

东曜药业

東曜藥業股份有限公司

TOT BIOPHARM International Company Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 1875



ANNUAL REPORT
2019



CONTENTS

- 2** Corporate information
- 3** Chairman's statement
- 5** General manager's report
- 8** Management discussion and analysis
- 26** Awards and recognitions
- 27** Biographies of directors and senior management
- 32** Corporate governance report
- 45** Directors' report
- 58** Independent auditor's report
- Consolidated financial statements:
 - 63** Consolidated statement of comprehensive loss
 - 64** Consolidated balance sheet
 - 66** Consolidated statement of changes in equity
 - 67** Consolidated statement of cash flows
 - 68** Notes to the consolidated financial statements
- 139** Three-year financial summary
- 140** Definitions

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Yeh-Huang, Chun-Ying (*General Manager*)
Dr. Liu, Jun

NON-EXECUTIVE DIRECTORS

Mr. Fu, Shan (*Chairman*)
Dr. Kung, Frank Fang-Chien
Mr. Kang, Pei
Mr. Qiu, Yu Min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Hu, Lan
Dr. Sun, Lijun Richard
Mr. Chang, Hong-Jen

AUDIT AND CONNECTED TRANSACTIONS REVIEW COMMITTEE

Ms. Hu, Lan (*Chairlady*)
Mr. Qiu, Yu Min
Mr. Chang, Hong-Jen

REMUNERATION COMMITTEE

Mr. Chang, Hong-Jen (*Chairman*)
Mr. Kang, Pei
Dr. Sun, Lijun Richard

NOMINATION COMMITTEE

Mr. Fu, Shan (*Chairman*)
Ms. Hu, Lan
Dr. Sun, Lijun Richard

STRATEGY COMMITTEE

Mr. Fu, Shan (*Chairman*)
Ms. Yeh-Huang, Chun-Ying
Dr. Liu, Jun
Mr. Chang, Hong-Jen
Dr. Sun, Lijun Richard

JOINT COMPANY SECRETARIES

Mr. Yao, Jau-Chang
Mr. Lui, Wing Yat Christopher (*Associate member of the Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute in the United Kingdom*)

AUTHORIZED REPRESENTATIVES

Ms. Yeh-Huang, Chun-Ying
Mr. Lui, Wing Yat Christopher

SHARE REGISTRAR

Tricor Investor Services Limited

REGISTERED OFFICE

Level 54, Hopewell Centre,
183 Queen's Road East,
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

120 Changyang Street,
Suzhou Industrial Park,
Suzhou, PRC

COMPANY WEBSITE

www.totbiopharm.com.cn

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
1875

PRINCIPAL BANKS

Shanghai Pudong Development Bank
Bank of China

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest Entity Auditor

LEGAL ADVISER

Sullivan & Cromwell (Hong Kong) LLP

INVESTORS AND MEDIA RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

COMPLIANCE ADVISER

Somerley Capital Limited

CHAIRMAN'S STATEMENT



Dear Shareholders,

The year of 2019 is a milestone year in the development of TOT BIOPHARM International Company Limited. With the Company's successful listing on the Main Board of the Stock Exchange on 8 November 2019, the Group has entered a new stage of internationalization and rapid development. The listing also represents the high recognition by the capital market of our innovative development. We believe that with the support of our shareholders and the capital market, the competitive edge of TOT BIOPHARM will become even more prominent.

The Company is pleased to present its first annual results for the year ended 31 December 2019. Looking back at 2019, the Company's successful IPO brought in new capital which gave new impetus to our business development. The gross proceeds from the IPO amounted to approximately HK\$589,500,000 (approximately US\$75,000,000), which will be mainly used for R&D, launch and commercialization of our drug candidates. In 2019, with our open technology and collaboration platform, our revenue from diversified sources such as CMO and CDMO service fees as well as commissions for marketing services provided amounted to approximately RMB45,308,000, representing an increase of approximately 16% as compared with approximately RMB39,219,000 in 2018, demonstrating a robust cash flow

capability of the Company. Our research and development expenses amounted to approximately RMB191,078,000, representing an increase of approximately 1% as compared with approximately RMB188,651,000 in 2018.

INDUSTRY REVIEW

The oncology drug market in China has grown rapidly in recent years. According to a report by Frost & Sullivan, the sales volume of oncology drug market in China has increased from US\$15,000,000,000 in 2014 to US\$24,200,000,000 in 2018, representing a CAGR of 12.8%. The figure is expected to grow at a CAGR of 15.0% from 2018 further to US\$48,700,000,000 in 2023. During the same period, the size of China's oncology drug market has grown at a faster rate than other segments of the pharmaceutical market, and its percentage share in China's pharmaceutical market has also been growing. Given the rapid growth in market demand and the urgent needs for drugs by patients, the Chinese government has stepped up its efforts to introduce favorable policies to drive the development of the pharmaceutical industry, such as promoting pharmaceutical innovation, accelerating the approval of launches of new drug for cancer treatment and continuously expanding the scope of the National Drug Catalogue for Basic Medical Insurance. Driven by the market and policies, the Group has been highly committed to the development of anti-tumor drugs and has equipped itself with full industry chain capabilities to provide optimal solutions at different stages of the product life cycle, creating value for customers, shareholders, patients and medical professionals.

BUSINESS REVIEW

Focusing on oncology and providing integrated solutions

TOT BIOPHARM focuses on the oncology field and is one of the few anti-tumor pharmaceutical enterprises in the industry that integrate the full industry chain capabilities of drug discovery, process development, pre-clinical and clinical development, commercial scale production and marketing. We adopt an open platform business model to enable diversified collaboration with partners at different stages of the industry value chain. With our IPO and listing in Hong Kong, we have gained access to more financing channels which are conducive to the acceleration of various operations of the Group.

Chairman's statement

Equipped with our integrated technologies, open business platform and full industry value chain capabilities, we are able to operate our business in a more commercial manner. We have a robust and sustainable product pipeline for launch over the next five years to drive sustainable business growth. Of the current 12 drug candidates (11 of which are self-developed drugs), 7 are biologic drug candidates and 5 are chemical drug candidates. Our product pipeline covers 9 of the top 10 cancers with the highest incidence in China, with drugs indicated for common cancers such as non-squamous NSCLC (a common type of lung cancer), breast cancer, malignant brain glioma, nasopharyngeal cancer, esophageal cancer, pancreatic cancer and gastric cancer.

Technological innovation capability highly recognized by China

As one of the biotechnology companies listed in Hong Kong, TOT BIOPHARM is at the forefront of technological innovation and has achieved remarkable results. It is encouraging that our TAB014 has also been recognized by China, with its clinical research and commercialization project recognized as a special major project for technologies of "innovative manufacturing of major new drugs" of China and granted funding from the central government, demonstrating the strength of TOT BIOPHARM in technological innovation. In respect of TAB008, our most advanced biologic drug candidate and our core product, the enrollment of patients for Phase III clinical trial has been completed and the NDA is under preparation. We are also the first pharmaceutical company in China to publish Phase I clinical data for an ADC product under the generic name (INN) of T-DM1, namely TAA013, which is our self-developed ADC drug. After consulting with the National Center for Drug Evaluation (CDE), we plan to commence Phase III clinical trial in 2020.

Fruitful achievements in R&D and various operations

In 2019, we made significant progresses in both product R&D and business collaboration, which were progressing as planned.

In terms of clinical trial progress, TAB008 (anti-VEGF mAb) (non-squamous non-small cell lung cancer (nsNSCLC)) is expected to be launched at the end of 2020 or early 2021, and TAD011 has entered Phase I clinical trial. In terms of commercialization and production, the construction of a commercial-scale production workshop for biological drugs and a liposome injection workshop has been completed, while an ADC commercial production workshop is under

construction. We are the first pharmaceutical company in China to maturely exploit the PB-Hybrid Technology, with our production processes and capacity upgraded during the year. In terms of strategic collaboration, we have collaborated with a number of well-established pharmaceutical companies in fields such as the development of innovative drugs or combination therapies to promote the implementation of the Company's long-term development strategy.

OUTLOOK

As the new year began, the outbreak of novel coronavirus pneumonia around the world is a wake-up call to China and all mankind. As a biopharmaceutical company, TOT BIOPHARM played an active role in fulfilling its social responsibilities. We promptly set up an epidemic prevention and control team, donated RMB1,000,000 to the Hubei Charity Federation, and provided frontline medical personnel and cancer patients with nutritional supplements to show our sincere support. At the same time, we actively formulated strict prevention and control measures in accordance with the government's requirements. On the premise of ensuring "health and safety", we received the official approval for resumption of work from the government on 9 February 2020 and formally resumed operation on 10 February 2020. Currently, all operations of the Company are carried out in an orderly manner.

We look ahead brimming with confidence! The oncology drug market in China is rapidly evolving and the Group is well positioned against the backdrop of the continuous national support for the pharmaceutical industry. Facing the global market with a strong foothold in China, TOT BIOPHARM will drive the implementation of the Company's long-term development strategies with openness and innovation. With our solid R&D, clinical and commercialization capabilities, we will push forward the launch of our products as early as possible, provide patients with high-quality, safe and affordable drugs, and create decent returns for our shareholders and investors.

Fu, Shan

Chairman and Non-executive Director

17 March 2020

GENERAL MANAGER'S REPORT



Dear Shareholders,

The year of 2019 was of heartening significance for TOT BIOPHARM. We were listed on the Main Board of the Stock Exchange during the year, successfully entered the international capital market. Remarkable progress has been made in the R&D of various drug candidates with promising market potential. With our proprietary production processes and full industry chain coverage, we are well-prepared for the commercialization of our core product. Embracing the robust development of China's pharmaceutical industry, we endeavour to strengthen our presence in China and become an international leader. We have established a clear blueprint for our business development and paved our way to further prosper in the future!

INDUSTRY REVIEW

The Chinese government has improved the medical and pharmaceutical systems with a rise in quality in recent years for the benefit of the people. Given the accelerated implementation and deepening of multiple medical reform policies in 2019, biomedicine has entered a golden age of development. The expanding coverage of the National Drug Catalogue for Basic Medical Insurance, the accelerated approval of anti-cancer drugs and the quality consistency evaluation system of generic drugs have created a more favorable competitive environment for enterprises. Although opportunities always come along with challenges, China's pharmaceutical market is still a thriving industry and the market demand is yet to be satisfied. We are confident that we can ride on the development of the industry and stand out from our peers by leveraging our rich product portfolio and unique technological edge.

BUSINESS REVIEW

Leading technologies and commercial production capabilities outperforming our peers

Leading R&D technologies of antibody drug conjugates (ADC)

Antibody drug conjugates (ADC) combines two main advantages, namely the targetedness of antibodies and the high activity of small molecule drugs, and has become one of the two most cutting-edge focused areas in the R&D of new antibody drugs. It is also an important core technology for the strategic development of TOT BIOPHARM. The large-scale commercial production of ADC drugs is extremely challenging worldwide. Benefitting from our forward-looking development plans for oncology drugs, TOT BIOPHARM is one of the few biopharmaceutical companies in China with both ADC drug development and production capabilities. We are optimistic about the prospect of the future development of ADC drugs, and are capable of becoming the leader in such field. Our professional R&D team has been working tirelessly and has conducted extensive R&D over the years, amassing rich experience in the ADC field which allows us to become a forerunner in technology among our peers. Our R&D team will continue to make progress in the R&D of ADC drugs.

TAA013 is an ADC candidate containing trastuzumab emtansine (Trastuzumab-MCC-DM1) which aims to become an affordable alternative drug to Kadcyła for the treatment of breast cancer. The publication of its Phase I clinical data was completed in September 2019. This is also the first ADC product under the generic name (INN) of T-DM1 to have its Phase I clinical data published in the Chinese market. It is encouraging that we plan to commence Phase III clinical trial in 2020 after consulting with the National Center for Drug Evaluation (CDE). We are also fully prepared for its commercial production. We expect to complete Phase III clinical trial by the end of 2022 and launch the drug in 2023. We believe that in the near future TAA013 will become a key new growth driver for the Group.

General manager's report

Self-developed innovative cell expansion technology (PB-Hybrid Technology) with remarkable competitive edge in production

TOT BIOPHARM possesses unique advantages in the commercialization process of biological drugs. We independently developed the PB-Hybrid Technology, and took the lead in using such technology to accomplish large-scale production in China. The PB-Hybrid Technology is a state-of-the-art technology that disrupted the traditional cell expansion process for large-scale monoclonal antibody production. It can be expanded from 25L to 2,000L directly without going through the 10L, 50L, 200L and 500L expansion steps, thereby streamlining process flows, optimizing product quality, shortening production cycles and reducing capital expenditures. This brings remarkable advantages to our production.

Apart from fulfilling TOT BIOPHARM's internal demand for production capacity, by leveraging the Company's commercialization experience and technological advantages, this innovative technology can also provide technical services and collaboration opportunities for domestic and foreign biopharmaceutical companies through TOT BIOPHARM's comprehensive one-stop collaboration platform, so as to further enhance TOT BIOPHARM's core position in the biopharmaceutical industry.

Three self-developed R&D technology platforms and highly efficient commercial production facilities

We independently established three advanced integrated technology platforms, through which we can develop more innovative products. We can also combine different platforms for drug development and production. These 3 platforms include: (1) the therapeutic monoclonal antibody and antibody drug conjugates (ADC) technology platform; (2) the gene engineering-based therapeutic technology platform; and (3) the innovative drug administration technology platform. We have invested in the construction of a professional anti-cancer drug R&D and production base (with a site area of approximately 50,000 sq.m.) in accordance with advanced international standards at our headquarters in Suzhou. Divided into a biopharmaceutical R&D and production base as well as workshops for oral form and injection form of small molecular drugs, our production base is capable of achieving commercial production of biological and small molecular drugs. Our designed capacity for monoclonal antibody production reaches 16,000L. In combination with the application of the PB-Hybrid Technology in the commercial production of antibody drugs, our production base has become a prominent competitive edge of TOT BIOPHARM.

Encouraging progress in product R&D

Our vision is to improve the quality of life of cancer patients worldwide with innovative technologies. We are committed to building a leading brand name of oncology treatments trusted by patients and their families as well as medical professionals, and providing more cancer patients with access to high-quality and affordable anti-cancer drugs, thereby promoting their physical, mental and spiritual well-being. Our product pipeline consists of various biological drugs and small molecular products, covering 9 of the top 10 cancers with the highest incidence in China and satisfying patients' demand for comprehensive cancer treatment solutions. During the year, we achieved encouraging milestones with the joint effort of our team:

Applications for approval

We have submitted the ANDA for TOZ309 which has been accepted for filing, and we have also filed the relevant patent application. Besides, we have submitted the ANDA for TOM218 which has been accepted for filing.

Clinical trial progress

Clinical trials for our drug candidate pipeline are progressing as planned. In respect of TAB008 (anti-VEGF mAb) (non-squamous non-small-cell lung cancer (nsNSCLC)), our soon-to-be-commercialized product, the enrollment of patients for Phase III clinical trial has been completed and the NDA is under preparation, with the approval for launch expected to be obtained at the end of 2020 or early 2021. In respect of TAA013 (anti-HER2 ADC), the publication of Phase I clinical data was completed in 2019 and we plan to commence Phase III clinical trial in 2020. In respect of TAD011, Phase I clinical trial has commenced as planned.

Commercialization and production

Our production workshop for biological drugs with a total capacity of 16,000L has been tested through the production of multiple batches of medicine for clinical trials, laying a solid foundation for the production and marketing of our products in the future. The construction of a liposome injection workshop was completed during the year. Meanwhile, the construction of an ADC commercial production workshop is underway, with the construction of its drug substance production facility scheduled to be completed in 2020.

General manager's report

Strategic collaboration

Our advanced technological capabilities, production strengths and stringent quality control have attracted companies at different stages of the industry chain to establish strategic partnerships with us. During the year, we established various collaborative relationships for joint R&D in innovative drugs and other combination therapies, CMO/CDMO and other operations. Such collaborative relationships will enrich and innovate our product pipeline and extend our product life cycles, and will continuously enhance the Company's brand recognition while fully realizing its advantages, thereby allowing the Company to continue to stride towards a broader market.

Operations such as CMO, CDMO and provision of marketing services generating diversified revenue

We possess CMO and CDMO service capabilities as well as marketing capability, which equip us with a diversified revenue model prior to the marketing of our new products. We have a high production capacity and a well-developed comprehensive technology platform for oncology R&D. While fulfilling our internal demand, we are also capable of providing high-standard and high-quality CMO and CDMO services to domestic and foreign pharmaceutical companies. We have established a comprehensive sales network of oncology drugs that covers over 20 provinces, municipalities and autonomous regions through the provision of marketing services, which guarantees the rapid transformation of our products into value. Although TOT BIOPHARM is still a Chapter 18A company, we are one of the few companies among our counterparts that can generate revenue. Leveraging our solid technology platform and independent development capabilities, we have established diversified revenue channels and created value for shareholders, partners and society. For the year ended 31 December 2019, our total revenue amounted to approximately RMB45,308,000, which consisted of diversified revenue such as CMO and CDMO fees as well as marketing commissions. This fully reflects the trust and support of our partners in TOT BIOPHARM, and allows us to accumulate extensive experience for marketing self-developed products in the future.

