provides support to the pharmaceutical industry in the form of research services outsourced on a contract basis
“Director(s)”	the director(s) of the Company
“DPP-4”	an enzyme that rapidly degrades GLP-1, thereby reducing the normal effect of GLP-1 in enhancing the secretion of insulin. DPP-4 inhibitors have been successfully developed as orally administered anti-diabetic therapies and are approved in both China and the United States, among other countries
“first-in-class”	drugs that use a new and unique mechanism of action for treating a medical condition
“GLP-1”	glucagon-like peptide-1, a peptide hormone with the ability to decrease blood glucose levels in a glucose-dependent manner by enhancing the secretion of insulin. GLP-1 agonists have been successfully developed as injectable anti-diabetic therapies and are approved in both China and the United States, among other countries
“glucose homeostasis”	an intricate physiological process within the human body that regulates blood glucose levels within an acceptable range or threshold. This process is dependent on the balance of insulin (which normally facilitates uptake of glucose after meal), glucagon (which facilitates the production of glucose by the body when glucose levels are low), and other hormones
“GMP”	good manufacturing practice
“Group”	the Company and its subsidiaries

“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HK IPO”	the global offering of the Shares, comprising the Hong Kong public offering of 10,476,000 Shares and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company
“Hua HK”	Hua Medicine Technology (Hong Kong) Limited (華領醫藥技術(香港)有限公司), formerly known as Hua Medicine Limited (華醫藥有限公司), a limited liability company incorporated under the laws of Hong Kong on August 12, 2010, being a wholly-owned subsidiary of the Company
“Hua Shanghai”	Hua Medicine (Shanghai) Ltd. (華領醫藥技術(上海)有限公司), a limited liability company incorporated under the laws of PRC on June 22, 2011, being an indirect wholly-owned subsidiary of the Company
“Hua USA”	Hua Medicine USA Inc. (華領醫藥美國有限公司), a limited liability company incorporated under the laws of USA on April 9, 2020, being an indirect wholly-owned subsidiary of the Company
“insulin”	a hormone produced by the β -cells in the pancreas that is critical in promoting the absorption of glucose from the blood into the liver, skeletal muscle and adipose cells (or fat), among other cells
“KOL”	key opinion leader
“Listing”	listing of our Shares on the Stock Exchange
“Listing Date”	September 14, 2018, being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAH”	Market Authorized Holder, a certification granted by the CFDA, which allows certain license holders to use a qualified CMO to manufacture pharmaceutical products
“mGLUR5”	metabotropic glutamate receptor 5
“monotherapy”	the use of one type of treatment alone to treat a certain disease or condition
“Model Code”	the Model Code for the Securities Transactions by Directors of Listed Issue’s contained in Appendix 10 to the Listing Rules
“NMPA”	National Medical Products Administration (國家藥品監督管理局), and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
“NDA”	New drug application

“PRC”	the People’s Republic of China, excluding, for the purposes of this report, the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Pre-IPO Share Incentive Scheme”	the share incentive scheme approved and adopted by the Company on March 25, 2013 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
“Post-IPO Share Option Scheme”	the post-IPO share option scheme approved and adopted by our Company on August 26, 2018 for the benefit of any director, employee, adviser or consultant of the Company or any of our subsidiaries; a summary of the principal terms is set forth in “Appendix IV – Statutory and General Information – D. Share Incentive Schemes – 2. Post-IPO Share Option Scheme” of the Prospectus
“Prospectus”	the prospectus issued by the Company on August 31, 2018 in connection with the Hong Kong public offering of the Shares
“R&D”	research and development
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance
“SGLT-2”	Sodium-glucose co-transporter-2
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) with nominal value of US\$0.001 each in the share capital of the Company
“SMO”	Site management organizations
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States of America
“U.S.”	The United States of America