Ready to embrace a wide range of market opportunities

The morbidity and mortality rates of malignant tumors in China have been on the rise, and there is a keen demand for anti-cancer drugs which has also brought plenty of room for development to China's pharmaceutical market. Antibody drugs are crucial for tumor treatment and see a continuously expanding market. Covering the popular targets for drug development, they currently rank among the top 10 drugs worldwide in terms of sales volume. According to a report by Frost & Sullivan, as of 2018, antibody drugs accounted for more than half of the global biologics market but only approximately 6.1% of the Chinese market, representing a huge unmet potential.

We are ready to seize the huge market opportunities. In 2020, we will continue to push forward the NDA of TAB008 in order to ensure that the product will be approved for launch as scheduled and become one of the pioneers. TOZ309 and TOM218 are close to commercialization. TAA013, an ADC product, is moving towards Phase III clinical trial. The R&D and clinical research of other products will progress as planned. Looking forward, we will accelerate our R&D activities, focus on advancing the clinical research of drugs such as TAB008, TAA013 and TAB014, further open up our operations and platforms, and introduce different collaborative partners, thereby enriching our product pipeline and achieving diversified revenue.

We will always adhere to our business philosophy of "Balance of Humanity and Technology" with anti-tumor drugs playing a pivotal role and "technological innovation + internationalization" as guiding principles. We will integrate the existing "industry value chain and product chain", consolidate the "innovative technology platform, commercial production platform, clinical research platform as well as marketing and business platform", and build a "two-chain four-platform" system. We are committed to developing new anti-tumor drug products with high technological barriers and economic value, providing an appropriate and affordable product portfolio, and creating satisfactory value for our shareholders and society.

Yeh-Huang, Chun-Ying

General Manager and Executive Director

17 March 2020



MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

TOT BIOPHARM is dedicated to developing and commercializing innovative oncology drugs and therapies. We strive to build a leading brand name of oncology treatments trusted by patients and their families as well as medical professionals. We have a comprehensive portfolio of oncology drug candidates, which include mAbs, ADCs, oncolytic virus products and specialty oncology drugs, targeting various types of cancers. Since our inception in 2009, we have built a “two-chain four-platform” system, where the two chains refer to a complete industry value chain as well as a high-quality and extensive product chain, and the four platforms refer to an innovative technology platform, a commercial production platform, a clinical research platform as well as a marketing and business platform. The integrated operation of all value chains and platforms exhibits the greatest synergy and creates one milestone after another for us.



Our comprehensive product pipeline consists of seven biological and five chemical drug candidates, 11 of which are self-developed drugs. The following chart demonstrates the progress of the Group's product pipeline during the year:

Product pipeline:

Category	Drug Candidate	Indication(s)	Registration Category	Pre-Clinical	Clinical Trial			NDA ⁽¹⁾	Commercial Rights	Market Size 2024 (estimated) (RMB)
					Phase I	Phase II	Phase III			
Monoclonal antibody/recombinant protein	TAB008 ⁽²⁾ (anti-VEGF mAb)	nsNSCLC ⁽³⁾	Category 2 biosimilar	██████████	██████████	██████████	2020 (expected)	Worldwide	14.2 billion	
	TAD011 (anti-EGFR mAb)	Nasopharyngeal cancer, esophageal cancer, pancreatic cancer	Category 2 new drug	██████████	██████████		2023 (expected)	Worldwide	2.5 billion	
	TAB014 ⁽⁴⁾ (anti-VEGF mAb)	Wet age-related macular degeneration (wAMD)	Category 1 new drug	██████████	██████████		2022 (expected)	Worldwide ⁽⁵⁾	8.0 billion	
	TAY018 (anti-CD47 mAb)	Non-Hodgkin's lymphoma, myelodysplastic syndrome, acute myelogenous leukemia, solid tumors	Category 1 new drug	██████████			-	Worldwide	-	
	TEP118 ⁽⁶⁾ (modified version of hyaluronidase)	Biliary cancer, gallbladder tumors, metastatic pancreatic cancer, NSCLC, gastric cancer	Category 1 new drug	██████████			-	Worldwide	-	
ADC drug	TAA013 (anti-HER2 ADC)	HER2-positive breast cancer	Category 1 new drug	██████████			2022 (expected)	Worldwide	1.5 billion	
Oncolytic virus drug	TVP211 (genetically modified vaccinia virus)	Solid tumors	Category 1 new drug	██████████			-	Worldwide	-	
Liposome chemical drug	TID214 (liposomal docetaxel)	Solid tumors	Category 2 new drug	██████████			-	Worldwide	-	
	TIO217 (liposomal oxaliplatin)	Gastrointestinal tumors	Category 2 new drug	██████████			-	Worldwide	-	
Category	Drug Candidate	Indication(s)	Registration Category	Chemistry, Manufacturing and Controls (CMC)	Bioequivalency (BE) Study	ANDA ⁽⁷⁾	Market Size 2024 (estimated) (RMB)			
Small molecular chemical drugs	TOZ309 (temozolomide)	Malignant glioma	Category 4 generic drug	██████████			2.5 billion			
	TOM312 (megestrol acetate)	Cancer- and HIV-associated cachexia	Category 5.2 imported drug	██████████		2021 (expected)	843 million			
	TIC318 (carboplatin)	Epithelial-derived ovarian cancer, small-cell lung cancer, head and neck squamous cell carcinoma, testicular tumors, malignant lymphoma, cervical cancer, bladder cancer, and NSCLC	Category 4 generic drug	██████████			-			

Notes:

(1) NDA is applicable to the application of new drugs and Category 5.1 imported drugs

(2) Core product

(3) TAB008 is a bevacizumab biosimilar. Bevacizumab has been approved for the treatment of nsNSCLC and mCRC in China. Additional Indications of bevacizumab approved in the United States or the European Union

(4) include glioblastoma, renal cell carcinoma, cervical cancer, ovarian cancer and breast cancer

(5) TAB014 is an ophthalmic formulation of bevacizumab

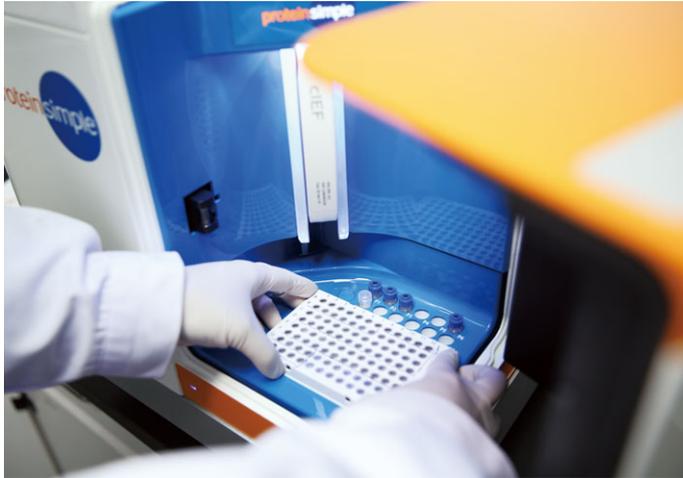
(6) We licensed out the right of commercialization in Mainland China, Hong Kong and Macau

(7) Recombinant protein

(8) ANDA is applicable to the application of generic drugs or Category 5.2 imported drugs

Cautionary statement required by Rule 18A.05 of the Listing Rules: The Company cannot guarantee that it will be able to develop, or ultimately market, TAB008 successfully. Shareholders and potential investors of the Company are advised to exercise due care when dealing in the securities of the Company.

Management discussion and analysis

**BUSINESS REVIEW**

Our strategy for product R&D is to develop innovative drugs that have high viability for commercialization and clear market demand. We focus on achieving a diverse product mix, and will continue to launch products in the next 5 years starting from 2020 based on the current product pipeline. With the unremitting efforts of our knowledgeable and experienced R&D team and the comprehensive R&D capabilities of our three technology platforms, our various R&D pipelines went hand in hand during the year and progressed well. We have achieved the following major milestones:

- Applications for approval
 - ✓ TOZ309 (temozolomide) (malignant brain glioma): Bioequivalence (BE) study has been completed; pharmaceutical equivalence and bioequivalence tests have been completed in accordance with technical requirements for consistency evaluation of the quality and efficacy of generic drugs, with the ANDA successfully filed and the relevant patent application also filed.
- Clinical trial progress
 - ✓ TOM312 (megestrol acetate): We have improved the micron suspension preparation technology and completed the development of key processes and technologies through continuous technological optimization, and achieved large-scale batch commercial production capacity, with the relevant patent application filed.
 - ✓ TAB008 (anti-VEGF mAb) (non-squamous non-small-cell lung cancer (nsNSCLC)): Enrollment of 548 patients for Phase III clinical trial has been completed, and the preparation for NDA has commenced as scheduled.
 - ✓ TAA013 (anti-HER2 ADC) (HER2+ breast cancer): Publication of Phase I clinical data was completed in September 2019. This is the first ADC product under the generic name (INN) of T-DM1 to have its Phase I clinical data published in the Chinese market. Phase III clinical trial is planned to be carried out in 2020.
 - ✓ TAD011 (anti-EGFR mAb) (nasopharyngeal cancer, esophageal cancer, pancreatic cancer): Phase I clinical trial has commenced and is progressing as planned.

Management discussion and analysis

- Commercialization and production

- ✓ We have constructed a GMP-compliant production base for the commercialization of biological drugs with a designed capacity of 16,000L. Currently, its actual capacity has already reached 4,000L, and has successfully completed multiple batches of commercial production.
- ✓ With our self-developed PB-Hybrid Technology which is a state-of-the-art technology, the expansion of our production capacity from 25L directly to 2,000L has been confirmed and tested. Such technology has been applied in the production of TAB008, TAB014 and TAA013, laying a solid foundation for the production of TAA013 Phase III clinical samples.
- ✓ The construction of ADC commercial production workshop has commenced, and the plant will be one of the few ADC commercial production workshops in China.
- ✓ The construction of liposome injection workshop was completed.

The progress of clinical stage products and market potential

- TAB008, our soon-to-be-commercialized product – fulfilling the enormous market demand for bevacizumab in China*

Our most advanced biological drug candidate, TAB008, is an anti-VEGF mAb and a bevacizumab biosimilar for the treatment of non-squamous non-small-cell lung cancer. According to a report by Frost & Sullivan, China's market size for bevacizumab is expected to reach approximately RMB14.2 billion in 2024 with enormous market demand. The enrollment of patients for Phase III clinical trial was completed in 2019 as scheduled, and the NDA is currently under preparation. The drug is expected to be launched at the end of 2020 or early 2021.

- The preparation of Phase I clinical data of TAA013 has been completed*

TAA013 is an ADC candidate containing trastuzumab emtansine (Trastuzumab-MCC-DM1) which aims to become an affordable alternative drug to Kadcylla for the treatment of breast cancer. According to a report by Frost & Sullivan, China's market size for ADC products that target HER2+ breast cancer is expected to reach approximately RMB1.5 billion in 2024.

TAA013 entered Phase I clinical trial in December 2018 and completed the first round of patient enrollment. In less than a year, the publication of Phase I clinical data was completed in September 2019. This is the first ADC product under the generic name (INN) of T-DM1 to have its Phase I clinical data published in the Chinese market. Having received a response from the National Center for Drug Evaluation (CDE) in respect of the consultation on the design of key clinical trial for TAA013, we plan to carry out Phase III clinical study in 2020. We expect to complete Phase III clinical trial by the end of 2022 and launch the drug in 2023.

- Phase I clinical trial for TAD011 is progressing as planned*

TAD011 is an anti-EGFR mAb drug candidate with the same primary sequence as nimotuzumab for the treatment of nasopharyngeal cancer, esophageal cancer and pancreatic cancer. TAD011 possesses advantages over nimotuzumab because it is expressed in CHO cells and is more adaptable to human bodies than drugs expressed in NS0 cells, and its antibody-dependent cell-mediated cytotoxicity (ADCC) activity is substantially higher. Compared to other anti-EGFR mAb drugs, TAD011 has a lower off-target toxicity and hence a reduced effect on normal epithelial cells. We believe that TAD011 is also more affordable and suitable for various combination therapies. TAD011 is currently undergoing Phase I clinical trial in China, and we expect to complete its Phase III clinical trial by 2023 and to launch the product in 2024. According to a report by Frost & Sullivan, China's market size for nimotuzumab that treats nasopharyngeal cancer and esophageal cancer is expected to reach approximately RMB2.5 billion in 2024.

Management discussion and analysis

- *TAB014 was recognized as a special major project for technologies of “innovative manufacturing of major new drugs” of China*

TAB014 is a drug developed based on bevacizumab in Phase I clinical trial for the treatment of disease related to retinal neovascularization, such as wet age-related macular degeneration (wAMD). Our special project “Clinical Research and Commercialization of National Class 1 Biopharmaceutical Anti-VEGF Monoclonal Antibody for the Treatment of Wet Macular Degeneration (Project Code: TAB014)” was recognized as a special major project for technologies of “innovative manufacturing of major new drugs” of China in 2019 and granted funding from the central government. We expect to complete Phase III clinical trial by the end of 2022 and launch the drug in 2023. The US Food and Drug Administration (FDA) pre-investigational new drug application (pre-IND) regulatory consultation for TAB014 was completed in March 2019. According to a report by Frost & Sullivan, China’s market size for anti-VEGF mAbs for the treatment of wAMD is expected to reach approximately RMB8 billion in 2024.

- *The innovative oral suspension of TOM312*

TOM312 is a generic drug candidate of Megace (megestrol acetate oral suspension) for the treatment of cancer and HIV-associated cachexia. Megestrol acetate is a progestin medication used to treat cachexia that is easier to absorb and has better tolerance in oral suspension than in solid dosage forms, but currently it is only available in solid dosage forms in China. We have completed the development of key processes and technologies and achieved large-scale batch commercial production capacity for the first time, with the relevant patent application filed. According to a report by Frost & Sullivan, China’s market size for megestrol acetate oral suspensions is expected to reach approximately RMB843 million in 2024.

- *We have submitted the ANDA for TOZ309, which is used as a first-line medication for both newly diagnosed and recurrent brain gliomas*

TOZ309 is a generic drug candidate of temozolomide capsule, which is a chemical drug for the treatment of malignant brain gliomas. Temozolomide is an alkylating agent that can kill cancer cells by damaging their DNA. With improved efficacy and fewer side effects, temozolomide capsules are currently used as a first-line medication for both newly diagnosed and recurrent brain gliomas. We have submitted the ANDA in July 2019. According to a report by Frost & Sullivan, China’s market size for temozolomide capsules is expected to reach approximately RMB2.5 billion in 2024.

Based on the above clinical stage products, we will focus on pushing forward the following key milestones in respect of clinical stages in 2020:

1. For TAB008, we plan to complete the NDA in 2020, and issue a public report to ensure the product progresses as planned.
2. For TAA013, we completed the consultation on regulations on the key clinical trial in February 2020, and plan to commence Phase III clinical trial, with patient enrollment expected to be completed in 2021.
3. For TAB014, we completed the consultation on European regulations with the German medical regulatory body Paul Ehrlich Institute (PEI) in early 2020, and plan to complete the consultation on Chinese regulations with the National Center for Drug Evaluation (CDE) on the key clinical trial.

Management discussion and analysis

Business highlights

Since its inception in 2009, TOT BIOPHARM has established a comprehensive industrial chain platform of drug discovery, process development, pre-clinical and clinical development, as well as commercial-scale production and proven sales and marketing capabilities. Coupled with such advantage, the Company creates diverse and vast room for collaboration at every stage of the innovative drug industry value chain, which provides the Company with flexibility and risk controllability for its balanced development. We adopt an open platform business model to enable diversified collaboration with third-party partners at different stages of the industry value chain, thereby continuously enhancing the Company's innovation and competitiveness so as to create value for shareholders, partners, patients and professionals.

- *Our three integrated technology platforms*

TOT BIOPHARM has established three integrated technology platforms, including: (1) the therapeutic monoclonal antibody and antibody drug conjugates (ADC) technology platform, which integrates our R&D and production capabilities on antibody drugs and ADCs, and can achieve high-quality commercial production of drug candidates with a designed production capacity of 16,000L; (2) the gene engineering-based therapeutic technology platform, which integrates anti-tumor immunotherapy, gene therapy and viral therapy, and researches, develops and produces oncolytic virus products for tumor targets; and (3) the innovative drug administration technology platform, through which we have developed an advanced targeted liposome drug delivery system and constructed a commercial production facility for liposome drugs.

- *Our competence in ADC R&D leads the Chinese market – TAA013, our self-developed product, has completed the publication of Phase I clinical data in September 2019, being the first ADC product under the generic name (INN) of T-DM1 to have its Phase I clinical data published in the Chinese market*

Given the forward-looking nature and acuteness of our research in the field of oncology drugs, we have seized the market opportunity and are leading the Chinese market in terms of the development and clinical research of ADCs, which demonstrates our competitive edge in the market. This is also an important approach for the long-term strategic development of TOT BIOPHARM.

Unlike traditional chemotherapeutic and biological drugs, ADCs are designed to utilize cytotoxicity to target cancer cells and eliminate them. The antibody can specifically target tumor cells and deliver the cytotoxic drug conjugated to such antibody into tumor cells. Based on the principle of the drug, ADCs possess both the high-efficiency cancer cell killing power of chemical drugs and the targeting ability of biological drugs. In terms of treatment efficacy, ADCs have a lower toxicity and fewer side effects as compared to traditional chemotherapeutic drugs. Its lethality on tumor cells is stronger than that of ordinary biological drugs, and it has a higher potency and a lower off-target toxicity. We have accumulated extensive experience in the field of ADCs after voluminous research and achieved satisfactory results.

Management discussion and analysis

TOT BIOPHARM is one of the few biopharmaceutical companies in China with ADC production capabilities. In 2019, we commenced the construction of an ADC commercial production workshop that meets GMP and international standards, with the construction of its drug substance production facility scheduled to be completed in 2020. This will lay the foundation for the commercial production of TAA013 and more ADCs in the future, through which we will be able to proactively seize market opportunities.

- *Commercial production is highly competitive – The extensive application of PB-Hybrid Technology platform*

We are well-prepared for the commercial production of biological and chemical drugs, and have invested in the construction of an internationally competitive professional anti-cancer drug R&D and production base (with a site area of approximately 50,000 sq.m.) in accordance with advanced international standards at our headquarters in Suzhou. The construction of No. 1 Campus with a gross floor area of approximately 10,000 sq.m. was completed in 2012. It consists of a GMP-compliant oral formulation workshop and small-molecule injectable drug workshop. The construction of No. 2 Campus was completed in March 2018. It is a biopharmaceutical monoclonal antibody production base with a gross floor area of approximately 13,000 sq.m. and a designed capacity for monoclonal antibody production of 16,000L, with its actual capacity already reaching 4,000L and multiple batches of commercial production successfully completed.

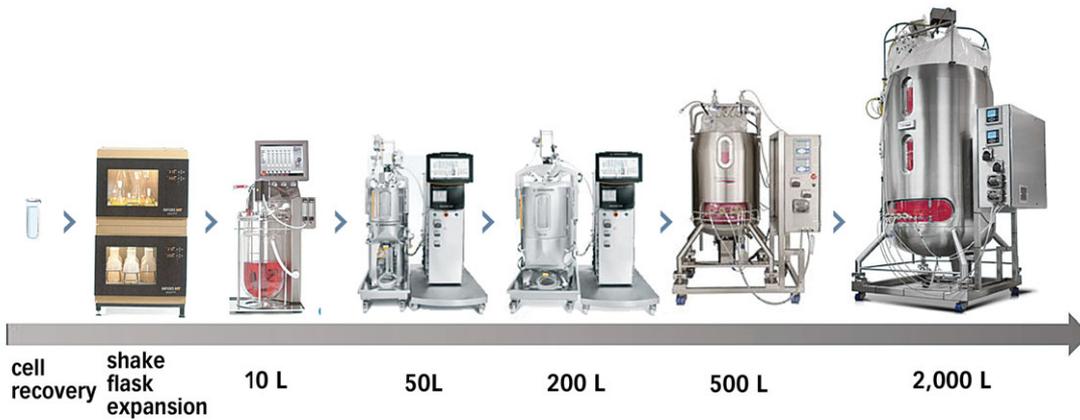
The construction of an ADC commercial production workshop commenced in 2019, with the construction of its drug substance production facility scheduled to be completed in 2020, following which process validation production will be carried out to prepare for product marketing applications and lay a solid foundation for the commercial production of more ADCs in the future. TOT BIOPHARM will be one of the few companies in China with a GMP-compliant ADC commercial production workshop.

The innovative cell expansion technology independently developed by TOT BIOPHARM –

PB-Hybrid Technology – is the organic combination of traditional batch culture process and perfusion culture process. We innovatively applied such technology in the stage of large-scale cell culture expansion, disrupting the decades-old traditional cell expansion process for large-scale monoclonal antibody production at home and abroad, and resulting in a higher production cost advantage. PB-Hybrid Technology is currently the unique platform technology of TOT BIOPHARM. After achieving successful results in TAB008 commercial production, such technology was further successfully applied to the production of the monoclonal antibody segment of TAT014 (naked antibody of TAA013). Multiple batches of TAT014 monoclonal antibodies have been produced by applying such technology on 2,000L reactors.

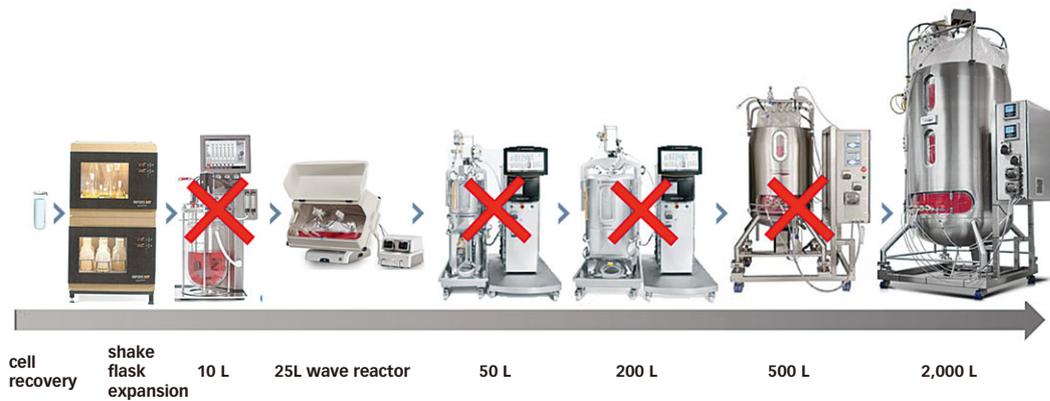
Management discussion and analysis

The following figure is a comparative explanatory diagram relating to the traditional customary process and PB-Hybrid Technology:



Flow chart of the traditional customary process

The PB-Hybrid Technology saves at least three successive expansion steps in the cell expansion stage, resulting in significant savings in time, manpower and materials. The process simplification also significantly reduces the risks during production.



Flow chart of the PB-Hybrid Technology

Management discussion and analysis

Quality control system with high international standards

TOT BIOPHARM implements high standards of quality management in order to provide patients with drugs of the best quality. We have established a set of China-compliant quality standards, and a comprehensive quality management system that complies with the standards set by the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH). The system is implemented throughout the entire product life cycle from R&D to process development, clinical drug production, commercial drug production, material and product supplier management, as well as post-marketing tracking.

Our quality control analysis platform possesses comprehensive and autonomous capabilities in analysis method development, verification, quality control and quality assurance. The existing quality control team of TOT BIOPHARM consists of more than 90 technicians, more than half of whom hold a master's or doctoral degree. Having remarkably accomplished a series of quality-related tasks in relation to drug development, IND (investigational new drug) application and clinical samples production, our team has practical experience and is highly recognized and trusted in the industry. We also engage external professionals, including former US Food and Drug Administration (FDA) officials, to evaluate, inspect and review our quality management system, and conduct gap analysis in accordance with international standards so as to ensure high-quality standards of our projects under research.

- *Compliance with regulatory drug registration*

TOT BIOPHARM has a specialized regulatory affairs department. Through the establishment of a standardized and efficient workflow, a multi-level talent training system and a learning community advocating "mutual support, sharing and growing together", as well as the accumulation of knowledge and practical experience in domestic and foreign registration regulations, we aim to build a strong and refined team which is familiar with domestic and foreign regulations and policies with domestic and international registration capabilities for chemical drugs and biological drugs. This ensures that the Company's drug candidates are in compliance with the requirements of relevant national laws and regulations, and are able to successfully complete marketing applications and obtain marketing approvals.

In 2019, our regulatory affairs team submitted the ANDAs for TOZ309 and TOM312 as scheduled, and the applications were accepted for filing. In terms of international regulatory exchanges, we held a pre-investigational new drug application (pre-IND) meeting with the US Food and Drug Administration (FDA) on the clinical implementation strategy and key clinical trial approaches for TAB014 and received constructive advice, and also communicated with the German medical regulatory body Paul Ehrlich Institute (PEI) in February 2020.

In 2020, we will keep close communication with relevant authorities such as domestic and foreign drug regulatory authorities and drug registration agencies, and strengthen our internal collaboration to ensure that drugs under application can be approved promptly and the needs of patients can be fulfilled as soon as possible. We believe that following the implementation of the Drug Administration Law as well as the further improvement and promulgation of the Administrative Measures for Drug Registration and related supporting documents, the timeframe for drug review and approval will be effectively shortened, and drug development and marketing will be further accelerated.

- *Diversified strategic collaboration*

Following the Company's successful listing on the Stock Exchange and entry into the international capital market, the Group's internationalization strategy deployment was driven forward. In the face of the broad markets and opportunities for the development of innovative drugs, we take advantage of our open platform to collaborate and communicate with Europe, the United States and even the whole world to seek broader opportunities for collaboration, thereby continuously enriching the Company's product pipeline and enhancing our innovation capabilities. We will continue to explore the expansion of our drug candidates to new indications and the related market opportunities. We will also proactively seek international strategic collaboration to jointly develop innovative products. In addition, by utilizing our unique advantages in production and technology, we have initiated new collaboration with companies such as Shanghai Miracogen Inc., Suzhou Kintor Pharmaceuticals, Inc. and NewBio Therapeutics Inc. in areas such as CMO and CDMO.

Management discussion and analysis

- *Sales strategies*

TOT BIOPHARM's marketing development strategy aims to combine our self-developed products and distributed products to carry out differentiated market promotion. We independently established and developed a patient-centered professional oncology marketing system and constructed commercial platform channels to facilitate the collaboration among Chinese oncology and anti-cancer experts, ensure growth in product awareness and clinical intervention rates, as well as uphold professionalism in China's oncology medical marketing market. We currently have a core marketing team that consists of approximately 60 people, which will continue to deepen and expand. In light of future product marketing requirements, we will carry out market coverage and promotion mainly based on our own sales initiatives and collaboration with linked sales agents to create profits for the Company and its shareholders.

- *CMO, CDMO strategic collaboration*

In addition to ensuring the growth of our autonomous R&D, production and sales operations, we can also utilize our surplus capacity to provide CDMO and CMO services to third-party biotechnology companies. We entered into short-term service agreements with them to carry out the relevant services flexibly, and receive milestone payments linked to research or production progress. These agreements generally include terms regarding product quality or service details, technical standards or methods, delivery, negotiated prices and payments, as well as product inspection and acceptance standards. On one hand, our collaboration with third parties allows us to continuously optimize our high-end R&D competence and productivity and embodies the trust from our partners in our technology and capabilities; on the other hand, it enables us to receive stable and diversified income, provides working capital for our R&D efforts and contributes cash flow for pushing forward the launch of our new products.

Outlook and Strategies

We will continue to focus on the anti-tumor drugs segment and give full play to our competitive edge. We will enhance our efficiency and resource investment in each key aspect in the coming year, and launch our drug candidates on schedule as soon as possible in order to create business growth points.

In terms of R&D and business collaboration, we will continue to increase investment in R&D, and develop new drugs and combined tumor therapies independently or through collaboration with more well-established domestic and international pharmaceutical companies. Furthermore, we will pursue collaborative CDMO projects in relation to marketing authorization holder (MAH) pilot innovative drugs to enrich our product pipeline and identify more business growth drivers. At the same time, we will make every effort to accelerate the pace of our R&D and clinical trials, and push forward the marketing of our drug candidates.

In terms of commercialization and marketing, we will focus on advancing the commercialization of TAB008, TOZ309 and TOM218, and closely monitor policies and market conditions to prepare for pricing simulation. Meanwhile, we will develop our business platforms and continue to strengthen and expand our customer base, thereby enhancing product awareness and penetration and maximizing the effectiveness of sales upon product launch. We will continue to expand our marketing coverage to the Yangtze River Delta region, the Beijing-Tianjin-Hebei region and the three provinces in northeast China. At the same time, we believe that our ongoing commercial collaboration with sales agents in Guangdong and Shandong will create more profits for us in the near future. We plan to expand our sales team, strengthen our internal training, put appropriate clinical academic promotion into practice and carry out patient education with valuable medical benefits, thereby enhancing TOT BIOPHARM's brand value.

Management discussion and analysis

Lastly, by leveraging our innovative products, leading R&D capabilities and advantages in production capacity, we are confident that we can continue to launch diversified products as planned in the next 5 years and promote internationalization in order to seize unfulfilled market demand, generate satisfactory results and drive the long-term and sustainable development of the Group.

FINANCIAL REVIEW**HKFRSs Results**

The following table sets forth the net loss and total comprehensive loss for the periods indicated:

Item	For the year ended 31 December		Increase/ Decrease %
	2019 RMB'000	2018 RMB'000	
Revenue	45,308	39,219	16%
Cost of revenue	(11,316)	(5,980)	89%
Research and development expenses	(191,078)	(188,651)	1%
Selling expenses	(31,544)	(38,935)	-19%
General and administrative expenses	(95,091)	(54,638)	74%
Other gains, net	14,117	11,808	20%
Operating loss	(269,604)	(237,177)	14%
Non-operating income and expenses, net	(29,696)	(31,086)	-4%
Net loss	(299,300)	(268,263)	12%
Other comprehensive loss	(13,930)	(19,208)	-27%
Net loss and total comprehensive loss	(313,230)	(287,471)	9%

Non-HKFRSs Measures and their Adjustment

To supplement the Group's consolidated financial statements which are presented in accordance with the HKFRSs, the Group uses EBITDA, adjusted net loss and adjusted EBITDA for the year and other adjusted figures as additional ways to measure our financial performance. This is not a presentation required by the HKFRSs or in accordance with the HKFRSs. The Group believes that these measures provide useful information to the shareholders and potential investors in understanding and evaluating the Group's consolidated results of operations in the same manner as the Group's management does.

The adjusted net loss for the year is the net loss for the year, excluding the effect of certain non-cash items and one-off items, namely listing and financing expenses, valuation loss of convertible preferred shares, foreign exchange gains/losses and share-based compensation expenses. The adjusted net loss for the year is not defined in the HKFRSs.

The adjusted EBITDA for the year is the EBITDA for the year (which is net loss for the year excluding interest expenses and depreciation and amortization expenses for the year), excluding the effect of certain non-cash items and one-off items, namely listing and financing expenses, valuation loss of convertible preferred shares, foreign exchange gains/losses and share-based compensation expenses. The adjusted EBITDA for the year is not defined in the HKFRSs.

Management discussion and analysis

The use of these non-HKFRSs measures have limitations as an analytical tool, and should not be considered in isolation from, or as a substitute for analysis of, the Group's results of operations or financial condition as reported under HKFRSs. The Group's presentation of such adjusted figures may not be comparable to a similarly titled measure presented by other companies. However, the Group believes that these non-HKFRSs measures can reflect the Group's normal results of operations, and thus facilitate comparisons of operating performance from period to period and company to company to the extent appropriate by eliminating potential impacts of items that the management do not consider to be indicative of the Group's operating performance.

The following table sets forth the reconciliation from net loss to EBITDA for the periods indicated:

Item	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net loss	(299,300)	(268,263)
Add:		
Interest expenses	2,291	2,404
Depreciation and amortization	27,351	15,656
EBITDA	(269,658)	(250,203)

The following table sets forth the reconciliation between net loss to adjusted net loss and EBITDA to adjusted EBITDA for the periods indicated:

Item	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net loss	(299,300)	(268,263)
Add:		
Listing and financing expenses	42,315	17,013
Share-based compensation expenses	23,557	25,677
Valuation loss of convertible preferred shares	29,085	29,409
Foreign exchange (gains)/losses	(2,396)	1,191
Adjusted net loss	(206,739)	(194,973)
EBITDA	(269,658)	(250,203)
Add:		
Listing and financing expenses	42,315	17,013
Share-based compensation expenses	23,557	25,677
Valuation loss of convertible preferred shares	29,085	29,409
Foreign exchange (gains)/losses	(2,396)	1,191
Adjusted EBITDA	(177,097)	(176,913)

Management discussion and analysis

The adjusted net loss for 2019 was RMB206,739,000, representing an increase of RMB11,766,000 as compared to the adjusted net loss for 2018 of RMB194,973,000, primarily attributable to an increase in expenses such as personnel expenses and depreciation.

Overview

In 2019, the Group recorded a revenue of RMB45,308,000, as compared to RMB39,219,000 in 2018; and a net loss of RMB299,300,000 in 2019, as compared to a net loss of RMB268,263,000 in 2018. The Group's research and development expenses in 2019 were RMB191,078,000, as compared to RMB188,651,000 in 2018. The Group's general and administrative expenses in 2019 were RMB95,091,000, as compared to RMB54,638,000 in 2018. The selling expenses in 2019 were RMB31,544,000, as compared to RMB38,935,000 in 2018.

Operating Revenue and Cost of Revenue

The Group's diversified revenue was mainly derived from our strategic business partners, including commissions for marketing services in connection with the commercialization of S-1 and revenue for providing CMO and CDMO services to other biotechnology companies, etc.

The Group's commission revenue in 2019 was RMB29,822,000, representing an increase of RMB3,711,000 from RMB26,111,000 in 2018, primarily attributable to the sales growth of S-1.

The Group's revenue from CMO and CDMO services in 2019 was RMB14,566,000, representing an increase of RMB2,092,000 from RMB12,474,000 in 2018, primarily attributable to the continuous support of our CMO and CDMO partners. The materials, labor and expenses, etc. necessary for the CMO and CDMO services increased along with the business growth.

Research and Development Expenses

The Group's research and development expenses primarily consist of expenses for clinical trials, salaries and benefits for research and development staff, depreciation and amortization expenses, research and development materials and consumables, and third-party contracting costs for clinical and non-clinical research, etc.

The Group's research and development expenses in 2019 were RMB191,078,000 and the research and development expenses in 2018 were RMB188,651,000, which remained basically stable and aligned with the Company's development plan.

Management discussion and analysis

The following table sets forth a breakdown of the Group's research and development expenses by nature for the periods indicated:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Clinical trials (exclude employee benefit expenses)	54,710	90,462
Employee benefit expenses	52,908	39,752
R&D materials and consumables	21,038	13,581
Amortization and depreciation	22,959	12,151
Other third-party research contracting costs	5,757	10,094
Utilities	10,892	9,217
Others	22,814	13,394
Total	191,078	188,651

Selling Expenses

The Group's selling expenses primarily consist of salaries and benefits for marketing staff, conference fees, marketing and promotion expenses, and travelling expenses, etc. The Group's selling expenses in 2019 were RMB31,544,000, representing a decrease of RMB7,391,000 from RMB38,935,000 in 2018. Such decrease was primarily attributable to changes in the arrangements for conference events and the decrease in salaries and benefits for marketing staff, etc.

General and Administrative Expenses

The Group's general and administrative expenses primarily consist of salaries and benefits for management and administrative staff, listing expenses, legal advisory fees, and expenses for professional services related to audit and tax.

The Group's general and administrative expenses in 2019 were RMB95,091,000, representing an increase of RMB40,453,000 from RMB54,638,000 in 2018, primarily attributable to the Group's listing expenses. General and administrative expenses excluding listing expenses remained basically stable.

Other Gains, Net – Government Grant

The Group's government grants primarily consist of incentives and other subsidies for research and development activities as well as interest subsidies, which mainly include government incentives granted according to the clinical development progress of our drug candidates. The Group's government grants in 2019 were RMB13,390,000, representing a slight increase from RMB12,514,000 in 2018.

Other Gains, Net – Net Foreign Exchange Gains/(Losses)

The Group recorded net foreign exchange gains of RMB2,396,000 in 2019, representing an increase of RMB3,587,000 from net foreign exchange losses of RMB1,191,000 in 2018, primarily attributable to the valuation of foreign currency-denominated assets and liabilities as well as the foreign exchange settlement and conversion in relation to financial planning.

Finance Income

The Group's finance income is primarily interest income on bank deposits. The finance income in 2019 was RMB1,680,000, representing an increase of RMB953,000 from RMB727,000 in 2018, attributable to the higher average balance of our bank deposits in 2019.

Management discussion and analysis

Finance Costs

The Group's finance costs are primarily interest expenses on bank borrowings for operational needs. The Group's interest expenses on bank borrowings in 2019 were RMB1,519,000, representing a decrease of RMB601,000 from RMB2,120,000 in 2018.

Fair Value Change in Financial Instruments Issued to Investors

The Group's financial instruments issued to investors were convertible preferred shares issued in 2018, which were automatically converted into ordinary shares of the Company upon the IPO on 8 November 2019.

The fair value change in the financial instruments issued to investors was determined mainly with reference to the total equity value of our Group, which was determined by an independent valuer. The Group's fair value loss in 2019 on financial instruments issued to investors was RMB29,085,000, as compared to RMB29,409,000 in 2018, reflecting an increase in the fair value of these financial instruments.

Income Tax Expense

During 2019 and 2018, the Group did not incur any income tax expense because the Group did not generate any taxable income during these two years.

Loss for the Year

In view of the abovementioned factors, the Group recorded a loss of RMB299,300,000 in 2019, representing an increase of RMB31,037,000 from RMB268,263,000 in 2018.

Net Assets/(Liabilities)

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Total current assets	614,363	299,687
Total non-current assets	402,999	377,551
Total assets	1,017,362	677,238
Total current liabilities	146,786	75,139
Total non-current liabilities	12,299	786,577
Total liabilities	159,085	861,716
Net assets/(liabilities)	858,277	(184,478)

The Group's net assets as of the end of 2019 were RMB858,277,000, representing an increase of RMB1,042,755,000 from net liabilities of RMB184,478,000 as of the end of 2018, primarily attributable to the proceeds from the IPO and the conversion of convertible preferred shares into share capital, which resulted in a significant improvement in the overall financial structure.

Management discussion and analysis

Liquidity, Financial Resources and Cash Movement

As at 31 December 2019, the Group's cash and cash equivalents were RMB539,180,000, representing an increase of RMB282,429,000 from RMB256,751,000 as at 31 December 2018. Such increase was mainly attributable to the proceeds from the IPO and bank borrowings as partially offset by the outflows for operating activities and investing activities.

In 2019, the Group's net operating cash outflows were RMB251,329,000, representing an increase of RMB74,497,000 from RMB176,832,000 in 2018, primarily attributable to an increase in employee benefit expenses and listing expenses (the portion recognized as expense in profit and loss). The Group's net investing cash outflows were RMB51,102,000, representing an increase of RMB4,035,000 from RMB47,067,000 in 2018, which remained basically stable. The Group's net financing cash inflows were RMB583,022,000, representing an increase of RMB125,421,000 from RMB457,601,000 in 2018, mainly attributable to the proceeds from the IPO and new bank borrowings as partially offset by the repayment of bank borrowings.

Indebtedness and Key Liquidity Ratios

As at 31 December 2019, the Group had bank borrowings amounting to RMB60,000,000, all of which were unsecured, repayable within one year and denominated in RMB, with a weighted average effective interest rate of 4.788%.

The following table sets forth the key liquidity ratios as at the dates indicated:

	As at 31 December	
	2019	2018
Current ratio ⁽¹⁾	4.2	4.0
Quick ratio ⁽²⁾	4.1	3.9
Total liabilities to total assets ratio ⁽³⁾	0.2	1.3

Notes:

- (1) Current ratio is calculated using current assets divided by current liabilities as at the same date.
- (2) Quick ratio is calculated using current assets less inventories and divided by current liabilities as at the same date.
- (3) Total liabilities to total assets ratio is calculated using total liabilities divided by total assets as at the same date.

The Group's current ratio and quick ratio increased slightly from 2018 to 2019, primarily attributable to the increase in cash and cash equivalents due to the proceeds from the IPO in 2019, and the increase in our current liabilities mainly came from short-term borrowings.

The Group's total liabilities to total assets ratio decreased from 1.3 in 2018 to 0.2 in 2019, primarily attributable to the conversion of the Company's convertible preferred shares into share capital in 2019, and our total assets increased due to the proceeds from the IPO in 2019.

Major Investment

During 2019, the Group did not make any major investment.

Major Acquisitions and Disposals

During 2019, the Group did not have any major acquisitions and disposals of subsidiaries, consolidated affiliated entity or associates.

Management discussion and analysis

Pledge of Assets

As at 31 December 2019, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2019, the Group had no significant contingent liabilities.

Foreign Exchange Risk

Certain bank balances and cash, trade receivables and other receivables, contract assets and other payables are denominated in foreign currencies of respective group entities which are exposed to foreign exchange risk. Foreign exchange risk also arises from future commercial transactions and recognized assets and liabilities denominated in a currency other than the functional currency of the relevant group entity. The Group has entities operating in USD, New Taiwan Dollars and RMB, and the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future when necessary.

Employees and Remuneration

As at 31 December 2019, the Group had a total of 326 employees. The following table sets forth the total number of employees by function as of 31 December 2019:

Function	Number of employees	% of total
Research and development	186	57.1%
Sales and marketing	61	18.7%
General and administration	38	11.7%
Manufacturing	41	12.6%
Total	326	100%

In 2019, the Group incurred employee benefit expenses of RMB101,067,000, as compared to RMB85,826,000 in Year 2018. The employee benefit expenses of the Group includes salaries, wages, bonuses, contributions to employee provident fund and social security funds, payments for other benefits and share-based compensation expenses, etc. In accordance with applicable PRC laws, the Group has made contributions to social security insurance funds, including basic pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, and housing provident funds for our employees. In accordance with applicable Taiwan laws, we have made contributions to social security insurance funds.

OUTLOOK

As of the date of this report, the outbreak of novel coronavirus pneumonia has evolved into a global pandemic. It has become an important part of the Group's day-to-day management to continuously strengthen its epidemic prevention and control measures and ensure that its operations are carried out in an orderly manner. Since the resumption of operation on 10 February 2020, the Group has convened weekly "epidemic prevention and control working group meetings" and developed a mode of work featuring "prompt discovery, prompt communication and prompt solution". The Group pays close attention to and assesses the impact of the epidemic on the Group's safe production, R&D, clinical trials and other aspects, strengthens its project management and control, and reinforces its communication with professional organizations such as CRO companies, healthcare institutions and governmental bodies, thereby striving to minimize the risk of the epidemic and ensure that the development of its drug candidates is progressing as scheduled.

AWARDS AND RECOGNITIONS



Jiangsu Province Zifeng Award for Technological Innovation Enterprises 2019
Jiangsu Province



Exemplary Case of Corporate Social Responsibility 2019
Suzhou Industrial Park



Suzhou Industrial Park Outstanding Economic Contribution Award for Product Innovation and Use of Foreign Capital 2019
Suzhou Industrial Park

Other awards and recognitions:

- National Special Major Project for Technologies of Innovative Manufacturing of Major New Drugs
- Jiangsu Industry Professor
- Technologically Advanced Service Enterprise
- Foreign Invested R&D Center in Jiangsu Province (reviewed)
- Private Technology Enterprise of Jiangsu Province
- Suzhou Technology Transfer Subsidy
- Listing (to be listed) Award, Suzhou Industrial Park

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors	Ms. Yeh-Huang, Chun-Ying (General Manager) Dr. Liu, Jun
Non-executive Directors	Mr. Fu, Shan (Chairman) Dr. Kung, Frank Fang-Chien Mr. Kang, Pei Mr. Qiu, Yu Min
Independent Non-executive Directors	Ms. Hu, Lan Dr. Sun, Lijun Richard Mr. Chang, Hong-Jen
Senior Management	Mr. Liu, Donglian Dr. Liu, Ming Mr. Yao, Jau-Chang Mr. Chen, Xiaobao Mr. Lin, Chun-Ming Mr. Wu, Chih-Yuan

EXECUTIVE DIRECTORS

Ms. Yeh-Huang, Chun-Ying (黃純瑩女士), aged 61, joined the Group on 5 July 2010 and was appointed as an executive Director on 19 January 2016. She currently serves as an executive Director and the general manager of the Company. She is also a member of the Strategy Committee. Ms. Yeh-Huang oversees the Group's overall strategic direction and various aspects of the Company's operations and management, including human resources, business development, internal coordination and external communication with regulators and business partners.

From April 1986 to December 2015, Ms. Yeh-Huang worked at TTY Biopharm, during which she became an executive vice president of the oncology science business development unit in April 2011. As the head of TTY Biopharm's oncology science business development unit, she was responsible for product development, clinical research, marketing and sales. She also managed cancer translation centers and medical academies and was responsible for the expansion of oncology science business market construction and team management in China and Vietnam. She was a pharmacist of Taipei Veterans General Hospital from July 1983 to August 1985.

Ms. Yeh-Huang obtained a bachelor's degree in pharmacy from Taipei Medical College (now known as Taipei Medical University) in Taiwan in June 1982. She obtained her Taiwan license of pharmacist in June 1983.

Dr. Liu, Jun (劉軍博士), aged 52, joined the Group on 17 October 2016 as a vice general manager and was appointed as an executive Director on 26 October 2018 and chief scientific officer on 12 March 2019. He is also a member of the Strategy Committee. He is responsible for the new drug development and quality control system of biological drugs.

Prior to joining the Group, Dr. Liu, Jun was the executive director of biologics research and development department in Shanghai ChemPartner Co., Ltd. between July 2010 and October 2016. Prior to that, he was employed by Bayer US LLC between April 2005 and July 2010 working with Bayer Healthcare as a senior scientist in the United States.

Dr. Liu, Jun obtained a Ph.D. in bioanalytical chemistry from the University of California, Davis in the United States in December 2002 and a bachelor's degree in chemistry from the University of Science & Technology of China in Hefei, Anhui Province, the PRC in July 1991.

NON-EXECUTIVE DIRECTORS

Mr. Fu, Shan (付山先生), aged 52, joined the Group on 19 January 2016 as a non-executive Director and was appointed the chairman of the Board on 28 September 2018. He is also the chairman of the Nomination Committee and the Strategy Committee. He has previously used the Chinese name "Fu Shan (傅山)".

Mr. Fu has since October 2013 been a managing partner, a co-CEO and the Greater China CEO of Vivo Capital LLC, which is an investment management firm that primarily invests in the field of biotechnology and healthcare. Between June 2008 and October 2013, Mr. Fu worked as a senior managing director in the Beijing branch of Blackstone (Shanghai) Equity Investment Management Company Limited. He has been a non-executive director of InnoCare Pharma Limited (Hong Kong Stock Exchange: 9969) since February 2018, and a director of Sinovac Biotech Ltd. (NASDAQ: SVA) since July 2018.

Mr. Fu obtained a master's degree in history and a bachelor's degree in history, both from Peking University in Beijing, the PRC, in July 1991 and July 1988, respectively.

Biographies of directors and senior management

NON-EXECUTIVE DIRECTORS (cont'd)

Dr. Kung, Frank Fang-Chien (孔繁建博士), aged 71, joined the Group on 19 January 2016 as a non-executive Director. Dr. Kung was a founder and has since 1997 been a managing partner of Vivo Capital LLC, which is an investment management firm that primarily invests in the field of biotechnology and healthcare. He was a co-founder and was from 1983 to 1995 the president and CEO of Genelabs Technologies, Inc. (NASDAQ: GNLB), a biopharmaceutical company engaged in the discovery and development of infectious disease therapies. He has been a director of Amyris, Inc. (NASDAQ: AMRS) since November 2017.

Dr. Kung obtained a Ph.D. in molecular biology from the University of California, Berkeley in the United States in December 1976, and a bachelor's degree in chemistry from National Tsinghua University in Hsinchu City, Taiwan in 1970.

Mr. Kang, Pei (康霏先生), aged 61, joined the Group on 11 January 2011 as a non-executive Director. He is also a member of the Remuneration Committee. He has been the executive director of Chengwei Investment Management Advisory (Shanghai) Co., Ltd. (an entity under venture capital firm Chengwei Ventures LLC) since March 2003. Mr. Kang worked in various IBM Asian Pacific entities from January 1983 to May 2000, and his last position held was an executive in the financial service sector. He was a director of Transn IOL Technology Co., Ltd. (National Equities Exchange and Quotations of the PRC: 835737) from August 2015 to July 2019. Mr. Kang was a non-executive director of AAC Technologies Holding Ltd. (Hong Kong Stock Exchange: 2018) from February 2007 to May 2010.

Mr. Kang obtained a bachelor's degree in labor relations from Chinese Culture University in Taipei, Taiwan in June 1980.

Mr. Qiu, Yu Min (裘育敏先生), aged 47, joined the Group on 26 September 2018 as a non-executive Director. He is also a member of the Audit and Connected Transactions Review Committee. He has been a partner of private equity fund Advantech Capital since October 2017. From January 2016 to September 2017, he was an executive director at Advantech Capital. He served at private equity fund New Horizon Capital as an executive director from January 2015 to December 2015 and as a director from May 2013 to December 2014. From May 2010 to April 2013, he was a vice president of investment management firm GL Capital. From April 2007 to May 2010, he worked at the advisory department in PricewaterhouseCoopers Consultants (Shenzhen) Ltd. (Beijing branch) and his last position held was a manager. He worked at Vancouver Coastal Health Authority until 2007. From September 1994 to July 2002, Mr. Qiu worked with the Administrative Bureau of the Great Hall of the People in the PRC. He has been a non-executive director of Alphamab Oncology (Hong Kong Stock Exchange: 9966) since July 2019.

Mr. Qiu obtained an MBA degree from the University of British Columbia in Vancouver, Canada in May 2004 and a bachelor's degree in engineering from East China University of Technology in Shanghai, the PRC in July 1994. He was certified as a Chartered Financial Analyst in October 2007 by the CFA Institute and a Certified Management Accountant in 2006 by the Institute of Management Accountants.

Biographies of directors and senior management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Hu, Lan (胡蘭女士), aged 48, joined the Group on 12 March 2019 as an independent non-executive Director. She is the chairlady of the Audit and Connected Transactions Review Committee and a member of the Nomination Committee.

Ms. Hu has more than 20 years of experience working at international accounting firms, through which she has gained accounting and financial management expertise. Ms. Hu was a partner of the consulting services department of PricewaterhouseCoopers between July 2008 and June 2018. During this period, she led financial due diligence projects for corporate and financial buyers, with a focus on analyzing the financial statements, reviewing the profit forecasts and reviewing the internal control reports of target companies. Prior to that, she worked at PricewaterhouseCoopers from July 2002, and previously at Arthur Andersen from July 1994. During these periods, she served as a public accountant and was responsible for auditing and reviewing the financial statements of listing applicants and listed companies. She has been an independent non-executive director of InnoCare Pharma Limited (Hong Kong Stock Exchange: 9969) since March 2020.

Ms. Hu obtained an MBA degree from University at Buffalo, the State University of New York in the United States in February 2005 and a bachelor's degree in accounting from Beijing Machinery and Industrial Institute in Beijing, the PRC in July 1994. She gained her Chinese Institute of Certified Public Accountants qualification in March 1997.

Dr. Sun, Lijun Richard (孫利軍博士), aged 57, joined the Group on 12 March 2019 as an independent non-executive Director. He is also a member of the Remuneration Committee, the Nomination Committee and the Strategy Committee.

Dr. Sun has more than 20 years of experience in drug discovery and development, having been named as an inventor of more than 100 awarded US patents that include drug discoveries related to cancer, autoimmune diseases and inflammatory diseases since 1999. He has also authored 35 peer-reviewed publications on biotechnology.

Dr. Sun has worked at the Department of Surgery of the Beth Israel Deaconess Medical Center as the Director of the Center for Drug Discovery and Translational Research, with an academic appointment at Harvard Medical School as Associate Professor, from 2012. He joined Silicon Therapeutics as the senior vice president and head of discovery in May 2017. He worked in Theracrine, Inc. in 2011. He worked as a Vice President in Synta Pharmaceuticals Corp. from 2009. From 1998 to 2002, he worked at Shionogi BioResearch Corp. and filed multiple patents for the company as an inventor.

Dr. Sun received his master of science degree from Georgetown University in Washington, D.C., the United States in August 1992, and Ph.D. degree from Emory University in Georgia, the United States in May 1996. He was also a research fellow at the Emory University School of Medicine in 1997.

Mr. Chang, Hong-Jen (張鴻仁先生), aged 63, joined the Group on 12 March 2019 as an independent non-executive Director. He is also a member of the Audit and Connected Transactions Review Committee and the Strategy Committee. He is also the chairman of the Remuneration Committee. He has over 14 years of experience in biotech investment.

Mr. Chang has served as the President of Taiwan Research-based Biopharmaceutical Manufacturers Association from May 2017, an adjunct professor of Institute of Public Health, National Yang-Ming University from August 2018, the Chairman of YFY Biotech Management Co., Ltd. from July 2005, the Chairman of MiCareo Taiwan Co., Ltd. from July 2011, and the Chairman of EUSOL Biotech Co., Ltd. (Taipei Exchange: 6652) from October 2009. He was a director of Mycenax Biotech Inc. (Taipei Exchange: 4726) from June 2014 to May 2018, a director of TWI Biotechnology, Inc. (Taipei Exchange: 6610) from June 2015 to June 2018, and a director of Taiwan Liposome Company Ltd. (Taipei Exchange: 4152) from June 2007 to June 2019, and has been a director of Excelsior Biopharma Inc. (Taipei Exchange: 6496) from June 2015, and a director of TaiGen Biopharmaceuticals Holdings Limited (Taipei Exchange: 4157) from April 2013.

Biographies of directors and senior management

INDEPENDENT NON-EXECUTIVE DIRECTORS*(cont'd)*

Mr. Chang worked in the Department of Health of Taiwan's Executive Yuan from February 2001 to November 2004, where his last position held was as the Deputy Minister.

Mr. Chang obtained his bachelor of medicine degree from National Yang-Ming Medical College in Taiwan in June 1982, master of public health degree from National Taiwan University in Taiwan in June 1984, and master of science in health services administration degree from Harvard University in the United States in June 1987.

SENIOR MANAGEMENT

Mr. Liu, Donglian (劉冬連先生), aged 51, joined the Group in August 2011, and was appointed as a senior director in August 2016 and the vice general manager in October 2017, responsible for the development and production of biological drugs.

Prior to joining the Group, Mr. Liu served as the chief technology officer of Shanghai Enpei Biotechnology Co., Ltd. from January 2003 to July 2011, during which he was responsible for EPO (erythropoietin) process optimization and rabies vaccine process development. Between August 1994 and December 1998, he served as the vice manager of biological research and development department of Shanghai Huaxin High Biotechnology Co., Ltd., during which he was in charge of EPO process development and IND (investigational new drug) application.

Mr. Liu obtained a master's degree in entomology and a bachelor's degree in biology, both from the Central China Normal University in Wuhan, Hubei Province, the PRC, in June 1994 and July 1991, respectively.

Dr. Liu, Ming (劉敏醫師), aged 59, was appointed as the chief medical officer and a vice general manager in September 2017, responsible for overseeing the strategic planning of clinical trials, design and execution of experiments and drug safety matters. She has previously used the English name "Jacqueline Ming Liu".

Prior to joining the Group, Dr. Liu, Ming served at BeiGene USA, Inc. as a consultant of clinical development from January 2016 to April 2017. Between September 2007 and January 2016, she worked at TTY Biopharm, during which she was appointed as a director and then a senior director of its translational research center in January 2011 and April 2012, respectively, and was named as an inventor of a patent in the field of biotechnology. Between March 1994 and April 2007, she served at the Institute of Cancer Research, Taiwan National Health Research Institute as a research physician. Between September 1986 and January 1992, she was an internal medicine resident in Taipei Veterans General Hospital in Taiwan. She obtained a South African Medical Practitioner's License from South African Medical and Dental Council in 1983 and a Medical Practitioner's License from the Department of Health of Taiwan's Executive Yuan in 1986. She was qualified as an internal medicine specialist, a hematology specialist and a medical oncology specialist in Taiwan in 1989, 1992 and 1992, respectively, and obtained the ISO/IEC 17025 lab director certificate in 2008.

Dr. Liu, Ming obtained a bachelor's degree in medicine and surgery from the University of the Witwatersrand in Johannesburg, South Africa in December 1983.

Biographies of directors and senior management

SENIOR MANAGEMENT (cont'd)

Mr. Yao, Jau-Chang (姚朝昶先生), aged 50, joined the Group in April 2018 as a vice general manager in charge of the general management division, overseeing financial, accounting, procurement, information technology and communication matters.

Prior to joining the Group, Mr. Yao was a director in PricewaterhouseCoopers Taiwan between October 2010 and April 2018, and focused on the biotechnology and technology industries. He served at Wonderland Nurserygoods Co., Ltd. as a senior manager of finance from January 2008 to August 2009. He was the senior manager of assurance services in PricewaterhouseCoopers Taiwan from March 2006 to February 2007. He served as a manager of finance and accounting in Zyxel Communications Corporation from October 2004 to January 2006. He was a finance and accounting manager of Quanta Computer Inc. from November 2002 to October 2004, and served as an assurance services manager in TN Soong & Co between July 1995 and October 2002.

Mr. Yao obtained his bachelor's degree in accounting and master's degree in accounting, both from Soochow University in Taiwan, in June 1991 and June 1993, respectively. He was certified as a Certified Public Accountant (CPA) in July 1995 by the Securities and Futures Bureau of Taiwan's Ministry of Finance, and a Certified Internal Auditor (CIA) in May 2000 by the Institute of Internal Auditors.

Mr. Chen, Xiaobao (陳小寶先生), aged 38, joined the Group in June 2016 as a senior director of the chemical drug business. Prior to joining the Group, Mr. Chen was a manager of research and development department of PUMC Pharmaceutical Co., Ltd. from July 2003 to August 2014, during which he was responsible for the product development, registration affairs and project management. From September 2012 to August 2014, he was also the project manager of Neovia Oncology under PUMC Pharmaceutical Co., Ltd.

Mr. Chen obtained a bachelor's degree in pharmaceutical sciences from Peking University School of Pharmaceutical Sciences in Beijing, the PRC in July 2003 and a master's degree in engineering majoring in project management from Peking University in July 2016.

Mr. Lin, Chun-Ming (林俊明先生), aged 46, joined the Group in May 2013, and was appointed as a senior director of the sales and marketing department in April 2017, responsible for formulating marketing strategies, promotion and product sales.

Prior to joining the Group, Mr. Lin worked at TTY Biopharm from May 2002 to December 2015, mainly responsible for sales and marketing matters in the oncology science business development unit.

Mr. Lin obtained a bachelor's degree in pharmacy from Taipei Medical College (now known as Taipei Medical University) in Taiwan in June 1996.

Mr. Wu, Chih-Yuan (吳志遠先生), aged 47, joined the Group in January 2016, and was appointed as a senior director of strategy and business development in April 2019. Prior to joining the Group, Mr. Wu was a director of TTY Biopharm's oncology science business development unit from February 2014 to December 2015. He was a director of market advisory department in Taiho Pharmaceutical of Beijing Co., Ltd. from January 2009 to September 2011. Mr. Wu worked at TTY Biopharm's marketing department between August 2002 and November 2008, assuming positions such as group product manager.

Mr. Wu obtained a bachelor's degree in pharmacy from National Taiwan University in Taiwan in June 1995.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report covering the period from the Listing Date to 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving and establishing high standards of corporate governance.

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

The Company has adopted the principles and code provisions of the CG Code contained in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices. The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the period from 1 January 2019 to 7 November 2019.

The Company has devised its own Corporate Governance Policy which incorporates the principles and practices as set out in the CG Code.

The Board is of the view that throughout the period from the Listing Date to 31 December 2019, the Company has complied with all the applicable code provisions as set out in the CG Code, except as disclosed in this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules.

As the Company was only listed on the Stock Exchange on 8 November 2019, the Model Code was not applicable to the Company during the period from 1 January 2019 to 7 November 2019.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the period from the Listing Date to 31 December 2019 and up to the date of this report.

The Company has also established written guidelines including the Code of Conduct and Ethics and the Insider Dealing Policy (collectively, the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. For the purpose of effective execution of the Employees Written Guidelines, the Company also provided internal and external training sessions to senior managers and other employees. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

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

Principle A.1 of the CG Code stipulates that 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

As of the date of this report, the Board comprises nine Directors, consisting of two executive Directors, four non-executive Directors and three independent non-executive Directors as follows:

Corporate governance report

BOARD OF DIRECTORS (cont'd)**Board Composition** (cont'd)*Executive Directors*Ms. Yeh-Huang, Chun-Ying (*General Manager*)

Dr. Liu, Jun

*Non-executive Directors*Mr. Fu, Shan (*Chairman*)

Dr. Kung, Frank Fang-Chien

Mr. Kang, Pei

Mr. Qiu, Yu Min

Independent Non-executive Directors

Ms. Hu, Lan

Dr. Sun, Lijun Richard

Mr. Chang, Hong-Jen

The biographical information of the Directors are set out in the section headed "Biographies of directors and senior management" on pages 27 to 30 of this annual report.

Save and except that both Mr. Fu, Shan and Dr. Kung, Frank Fang-Chien represent Vivo Capital on the Board, none of the members of the Board is related to one another.

Board Meetings and Directors' Attendance Records

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

Code provision A.2.7 of the CG Code stipulates that the chairman of the Board should at least annually hold meetings with independent non-executive Directors without the presence of other directors. As the Company was only listed on the Stock Exchange on 8 November 2019, the Company had not yet complied with such code provision within the less than two months' period before the end of 2019. Arrangements have been made for the Company's compliance with such code provision in 2020 and beyond.

A summary of the attendance records of the Directors at the Board meetings held during the period from the Listing Date to 31 December 2019 is set out below:

Name of Directors	Attendance
Ms. Yeh-Huang, Chun-Ying (<i>General Manager</i>)	2/2
Dr. Liu, Jun	2/2
Mr. Fu, Shan (<i>Chairman</i>)	2/2
Dr. Kung, Frank Fang-Chien	2/2
Mr. Kang, Pei	2/2
Mr. Qiu, Yu Min	2/2
Ms. Hu, Lan	2/2
Dr. Sun, Lijun Richard	2/2
Mr. Chang, Hong-Jen	2/2

Corporate governance report

BOARD OF DIRECTORS (cont'd)**Chairman and Chief Executive Officer**

The positions of Chairman and Chief Executive Officer (under the title of General Manager) are held by Mr. Fu, Shan and Ms. Yeh-Huang, Chun-Ying respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The General Manager focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the period from the Listing Date to 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of them (namely, Ms. Hu, Lan) possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

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

The non-executive Directors including independent non-executive Directors of the Company are appointed for a specific term of three years.

Under the Amended and Restated Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but greater than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by

rotation at least once every three years. The Amended and Restated Articles of Association also provide that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment 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 (if any).

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 coordinating the daily operation and management of the Company are delegated to the management.

Corporate governance report

BOARD OF DIRECTORS (cont'd)**Responsibilities, Accountabilities and Contributions of the Board and Management** (cont'd)

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

Continuous Professional Development of Directors

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

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company. Besides, in preparation for the Global Offering, all Directors have received formal and comprehensive training on Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

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

During the year ended 31 December 2019, the Company organized training sessions conducted by qualified professionals such as its legal advisers for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials including compliance manuals, legal and regulatory updates and seminar handouts were provided to the Directors for their reference and studying.

The training records of the Directors for the year ended 31 December 2019 and up to date of this report are summarized as follows:

Name of Directors	Types of Training <small>Note</small>
Executive Directors	
Ms. Yeh-Huang, Chun-Ying (<i>General Manager</i>)	A, B
Dr. Liu, Jun	A
Non-executive Directors	
Mr. Fu, Shan (<i>Chairman</i>)	A
Dr. Kung, Frank Fang-Chien	A
Mr. Kang, Pei	A
Mr. Qiu, Yu Min	A
Independent Non-executive Directors	
Ms. Hu, Lan	A
Dr. Sun, Lijun Richard	A
Mr. Chang, Hong-Jen	A

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 (such as the Stock Exchange's letters to authorized representatives of listed issuers)

Corporate governance report

BOARD COMMITTEES

The Board has established four committees, namely, the Audit and Connected Transactions Review 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 Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

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

Audit and Connected Transactions Review Committee

The Audit and Connected Transactions Review Committee consists of three members, namely Ms. Hu, Lan (independent non-executive Director), Mr. Qiu, Yu Min (non-executive Director) and Mr. Chang, Hong-Jen (independent non-executive Director), a majority of whom are independent non-executive Directors. Ms. Hu, Lan is the chairlady of the Audit and Connected Transactions Review Committee and she holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit and Connected Transactions Review Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Audit and Connected Transactions Review Committee include:

- making recommendations to the Board on the appointment, reappointment and removal of external auditors, approving the remuneration and terms of engagement of external auditors, and dealing with any issues in relation to resignation or dismissal of external auditors;
- reviewing and monitoring external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, discussing with auditors on the nature and scope of the audit work and reporting obligations before the audit commences;
- developing and implementing policies with respect to the non-audit work provided by external auditors;
- examining the completeness of the Group's financial statements and the Group's quarterly, interim and annual reports, and reviewing critical financial reporting judgments contained therein;
- overseeing the Group's financial reporting, risk management and internal control systems;
- managing matters related to connected transactions;
- reviewing and approving the Group's connected transactions and other related matters to the extent authorized by the Board; and
- providing information for the independent non-executive Directors and auditors to perform their annual review of the connected transactions.

During the period from the Listing Date to 31 December 2019, the Audit and Connected Transactions Review Committee held one meeting to, among other things, consider and approve the appointment of PricewaterhouseCoopers as the Company's external auditor in connection with the Group's consolidated financial statements for the year ended 31 December 2019.

During the year ended 31 December 2019, the Audit and Connected Transactions Review Committee also met the external auditor once without the presence of the Executive Directors.

Corporate governance report

BOARD COMMITTEES (cont'd)

The attendance records of the members of the Audit and Connected Transactions Review Committee are as follows:

Name of Members of the Audit and Connected Transactions Review Committee	Attendance
Ms. Hu, Lan	1/1
Mr. Qiu, Yu Min	1/1
Mr. Chang, Hong-Jen	1/1

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Chang, Hong-Jen (independent non-executive Director), Mr. Kang, Pei (non-executive Director) and Dr. Sun, Lijun Richard (independent non-executive Director). Mr. Chang, Hong-Jen 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:

- making recommendations to the Board on the compensation remuneration packages of individual executive Directors and senior management and on the compensation of non-executive Director;
- making recommendations to the Board on the management's remuneration proposals;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share option schemes, and making recommendations to the Board; and
- making recommendations to the Board on disclosure with respect to Directors' remuneration included in the annual report.

During the period from the Listing Date to 31 December 2019, the Remuneration Committee did not hold any meeting.

Details of the remuneration of the senior management by band are set out in Note 8 to the consolidated financial statements.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Fu, Shan (non-executive Director), Ms. Hu, Lan (independent non-executive Director) and Dr. Sun, Lijun Richard (independent non-executive Director). Mr. Fu, Shan 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 primary functions of the Nomination Committee include:

- reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and making recommendations to the Board;
- assessing the independence of independent non-executive Directors; and
- making recommendations to the Board on the appointment and succession planning of Directors.

Corporate governance report

BOARD COMMITTEES (cont'd)**Nomination Committee** (cont'd)

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee 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 relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the period from the Listing Date to 31 December 2019, the Nomination Committee did not hold any meeting.

Strategy Committee

The Strategy Committee consists of five members, namely Mr. Fu, Shan (non-executive Director), Ms. Yeh-Huang, Chun-Ying (executive Director), Dr. Liu, Jun (executive Director), Mr. Chang, Hong-Jen (independent non-executive Director) and Dr. Sun, Lijun Richard (independent non-executive Director). Mr. Fu, Shan is the chairman of the Strategy Committee.

The primary functions of the Strategy Committee include:

- reviewing and making recommendations to the Board on the long-term strategic development plans of the Company;
- reviewing and making recommendations to the Board in relation to any significant capital operations (including but not limited to the alternation of the registered issued share capital; issuance of bonds or other securities; the merger, separation, dissolution or transformation of company structure of the Company or any of its wholly owned or holding subsidiaries; the Company's profit distribution plan and plans for loss recovery), asset management projects, the Company's annual financial budget plan, and final accounts;

- reviewing and making recommendations to the Board on any financing investment projects relating to issuance of securities by the Company or any of its wholly owned or holding subsidiaries;
- reviewing the Group's major investment and financing proposals in accordance with the Amended and Restated Articles of Association and overseas investment management measures, and making recommendations to the Board;
- making recommendations to the Board on any major matters that would affect the Company's development;
- implementing and supervising the above items, reviewing, evaluating and making recommendations on any major changes made to these items, for the Board's approval; and
- other matters authorized by the Board.

During the period from the Listing Date to 31 December 2019, the Strategy Committee did not hold any meeting.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieving 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.

Pursuant to the Board Diversity Policy, 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 and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

Corporate governance report

BOARD COMMITTEES *(cont'd)***Board Diversity Policy** *(cont'd)*

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

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.

At present, the Nomination Committee considered that the Board is sufficiently diverse and can provide professional advice to the Company to support its long-term development strategies.

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

Director Nomination Policy

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

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The 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 Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the period from the Listing Date to 31 December 2019, there was no change in the composition of the Board.

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

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 period from the Listing Date to 31 December 2019 and up to the date of this report, the Board has 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 the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this report.

Corporate governance report

ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the period from the Listing Date to 31 December 2019 is set out in the table below:

Name of Directors	Attendance/Number of Meetings					
	Board	Audit and Connected Transactions	Remuneration Committee	Nomination Committee	Strategy Committee	Annual General Meeting
		Review Committee				
Executive Directors						
Ms. Yeh-Huang, Chun-Ying	2/2	-	-	-	0/0	-
Dr. Liu, Jun	2/2	-	-	-	0/0	-
Non-executive Directors						
Mr. Fu, Shan	2/2	-	-	0/0	0/0	-
Dr. Kung, Frank Fang-Chien	2/2	-	-	-	-	-
Mr. Kang, Pei	2/2	-	0/0	-	-	-
Mr. Qiu, Yu Min	2/2	1/1	-	-	-	-
Independent Non-executive Directors						
Ms. Hu, Lan	2/2	1/1	-	0/0	-	-
Dr. Sun, Lijun Richard	2/2	-	0/0	0/0	0/0	-
Mr. Chang, Hong-Jen	2/2	1/1	0/0	-	0/0	-

RISK MANAGEMENT AND INTERNAL CONTROLS

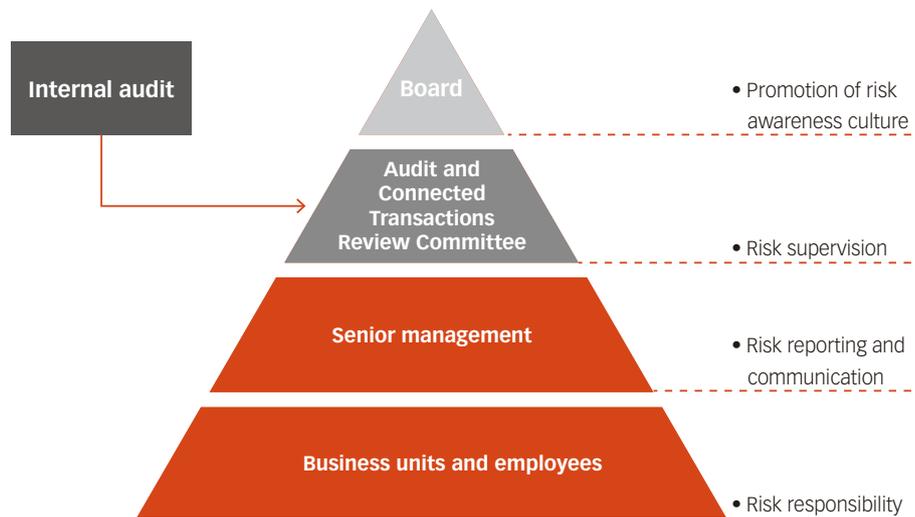
The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against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

The Company has established a risk governance structure to identify, evaluate, resolve, monitor and communicate key risks, such as strategic risk, financial risk, operational risk and compliance risk, so as to ensure the effectiveness of its internal risk control.

Corporate governance report

RISK MANAGEMENT AND INTERNAL CONTROLS (cont'd)

Based on such risk governance structure, the Company's risk management and internal control systems as well as the roles and responsibilities of various stakeholders are as follows:



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

The Audit and Connected Transactions Review Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales, intellectual property, production safety, financial reporting, human resources, information security and information technology.

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

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit and Connected Transactions Review Committee and the Board on all findings and the effectiveness of the systems.

RISK MANAGEMENT AND INTERNAL CONTROLS

(cont'd)

The management has confirmed to the Board and the Audit and Connected Transactions Review Committee on the effectiveness of the risk management and internal control systems for the period from the Listing Date to 31 December 2019, and has conducted in-depth communication with the Board and the Audit and Connected Transactions Review Committee on the framework and priorities of the Company's corporate risk management and internal control for 2020.

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

The Board, as supported by the Audit and Connected Transactions Review Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the period from the Listing Date to 31 December 2019, and considered that such systems

are effective and adequate. The annual review also covered the financial reporting, internal audit function and staff qualifications, experiences and relevant resources. As of the date of this report, there are no material internal control findings.

The Company has developed its disclosure policies, signed confidentiality agreements with employees and established information disclosure approval procedures, which together provide a general guide and management principles to the Company's Directors, 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.

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 31 December 2019.

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 auditor of the Company about their reporting responsibilities on the financial statements is set out in the independent auditor's report on pages 58 to 62 of this annual report.

Corporate governance report

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to PricewaterhouseCoopers, the external auditor of the Company, and other PricewaterhouseCoopers network firms, for the year ended 31 December 2019 is set out below:

Service Category	Fees Paid/Payable (RMB'000)
Audit services	1,907
Non-audit services (including tax and other advisory services)	847
Services in connection with the listing including the reporting accountant's work, internal control reviews and taxation services	5,665
	8,419

COMPANY SECRETARY

Mr. Yao, Jau-Chang, vice general manager of the Company, and Mr. Lui, Wing Yat Christopher, manager of Tricor Services Limited, an external service provider, have been appointed as the Company's joint company secretaries.

Mr. Yao, Jau-Chang has been designated as the primary contact person at the Company which would work and communicate with Mr. Lui, Wing Yat Christopher on the Company's corporate governance and secretarial and administrative matters.

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

For the year ended 31 December 2019, Mr. Yao, Jau-Chang and Mr. Lui, Wing Yat Christopher have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels, such as general meetings, analyst presentations, disclosure pursuant to the Listing Rules, corporate website and social media platforms.

To safeguard shareholder interests and rights, a separate resolution should be proposed for each substantially separate issue at general meetings, including the election of each 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

Extraordinary general meetings may be convened by the Board on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (as the case may be) pursuant to sections 566 and 568 respectively of the Companies Ordinance and Article 62 of the Amended and Restated Articles of Association.

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance and the Amended and Restated Articles of Association for convening a general meeting.

Corporate governance report

SHAREHOLDERS' RIGHTS (cont'd)**Putting Forward Proposals at General Meetings**

Pursuant to section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders, or at least 50 shareholders who have a right to vote at the relevant annual general meeting, may request to circulate a resolution to be moved at an annual general meeting.

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for annual general meeting.

Putting Forward Enquiries to the Board

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

Contact Details

The Company maintains a website (www.totbiopharm.com.cn) where information of the Group's businesses and projects, key corporate governance policies and announcements, financial reports and other information are available for public access. Shareholders may send their enquiries or requests as mentioned above to the following:

Address: The Secretariat
120 Changyang Street
Suzhou Industrial Park
PRC
Fax: 86-512-6296-5286
Email: ir@totbiopharm.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 INVESTORS**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.

Since the Listing Date and up to the date of this report, the Company has not held any general meeting.

The forthcoming annual general meeting will be held in June 2020. The notice of annual general meeting will be sent to shareholders in accordance with the requirements set out in the Listing Rules and the Amended and Restated Articles of Association.

In preparation for the Global Offering, the Company has amended its articles of association, effective from 28 October 2019. An up-to-date version of the Amended and Restated Articles of Association is available on the Company's website and the Stock Exchange's website.

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.

With respect to dividend policy, the Group currently intends to retain all available funds and earnings, if any, to fund the development of its business and it does not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be made at the discretion of the Directors and may be based on a number of factors, including the Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Directors may deem relevant.

DIRECTORS' REPORT

The Directors are pleased to present this Directors' Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Unless otherwise stated, all references below to other sections, reports or notes in this annual report form part of this report.

GENERAL INFORMATION

The Company was incorporated in Hong Kong on 4 December 2009 with limited liability. The Company's Shares were listed on the Main Board of the Stock Exchange on 8 November 2019.

PRINCIPAL ACTIVITIES

The Company is a clinical-stage biopharmaceutical company dedicated to developing and commercializing innovative oncology drugs and therapies. Its mission is to build a leading brand name of oncology treatments trusted by patients and their families as well as medical professionals.

The Group has a comprehensive portfolio of oncology drug candidates, which include monoclonal antibodies (mAbs), antibody drug conjugates (ADCs), oncolytic virus products and specialty oncology drugs such as liposome drugs, targeting various types of cancers. Since the Company's inception in 2009, it has built and established a fully integrated in-house platform of discovery, process development, quality management, pre-clinical and clinical development, as well as commercial-scale manufacturing facilities and proven sales and marketing capabilities, which provides flexibility and scalability for business of the Group to expand along the innovative drug industry value chain.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive loss on page 63 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group as required by section 388(2) of and Schedule 5 to the Companies Ordinance, including an indication of likely future developments of the Group's business and an analysis of the Group's performance using financial key performance indicators during the year ended 31 December 2019 are provided in the sections headed "Chairman's statement", "General manager's report" and "Management discussion and analysis" on pages 3 to 25 of this annual report.

(a) Principal risks and uncertainties

The following is a summary of certain principal risks and uncertainties faced by the Group, some of which are beyond its control:

- its financial position, in particular its significant net losses and net operating cash outflows;
- potential impact of outbreaks of infectious diseases (such as COVID-19) on its business operations and clinical research progress;
- its ability to development and commercialize its drug candidates, all of which are undergoing pre-clinical or clinical development;
- material aspects of the research and development and commercialization of its pharmaceutical products being heavily regulated;
- lengthy, time-consuming and inherently unpredictable regulatory approval processes of various regulatory authorities for its drug candidates;

Directors' report

BUSINESS REVIEW (cont'd)**(a) Principal risks and uncertainties** (cont'd)

- competition in the pharmaceutical industry and in the oncology drugs market;
- its ability to obtain and maintain patent protection for its drug candidates;
- its ability to attract, train, retain and motivate qualified and highly skilled personnel; and
- its relatively new corporate governance, risk management and internal control systems which are under continuous improvement and enhancement.

However, the above is not an exhaustive list. Investors are advised to make their own judgement or consult their own investment advisers before making any investment in the Shares.

The Company believes that risk management is essential to the Group's effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. The Audit and Connected Transactions Review Committee and the Company's general management division assist the Board in monitoring material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc, and proactively setting up appropriate risk management and internal control mechanisms to rectify any deficiencies. The Group's financial risk management objectives and policies are set out in Note 3 to the consolidated financial statements.

(b) Environmental Policies and Performance

The Group recognizes the importance of proper adoption of environmental policies which is essential to the attainability of corporate growth. The management has formulated comprehensive standards for environment, health and safety for the Group based on applicable laws, regulations and standards. The Company's environmental safety and health division is responsible for monitoring the compliance with these standards and reviewing the effectiveness of these standards. The Group will continue to improve its fulfilment of social responsibility.

In accordance with Rule 13.91 of the Listing Rules and the Environmental, Social and Governance Reporting Guide set out in Appendix 27 thereto, the Company's environmental, social and governance report will be available on our website and on the Stock Exchange's website within three months from the publication of this annual report.

(c) Compliance with the Relevant Laws and Regulations

As far as the Board and the management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 December 2019, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

Directors' report

BUSINESS REVIEW (cont'd)**(d) Employee and Emolument Policies**

In compliance with Rule 3.25 of the Listing Rules and the CG Code, the Company has established the Remuneration Committee to formulate remuneration policies. The Remuneration Committee is responsible for developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share option schemes, and making recommendation to the Board. The Group believes its success depends upon the provision of consistent, quality and reliable services by its employees and hence its ability to attract, retain and motivate qualified personnel is crucial. To attract high-quality employees, the Group offered competitive compensation packages. The remuneration of the employees of the Group generally includes salaries, bonuses, social security contributions and other welfare payments. In accordance with applicable PRC laws, the Group has made contributions to housing provident funds and contributions to social security insurance funds, including basic pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for its employees. In accordance with applicable Taiwan laws, the Group has made contributions to social security insurance funds. Remuneration of each employee varies by functions and titles and their own academic backgrounds, experience, skills, technical knowledge and performance.

In addition, the Group established the Pre-IPO Share Option Scheme in 2013 and has granted options to Directors, senior management and key employees for the primary purpose of providing incentives and reward to its employees. Please refer to the paragraph headed "Pre-IPO Share Option Scheme" in this report for further details.

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

(e) Major Customers and Suppliers*Major Customers*

During the year ended 31 December 2019, the Group derived its revenue primarily from commissions for marketing services provided as well as CDMO and CMO service fees. Equipped with full industry value chain capabilities, the Group adopts an open platform business model and collaborates with third party business partners at different stages of the industry value chain. The full industry value chain capabilities make the Group's open platform attractive to an industry player whose capability in certain parts of the industry value chain is complementary to the Group's.

For the year ended 31 December 2019, revenue from the five largest customers of the Group accounted for 98% of its total revenues and the largest customer of the Group accounted for 66% of its total revenues.

At no time during the year ended 31 December 2019 have the Directors, their respective associates or any shareholder of the Company (who, to the knowledge of the Directors, owns more than 5% of the issued capital of the Company), has any interest in any of the Group's top five customers other than Lumosa Therapeutics. During the year ended 31 December 2019, Lumosa Therapeutics was an associate of Centerlab.

BUSINESS REVIEW (cont'd)**(e) Major Customers and Suppliers** (cont'd)*Major Suppliers and Service Providers*

Suppliers of the Group primarily include suppliers of raw materials, CROs, suppliers of machinery and equipment, suppliers of reference drugs, and construction service providers. The Group procures raw materials based on its estimation of the production needs for its research and development activities. The Group obtains raw materials for its manufacturing activities from multiple reputable suppliers who the Group believes have sufficient capacity to meet our demands. The Group selects suppliers of raw materials based on a number of factors, including their product quality, price, delivery time and manners and market reputation, and follow the procedures and standards required by law or industry practice. The Group has also established internal procedure and policies to examine the quality of the products of the suppliers before entering into any contract with them. The Group typically orders raw materials on a purchase order basis and does not enter into long-term dedicated capacity or minimum supply arrangements.

In line with industry practice and to supplement the in-house capabilities of the Group, the Group has also engaged certain CROs to conduct pre-clinical and clinical research. It selects CROs based on various factors, including their quality, reputation and research experience. The Group generally enters into master contract services agreements with the CROs it engages, which include a statement of work specifying the terms of services provided by the CROs, and pays these CROs fixed project-based fees. Under such agreements, all intellectual property rights arising from the performance of the services, including clinical trial data, will be owned by the Group. The Group also requires the CROs to conduct clinical trials in accordance with international good clinical practice (GCP) standards. Typically, the Group requires the CRO personnel handling our clinical trials to hold GCP certification or have GCP training experience.

For the year ended 31 December 2019, purchase amount from the five largest suppliers of the Group accounted for 16% of its total purchase costs and the largest supplier of the Group accounted for 5% of its total purchase costs.

At no time during the year ended 31 December 2019 have the Directors, their respective associates or any shareholder of the Company (who, to the knowledge of the Directors, owns more than 5% of the issued capital of the Company), has any interest in any of the Group's top five suppliers.

(f) Events after Reporting Period

Save and except for the COVID-19 outbreak as disclosed in Note 36 to the consolidated financial statements, no important events affecting the Company have occurred from 1 January 2020 up to the date of this report.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets and liabilities of the Group for the last three financial years is set out in the section headed "Three-year financial summary" on page 139 of this annual report. This summary does not form part of the audited consolidated financial statements.

Directors' report

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 34 to the consolidated financial statements.

The following is the list of directors of the Company's subsidiaries during the year ended 31 December 2019 and up to the date of this report:

Ms. Yeh-Huang, Chun-Ying

Dr. Liu, Jun ⁽¹⁾

Mr. Fu, Shan

Dr. Kung, Frank Fang-Chien

Mr. Kang, Pei

Mr. Qiu, Yu Min

Ms. Hu, Lan ⁽¹⁾

Dr. Sun, Lijun Richard ⁽¹⁾

Mr. Chang, Hong-Jen ⁽¹⁾

Mr. Chen, Chun-Hong ⁽²⁾

Dr. Liang, Min ⁽²⁾

Mr. Lin, Jung-Chin ⁽²⁾

Mr. Ling, Yu-Chi ⁽²⁾

Notes:

(1) These individuals became directors of one of the Company's subsidiaries on 12 March 2019.

(2) These individuals ceased to be directors of any of the Company's subsidiaries on 12 March 2019.

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the year ended 31 December 2019 and details of the Shares issued during the year ended 31 December 2019 are set out in Note 23 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the period from the Listing Date to 31 December 2019.

DEBENTURE ISSUED

The Group did not issue any debenture during the year ended 31 December 2019.

RESERVES

Details of movement in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 66 of this annual report and in Notes 24 and 35(a) to the consolidated financial statements.

The Company did not have distributable reserves as at 31 December 2019 calculated under Part 6 of the Companies Ordinance as it has accumulated losses.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as of 31 December 2019 are set out in the section headed "Management discussion and analysis" in this annual report and Note 28 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2019, the Group made charitable donations of approximately RMB674,000.

Directors' report

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during 2019 or subsisted at the end of 2019 except for the Pre-IPO Share Option Scheme, further details of which are set out in the paragraph headed "Pre-IPO Share Option Scheme" in this report.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 166 of the Company's Amended and Restated Articles of Association, subject to the provisions of the Companies Ordinance, every Director, company secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto.

The Company has purchased directors, company secretary and officers' liabilities insurance on behalf of its directors, Mr. Yao, Jau-Chang and Mr. Lui, Wing Yat Christopher (joint company secretaries) and officers.

DIRECTORS

The following is the list of Directors during the year ended 31 December 2019 and up to the date of this report (unless otherwise stated).

Executive Directors

Ms. Yeh-Huang, Chun-Ying (*General Manager*)
Dr. Liu, Jun

Non-executive Directors

Mr. Fu, Shan (*Chairman*)
Dr. Kung, Frank Fang-Chien
Mr. Kang, Pei
Mr. Qiu, Yu Min

Independent Non-executive Directors

Ms. Hu, Lan (*Appointed on 12 March 2019*)
Dr. Sun, Lijun Richard (*Appointed on 12 March 2019*)
Mr. Chang, Hong-Jen (*Appointed on 12 March 2019*)

No Director had resigned from the office or refused to stand for re-election to the office during the year ended 31 December 2019.

In accordance with Article 111 of the Amended and Restated Articles of Association, Mr. Kang, Pei, Ms. Yeh-Huang, Chun-Ying and Dr. Kung, Frank Fang-Chien will retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

(a) Biographies of the Directors and Senior Management

Brief biographies of the current Directors are set out in the section headed "Biographies of directors and senior management" on pages 27 to 30 of this annual report.

Except as noted in the biographies, none of the Directors have held any other directorships in any listed public companies in the last three years. Further, except as disclosed in the biographies, none of the Directors is connected with any Director, senior management, substantial shareholder or controlling shareholder of the Company and, except as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or Any of Its Associated Corporations" in this report, none of them has any interests in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed in this annual report, there are no other matters relating to the re-election of Directors at the forthcoming AGM that need to be brought to the attention of the Shareholders of the Company nor is there any information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' report

DIRECTORS (cont'd)**(b) Directors' Service Contracts and Letters of Appointment**

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company, while each of the independent non-executive Directors has signed a letter of appointment with the Company. In preparation for the Global Offering, the term of each Director's service has been adjusted to a fixed term of three years commencing from 12 March 2019.

The above appointments are always subject to the provisions of retirement and rotation of directors under the Amended and Restated Articles of Association of the Company.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

(c) Independence of Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her 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.

(d) Directors' Interests in Competing Business

During the year ended 31 December 2019, none of our Directors had any interest in a business, apart from the business of our Group, which competed or was likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

(e) Directors' Interests in Transactions, Arrangements and Contracts of Significance

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries has been a party and in which a Director or an entity connected with a Director is or was materially interested, whether directly or indirectly, subsisted at the end of the year ended 31 December 2019 or at any time during the year.

(f) Directors' Rights to Acquire Shares or Debentures

Save as disclosed in this annual report, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company, or had exercised any such right.

Directors' report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As of 31 December 2019, the interests or short positions of the Directors or chief executives of our Company in any of the Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of 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 were as follows:

Interests in shares or underlying shares of the Company

Name of Director or chief executive	Nature of interest	Number of Shares interested ⁽¹⁾	Approximate percentage of interest in our Company ⁽²⁾
Ms. Yeh-Huang, Chun-Ying	Beneficial owner	7,115,700 (L)	1.25%
	Interest through equity derivatives ⁽³⁾	1,162,500 (L)	0.20%
Dr. Liu, Jun	Interest through equity derivatives ⁽³⁾	1,100,000 (L)	0.19%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) The calculation is based on the total number of 570,000,000 Shares in issue as of 31 December 2019 and rounded off to two decimal places.
- (3) These interests represent the interests in Shares underlying the Pre-IPO Share Options (being unlisted physically-settled equity derivatives) held by Ms. Yeh-Huang, Chun-Ying and Dr. Liu, Jun, respectively.

Save as disclosed above, as of 31 December 2019, so far as it was known to the Directors or chief executives of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations 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.

Directors' report

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 31 December 2019, so far as it was known to the Directors or chief executives of the Company, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interests in shares or underlying shares of the Company

Name of Shareholder	Nature of interest	Number of Shares interested⁽¹⁾	Approximate percentage of interest in our Company⁽²⁾
Center Laboratories Inc.	Beneficial owner	179,561,700 (L)	31.50%
Mr. Pang Kee Chan Hebert ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	8.62%
Advantech Capital Partners II Limited ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	8.62%
Advantech Capital II L.P. ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	8.62%
Advantech Capital II Master Investment Limited ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	8.62%
Advantech Capital Investment V Limited ⁽³⁾	Beneficial owner	49,136,800 (L)	8.62%
Chengwei Evergreen Management, LLC ⁽⁴⁾	Interest in controlled corporation	56,573,500 (L)	9.93%
Chengwei Evergreen Capital, L.P. ⁽⁴⁾	Interest in controlled corporation	56,573,500 (L)	9.93%
Prime Success International Limited ⁽⁴⁾	Beneficial owner	56,573,500 (L)	9.93%
Vivo Capital LLC ⁽⁵⁾	Interest in controlled corporation	103,245,000 (L)	18.11%
Vivo Capital VIII, LLC ⁽⁵⁾	Interest in controlled corporation	103,245,000 (L)	18.11%
Vivo Capital Fund VIII, L.P. ⁽⁵⁾	Beneficial owner	90,718,100 (L)	15.92%

Directors' report

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (cont'd)
Interests in shares or underlying shares of the Company (cont'd)

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) The calculation is based on the total number of 570,000,000 Shares in issue as of 31 December 2019 and rounded off to two decimal places.
- (3) Advantech Capital Investment V Limited, an exempted company with limited liability incorporated under the laws of Cayman Islands, directly held 49,136,800 Shares. Advantech Capital Investment V Limited is wholly owned by Advantech Capital II Master Investment Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, which is in turn wholly owned by Advantech Capital II L.P., a private equity fund incorporated under the laws of the Cayman Islands. The general partner of Advantech Capital II L.P. is Advantech Capital Partners II Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands. Advantech Capital Partners II Limited is wholly owned by Mr. Pang Kee Chan Hebert. For the purpose of the SFO, Advantech Capital II Master Investment Limited, Advantech Capital II L.P., Advantech Capital Partners II Limited and Mr. Pang Kee Chan Hebert are deemed to have an interest in the Shares held by Advantech Capital Investment V Limited.
- (4) Prime Success International Limited directly held 56,573,500 Shares. Prime Success International Limited is a company with limited liability incorporated under the laws of Hong Kong, which is wholly owned by Chengwei Evergreen Capital, L.P., a venture capital fund incorporated under the laws of the Cayman Islands. The general partner of Chengwei Evergreen Capital, L.P. is Chengwei Evergreen Management, LLC, a limited liability company incorporated under the laws of the Cayman Islands. For the purpose of the SFO, Chengwei Evergreen Capital, L.P. and Chengwei Evergreen Management, LLC are deemed to have an interest in the Shares held by Prime Success International Limited.

- (5) Vivo Capital Fund VIII, L.P. directly held 90,718,100 Shares, and Vivo Capital Surplus Fund VIII, L.P. directly held 12,526,900 Shares. Both Vivo Capital Fund VIII, L.P. and Vivo Capital Surplus Fund VIII, L.P. (referred to collectively as Vivo Capital are limited partnerships organized under the laws of the State of Delaware of the United States. The general partner of Vivo Capital is Vivo Capital VIII, LLC, which is registered in the State of Delaware of the United States. Vivo Capital LLC, registered in the State of California of the United States, serves as the management company of Vivo Capital and has a form of advisory agreement with Vivo Capital VIII, LLC. For the purpose of the SFO, Vivo Capital VIII, LLC and Vivo Capital LLC are deemed to have an interest in the Shares held by Vivo Capital.

Save as disclosed above, as of 31 December 2019, no person, other than the Directors or chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or Any of its Associated Corporations" in this report, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Directors' report

PRE-IPO SHARE OPTION SCHEME

Details of the movements of the options granted under the Pre-IPO Share Option Scheme as of 31 December 2019 are as follows:

Date of grant	Date of vesting	Exercise period	Exercise price (per Share)	Outstanding as of the Listing Date	Number of Shares underlying the Pre-IPO Share Options			Outstanding as of 31 December 2019
					Granted	Exercised (during the period between the Listing Date and 31 December 2019)	Cancelled/Lapsed	
1. Ms. Yeh-Huang, Chun-Ying (Director)								
20 February 2013	All vested	Till 19 February 2023	Approximately US\$0.286	0	-	-	-	0
14 December 2017	To be vested in four equal installments at each of the first four anniversaries of the date of grant	From the date of vesting till 13 December 2027	Approximately US\$0.286	1,162,500	-	-	-	1,162,500
2. Dr. Liu, Jun (Director)								
25 December 2017	To be vested in four equal installments on 1 January 2019, 2020, 2021 and 2022	From the date of vesting till 24 December 2027	Approximately US\$0.286	1,000,000	-	-	-	1,000,000
21 January 2019	To be vested in five equal installments at the fulfillment of certain R&D targets and the second, third, fourth and fifth anniversaries thereof	From the date of vesting till 20 January 2029	Approximately US\$0.286	100,000	-	-	-	100,000
3. Senior management and other grantees								
Between 20 February 2013 and 18 June 2019	Either vested or to be vested from one to six years from the date of grant or to be vested from zero to five years from the fulfillment of certain R&D targets	Generally, from the date of vesting till the date which is one day preceding the tenth anniversary of the date of grant	Approximately US\$0.286	10,421,500	-	-	60,000	10,361,500
Total:				12,684,000	-	-	60,000	12,624,000

For further details of the Pre-IPO Share Option Scheme, please refer to pages V-36 to V-47 of the Prospectus and Note 25 to the consolidated financial statements.

Directors' report

CONNECTED TRANSACTIONS

There was no connected transaction or continuing connected transaction of the Group which has to be disclosed in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2019.

Details of the related party transactions for the year ended 31 December 2019 are set out in Note 33 to the consolidated financial statements. None of the related party transactions as disclosed in Note 33 to the consolidated financial statements constitute connected transaction or continuing connected transaction of the Group which has to be disclosed in accordance with Chapter 14A of the Listing Rules.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no controlling shareholder of the Company or its subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2019.

NON-COMPETITION UNDERTAKINGS

As disclosed in the Prospectus, Centerlab executed a deed of non-competition in favour of the Company on 25 October 2019 (the "**Deed of Non-Competition**"), pursuant to which Centerlab has undertaken to the Group that for the duration of the Non-Compete Period (as defined below), it shall not, and shall use its best endeavors to procure that its respective close associates will not, solely or jointly or in cooperation with other parties, without the prior written consent of the Company: (a) hold and/or be interested in, either directly or indirectly, any shares or securities or interest in any company or other entity whose business primarily involves, directly or indirectly, research and development of innovative anti-tumor drugs (other than through contracting our Group to develop such drugs in transactions in compliance with the Listing Rules) (the "**Restricted Business**") in the PRC (the "**Restricted Region**"); or (b) otherwise engage or be involved in any Restricted Business in the Restricted Region (the "**Non-Competition Undertakings**").

The undertakings given by Centerlab under the Deed of Non-Competition are effective from the Listing Date and terminate on the earliest of: (i) the date on which Centerlab ceases to be a substantial shareholder of the Company as defined in the Listing Rules; (ii) the date on which the Shares cease to be listed on the Stock Exchange; and (iii) the date on which our Group ceases to engage in the Restricted Businesses (the "**Non-Compete Period**").

Centerlab has confirmed in writing to the Company of its compliance with the Non-Competition Undertakings for the period from the Listing Date to 31 December 2019.

The independent non-executive Directors have reviewed the implementation of the Non-Competition Undertakings and confirmed that, as far as they can ascertain, the Non-Competition Undertakings were complied with by Centerlab for the period from the Listing Date to 31 December 2019.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company, as required to be disclosed under section 543 of the Companies Ordinance, was entered into or existed during the year ended 31 December 2019.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended 31 December 2019. The Directors are also not aware of any material litigation or claims that were pending or threatened against the Group during the year ended 31 December 2019.

Directors' report

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The net proceeds raised during the Global Offering were approximately RMB448,615,000 after deduction of the underwriting fees and commissions and expenses payable by the Company in connection with the Global Offering.

Since the Listing Date and up to 31 December 2019, the Company had not utilized any net proceeds amount raised from the Global Offering. Such net proceeds are intended to be applied in accordance with the proposed applications as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as of the date of this report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this annual report, the Group does not have other plans for material investments and capital assets.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the section headed "Corporate governance report" of this annual report.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held in June 2020. A notice convening the AGM and setting out the arrangements in relation to the closure of register of members will be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

REVIEW BY AUDIT AND CONNECTED TRANSACTIONS REVIEW COMMITTEE

The Audit and Connected Transactions Review Committee has reviewed the financial reporting processes, risk management and internal control systems of the Group and the consolidated financial statements of the Group for the year ended 31 December 2019, and is of the opinion that these statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosure has been made.

AUDITOR

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the AGM.

By the order of the Board

Ms. Yeh-Huang, Chun-Ying

Executive Director

Hong Kong

17 March 2020

INDEPENDENT AUDITOR'S REPORT

To the Members of TOT BIOPHARM International Company Limited

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of TOT BIOPHARM International Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 138, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

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

Independent auditor's report

KEY AUDIT MATTERS (cont'd)

Key audit matter identified in our audit is related to assessment of impairment indicators of property, plant and equipment.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Assessment of impairment indicators of property, plant and equipment</p> <p>Refer to notes 4 (Critical accounting estimates and judgements) and 13 (Property, plant and equipment) to the consolidated financial statements.</p> <p>As at 31 December 2019, the Group's property, plant and equipment amounted to approximately RMB300,230,000.</p> <p>The Group is a biotechnology company which is still in the research and development stage. During the year ended 31 December 2019, the Group had an operating loss. As the property, plant and equipment are mainly used for research and development ("R&D") purposes and the production of new drugs upon launch, the failure of meeting the expected milestones according to the business plans of the R&D projects may be an impairment indicator of property, plant and equipment.</p> <p>We considered the assessment of impairment indicators of property, plant and equipment a key audit matter because it involved critical management judgments including the expected milestones and the outcome of the new drugs' development and whether there are any significant delays from the business plans.</p>	<p>Our procedures performed in relation to management's assessment of impairment indicators of property, plant and equipment mainly include the following:</p> <ul style="list-style-type: none"> • Discussed with management the factors considered in determining whether an impairment indicator existed at year end; • Obtained the business plans of the R&D projects prepared by management, which set out the details of the expected milestones and the outcome of the new drugs' development and understood the key basis in preparing the business plans; • Inquired management and inspected the relevant supporting documents to understand the progress of major R&D projects to assess whether there were any significant delays from the business plans, on a sample basis; • Discussed with management to understand the technological, market, economic and legal environment and corroborated with supporting evidence to assess whether there were any significant changes with an adverse effect on the Group; • Considered whether the carrying amount of the net assets of the Group was more than its market capitalization as at year end; • Performed physical observation of property, plant and equipment to evaluate the condition of major property, plant and equipment to determine whether there were any damaged or outdated items. <p>Based on the audit procedures performed, we found the key judgements used by management in the assessment of impairment indicators of property, plant and equipment to be supportable by the available evidence.</p>

Independent auditor's report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 THE AUDIT COMMITTEE 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 HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Independent auditor's report

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. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance 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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional scepticism 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.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS*(cont'd)*

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

From the matters communicated with the Audit Committee, 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 this independent auditor's report is Chan Chiu Kong, Edmond.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong, 17 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Revenue	5	45,308	39,219
Cost of revenue	6	(11,316)	(5,980)
Research and development expenses	6	(191,078)	(188,651)
Selling expenses	6	(31,544)	(38,935)
General and administrative expenses	6	(95,091)	(54,638)
Other gains – net	9	14,117	11,808
Operating loss		(269,604)	(237,177)
Finance income	10	1,680	727
Finance costs	10	(2,291)	(2,404)
Finance costs – net	10	(611)	(1,677)
Fair value change in financial instruments issued to investors	27	(29,085)	(29,409)
Loss before income tax		(299,300)	(268,263)
Income tax expense	11	–	–
Loss for the year and attributable to the equity holders of the Company		(299,300)	(268,263)
Other comprehensive income/(loss):			
<i>Items that will not be reclassified to profit or loss</i>			
Changes in the fair value of equity instruments at fair value through other comprehensive income	16	1,181	355
<i>Items that may be reclassified to profit or loss</i>			
Exchange difference on translation	24	(15,111)	(19,563)
Other comprehensive loss for the year, net of tax		(13,930)	(19,208)
Total comprehensive loss for the year and attributable to the equity holders of the Company		(313,230)	(287,471)
Loss per share for the year and attributable to the equity holders of the Company			
– Basic and diluted losses per share (RMB)	12	(0.89)	(0.91)

The above consolidated statement of comprehensive loss should be read in conjunction with the accompany notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

		As at 31 December	
	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	300,230	294,420
Prepayments for property, plant and equipment	13	9,244	7,042
Right-of-use assets	15	28,435	29,324
Intangible assets	14	2,391	1,901
Financial assets at fair value through other comprehensive income	16	7,991	6,810
Other non-current assets	19	54,708	38,054
		402,999	377,551
Current assets			
Inventories	17	15,250	3,105
Trade and other receivables	18	14,406	9,694
Prepayments	19	10,938	10,745
Contract assets	5	2,450	2,060
Financial assets at fair value through profit or loss	20	32,139	17,332
Cash and cash equivalents	21	539,180	256,751
		614,363	299,687
Total assets		1,017,362	677,238
EQUITY			
Share capital	23	1,874,438	537,859
Other reserves	24	36,925	31,449
Accumulated losses		(1,053,086)	(753,786)
Capital and reserves attributable to the equity holders of the Company		858,277	(184,478)
Total equity/(deficit)		858,277	(184,478)

Consolidated balance sheet
As at 31 December 2019

	Note	As at 31 December	
		2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Financial instruments issued to investors	27	–	773,767
Lease liabilities	30	12,299	12,810
		12,299	786,577
Current liabilities			
Borrowings	28	60,000	500
Accruals and other payables	29	81,418	69,300
Contract liabilities	5	2,593	3,022
Lease liabilities	30	2,775	2,317
		146,786	75,139
Total liabilities		159,085	861,716
Total equity and liabilities		1,017,362	677,238
Net current assets		467,577	224,548
Total assets less current liabilities		870,576	602,099

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 63 to 138 were approved by the Board of Directors on 17 March 2020 and were signed on its behalf.

Ms. Yeh-Huang, Chun-Ying
Director

Mr. Liu, Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Note	Attributable to equity holders of the Company			
		Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity/ (deficit) RMB'000
Balance at 1 January 2019		537,859	31,449	(753,786)	(184,478)
Loss for the year		–	–	(299,300)	(299,300)
Other comprehensive loss	24	–	(13,930)	–	(13,930)
Total comprehensive loss		–	(13,930)	(299,300)	(313,230)
Transactions with owners					
Share-based compensation expense	24	–	23,557	–	23,557
Issue of shares upon exercise of share options	23	19,801	(4,151)	–	15,650
Conversion of convertible preferred shares into ordinary shares	23	817,276	–	–	817,276
Issue of new shares upon initial public offering	23	526,302	–	–	526,302
Transaction costs attributable to issue of new shares	23	(26,800)	–	–	(26,800)
Total transactions with owners		1,336,579	19,406	–	1,355,985
Balance at 31 December 2019		1,874,438	36,925	(1,053,086)	858,277
Balance at 1 January 2018					
Loss for the year		537,859	24,980	(485,523)	77,316
Other comprehensive loss		–	–	(268,263)	(268,263)
Total comprehensive loss	24	–	(19,208)	–	(19,208)
		–	(19,208)	(268,263)	(287,471)
Transactions with owners					
Share-based compensation expense	24	–	25,677	–	25,677
Total transactions with owners		–	25,677	–	25,677
Balance at 31 December 2018		537,859	31,449	(753,786)	(184,478)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Cash used in operating activities			
Net cash used in operations	31(a)	(250,805)	(175,107)
Interest received		1,680	727
Interest paid		(2,204)	(2,452)
Net cash used in operating activities		(251,329)	(176,832)
Cash flow from investing activities			
Purchase of property, plant and equipment		(29,104)	(69,604)
Purchase of intangible assets	14	(1,054)	(1,552)
Prepayments for property, plant and equipment		(7,182)	(7,042)
Proceeds from disposal of property, plant and equipment	31(b)	19	–
Investment in financial assets at fair value through profit or loss	20	(131,800)	(116,500)
Proceeds from disposal of financial assets at fair value through profit or loss	20	118,019	147,631
Net cash used in investing activities		(51,102)	(47,067)
Cash flows from financing activities			
Proceeds from issuance of convertible bonds		–	97,395
Proceeds from issuance of convertible preferred shares		–	391,926
Proceeds from issue of new shares upon initial public offering		526,302	–
Proceeds from issue of shares upon exercise of share options		15,650	–
Proceeds from bank borrowings	31(d)	60,000	38,693
Payment for listing expenses		(16,847)	(1,446)
Repayment of bank borrowings	31(d)	(500)	(68,193)
Payment of lease liabilities	31(d)	(1,583)	(774)
Net cash generated from financing activities		583,022	457,601
Net increase in cash and cash equivalents		280,591	233,702
Cash and cash equivalents at beginning of the year		256,751	24,581
Exchange gains/(losses) on cash and cash equivalents		1,838	(1,532)
Cash and cash equivalents at end of the year	21	539,180	256,751

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

TOT BIOPHARM International Company Limited (the “Company”) was incorporated in Hong Kong on 4 December 2009 as a company with limited liability under the Hong Kong Law. The address of its registered office is Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are primarily engaged in research and development (“R&D”), manufacturing, and marketing of anti-tumor drugs in the People’s Republic of China (the “PRC”).

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These financial statements are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA and requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation** (cont'd)*2.1.1 Adoption of amendments to standards and interpretations*

The Group has applied HKFRS 16 consistently throughout the years ended 31 December 2019 and 2018.

The Group has adopted the following amendment to standards and interpretations which are mandatory for the year ended 31 December 2019:

Annual Improvements Project	Annual Improvements 2015-2017 Cycle
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The adoption of these amendments to standards and interpretations did not have any impact on the consolidated financial statements or result in any significant changes in the Group's significant accounting policies.

2.1.2 New standards and amendments to standards not yet adopted

Standards and amendments to standards that have been issued but not yet effective and not been early adopted by the Group during the year are as follows:

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge Accounting	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the related impact of the above standards and amendments to standards which are relevant to the Group's operation.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group's financial performance and position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive loss, statement of changes in equity and balance sheet respectively.

(b) *Changes in ownership interests in subsidiaries without change of control*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.4 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.5 Foreign currency translation*(a) Functional and presentation currency*

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is United States Dollars ("USD"). However, the consolidated financial statements are presented in RMB as the major operations of the Group are within the PRC (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statement of comprehensive loss in the period in which they arise.

Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in the consolidated statement of comprehensive loss.

All foreign exchange gains and losses are presented in the consolidated statement of comprehensive loss within "Other gains – net".

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (ii) Income and expenses for each statement of comprehensive loss are translated at average exchange rates of that period; and
- (iii) All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.6 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs incurred during the construction period are capitalized.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive loss during the period in which they are incurred.

Construction in progress represents unfinished construction and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives, as follows:

Building	20 years
Plant and equipment	10 years
Machinery	5-10 years
Testing equipment	5-10 years
Others	5-10 years

The assets' residual values representing 5% of the original cost, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains – net" in the consolidated statement of comprehensive loss.

2.7 Intangible assets**(a) Software**

Computer software is recognized at historical cost and subsequently carried at cost less accumulated amortization and accumulated impairment losses. The Group amortized on a straight-line basis over their estimated useful lives of 5 years.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.7 Intangible assets** (cont'd)*(b) Research and development expenditures*

The Group incurs significant costs and efforts on research and development activities, which include expenditures on biosimilar and oncology drug. 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:

- (i) the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- (ii) the intention to complete the intangible asset and use or sell it;
- (iii) the ability to use or sell the intangible assets;
- (iv) the intangible asset will generate probable future economic benefits;
- (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) 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. The Group generally considers capitalization criteria is met when obtaining regulatory approval. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in the consolidated statement of comprehensive 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).

2.8 Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following measurement categories:

- (i) Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- (ii) Those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held and cash flow characteristics. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.9.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Other gains – net". Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses and impairment expenses are presented in "Other gains – net".

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.9 Financial assets (cont'd)****2.9.2 Measurement (cont'd)***Debt instruments (cont'd)*

Fair value through profit or loss ("FVPL"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated statement of comprehensive loss within "Other gains – net", in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in "Other gains – net" in the consolidated statement of comprehensive loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Impairment of financial assets

The Group has two types of financial assets subject to HKFRS 9's expected credit loss model:

- (a) trade receivables; and
- (b) other receivables.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.12 Inventories

Inventories including raw materials, work in progress, finished goods and consumables are stated at the lower of cost and net realizable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade and other receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.14 Prepayments

Prepayments mainly represent upfront cash payments made to contract research organizations ("CROs"), which are organizations that provide support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis.

Prepayments to CROs will be subsequently recorded as research and development expenses in accordance with the applicable performance requirements.

Prepayments which are generally due for transfer to expense within one year or less and therefore are all classified as current assets.

2.15 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Share capital

Ordinary shares are classified as equity. Convertible preferred shares are classified as liabilities based on the respective contract terms.

Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Accruals and other payables

Accruals and other payables mainly represent the obligations to pay for services that have been acquired in the ordinary course of business. Accruals and other payables are presented as current liabilities unless payment is not due within one year or less after the reporting period.

Accruals and other payables are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.18 Financial instruments issued to investors**

Financial instruments issued to investors consist of convertible bonds and convertible preferred shares issued in 2018. Accounting policies and other explanatory information of these financial instruments are elaborated as follows:

(a) Convertible preferred shares

During the year ended 31 December 2018, the Company entered into a series of share purchase agreements with financial investors and issued Class A convertible preferred shares ("Class A Preferred Shares") and Class B convertible preferred shares ("Class B Preferred Shares"), respectively (collectively, "Convertible Preferred Shares").

Convertible Preferred Shares issued by the Company are redeemable upon occurrence of certain future events. This instrument can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering ("IPO") of the Company.

The Group designated the Convertible Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value.

Subsequent to initial recognition, the Convertible Preferred Shares are carried at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss.

If the Company's own credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognized in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognizing in profit or loss for loan commitments or financial guarantee contracts.

On 8 November 2019, all Convertible Preferred Shares were automatically converted into ordinary shares upon the IPO of the Company (Note 27).

(b) Convertible bonds

Convertible bonds issued by the Company bear an interest accrued at 8% annual rate on the outstanding principal amounts under the loan agreements for the periods commencing on and from the dates of the loan agreements until the dates of payment in full of the outstanding principal amounts and the accrued interest thereon.

This instrument can be converted into ordinary shares of the Company at any time during a specific period with a prescribed price at the option of the holders. Interests on the outstanding principal amounts will be waived if the entire principal amounts have been converted into ordinary shares.

The Group designated the convertible bonds as financial liabilities at fair value through profit or loss. They are initially recognized at fair value.

Subsequent to initial recognition, the convertible bonds are carried at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss.

If the Company's own credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognized in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognizing in profit or loss for loan commitments or financial guarantee contracts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Other borrowing costs are expensed as incurred.

2.20 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.21 Employee benefit expenses***(a) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(b) Pension obligations

Full-time employees in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no further payment obligation for post-retirement benefits beyond the contributions made.

TOT BIOPHARM Company Limited ("TOT Taipei"), a subsidiary of the Company, has established a defined contribution pension plan under the Labour Pension Act, covering all regular Taiwan employees. Under the plan, the Group contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labour Insurance.

Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves.

(c) Housing funds, medical insurance and other social insurance

Employees in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plans. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable.

(d) Bonus plan

The expected cost of bonus is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(e) Employee leave entitlement

Employee entitlement to annual leave are recognized when they have accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlement to sick leave and maternity leave is not recognized until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.22 Share-based compensation benefits of the Group

(a) *Equity-settled share-based payment transaction*

The Group operates stock options granted to employees, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of equity instruments (options) is recognized as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- (i) including any market performance conditions;
- (ii) excluding the impact of any service and non-market performance vesting conditions;
- (iii) including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period.

(b) *Share-based payment transaction among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiaries undertakings, with a corresponding credit to equity in separate financial statements of the Company.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.23 Government grants**

Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions. Government grants related to costs are recognized in the consolidated statement of comprehensive loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as non-current liabilities and are amortized to the consolidated statement of comprehensive loss over the estimated useful lives of the related assets using the straight-line method.

2.24 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2.25 Revenue recognition

Revenue is recognized to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Revenue recognition (cont'd)

Revenue is recognized when, or as, obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to customers. Revenue is measured as the amount of consideration the Group expects to receive in exchange for transferring products or services to a customer ("transaction price").

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

Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time.

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 using the same approach as for trade receivables. 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. There is normally no significant cost to obtain contract.

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.

The following is a description of the accounting policy for the principal revenue streams of the Group.

(a) Revenue from contract development and manufacturing organization ("CDMO") services

Contract development and manufacturing organization, or CDMO, provides integrated services including drug manufacturing, development, optimization and trial production etc. These services allow companies to outsource development and manufacturing work and move quickly from product concept into first-in-human studies.

The Group earns revenues from providing CDMO services to other pharmaceutical companies. Contract duration are generally less than one year and include a single performance obligation as delivery of integrated services over a period of time. The contract is normally at fixed price and paid according to milestones specified in the contract. Upfront payments received by the Group are initially recognized as a contract liability. Services revenue is recognized as the performance obligation satisfied over time based on the stage of completion of the contract. The Group uses input method to measure progress towards complete satisfaction of the performance obligation under HKFRS 15. Costs including raw materials, labour, depreciation and other production costs attributable to CDMO services are included in "cost of revenue".

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.25 Revenue recognition** (cont'd)*(b) Revenue from contract manufacturing organization ("CMO") services*

Contract manufacturing organization, or CMO, provide commercial manufacturing of products for companies that had already developed and validated pharmaceutical manufacturing processes.

The Group earns revenues from providing CMO services to other pharmaceutical companies. Contract duration is generally less than one year. If the contract is early terminated, the Company is only entitled to the compensation for the cost of any in-progress or undelivered products. Therefore the contract is accounted for at point in time upon transfer of the control of the product to the customers which is generally when the customers accept the products. Contract price is generally fixed and paid according to payment schedule as agreed in the contract. Upfront payments received by the Group are initially recognized as a contract liability. Costs including raw materials, labour, depreciation and other production costs attributable to CMO services are included in "cost of revenue".

(c) Revenue from license granted

The Group provides license of its intellectual properties ("IP") to customers as well as providing certain R&D service. The license of IP and the R&D service are distinct performance obligations. The consideration comprises a fixed element (the upfront payment) and two variable elements (development milestone payment and royalties based on future sales). Initially only fixed consideration is included in the transaction price. The amount of the variable consideration for milestone payments included in the transaction price is determined to be zero at inception, based on the most likely amount and the application of the variable consideration constraint, i.e. such variable consideration is only included in the transaction price when it is highly probable that no significant reversal of revenue when the uncertainty is resolved. The non-refundable upfront payment only relates to the license and R&D service. The upfront payment is allocated between the two performance obligations based on the stand-alone selling price. The sales-based royalty will only be included in the transaction price when actual sales are made.

The control of the license transfers at point in time, when the customer obtains the right to use the underlying IP of the license. Control of the R&D service is transferred over time based on the progress measured using input method. The sales-based royalties are recognized as revenue when the subsequent sales are made.

Costs related to licensing and R&D services are included in "research and development expenses".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Revenue recognition (cont'd)

(d) Revenue from commission

The Group earns commission from providing promotion services to its customers, which are pharmaceutical companies, helping them to sell their products in the market. The Group is not the principal for selling those products, as it does not have control over the products to be sold, act as the primary obligor for selling the product, bear any inventory risk nor have any price discretion. The commission is based on pre-determined percentage of the actual monthly sales, and settled with the customers on a quarterly basis, subject to annual price adjustment based on actual volume. The Group includes the price adjustment in the transaction price such that it is highly probable that there will not be significant reversal of revenue in future when the uncertainty is resolved. The right to consideration relating to price adjustment is recorded as contract assets and it will be transferred to receivables when the right is unconditional except for passage of time. The Group is not the principal in selling the products. Accordingly, the Group recognizes commission revenue at the net amount to which it expects to be entitled in exchange for its service. Costs related to the service are included in "selling expenses".

(e) Sales of goods

The Group sells certain nutritional supplements to cancer patients. Sales are recognized when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location where the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied. The price is normally fixed and with no sales discount or volume rebate. Goods return are very rare. Costs related to sales of goods are included in "cost of revenue".

2.26 Leases as lessee

The Group leases properties and land use right in the PRC as lessee. Rental contracts of properties are typically made for fixed periods of 2 to 5 years but may have extension options as described below. Land use right is made for fixed periods of 50 years.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The consideration paid to lease the state-owned or collectively-owned land in the PRC are treated as prepayment for land use rights and included in right of use assets, which are stated at cost less accumulated amortization and impairment loss, if any. Land use rights are amortized over the lease period using straight-line method.

Notes to the consolidated financial statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.26 Leases as lessee (cont'd)**

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

Extension options are only included in the lease term if the lease is reasonably certain to be extended. The Group determine the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

2.27 Interest income

Interest income is recognized on a time-proportion basis taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's directors or shareholders, where applicable.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

3.1.1 Market risk

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The Company's functional currency is USD. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency.

Certain bank balances and cash, trade receivables and other receivables, contract assets and other payables are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. The Group has entities operating in USD, New Taiwan Dollars ("NTD") and RMB, and the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

Most foreign exchange transactions were denominated in RMB for the Company that have functional currency in USD and USD for the group companies that have functional currency in RMB. If the USD strengthened/weakened by 5% against the RMB with all other variables held constant, net loss for the year ended 31 December 2019 would have been RMB20,547,000 higher/lower (2018: RMB9,626,000 lower/higher).

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The Group's investments in equity securities comprise listed stock, which were listed at over-the-counter market of Taiwan. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 5% with all other variables held constant, other components of equity for the year ended 31 December 2019 would have increased/decreased by RMB399,536 (2018: increased/decreased by RMB340,481), as a result of change in other comprehensive income for equity investment at fair value through other comprehensive income.

Notes to the consolidated financial statements

3 FINANCIAL RISK MANAGEMENT (cont'd)**3.1 Financial risk factors** (cont'd)**3.1.1 Market risk** (cont'd)*(c) Cash flow and fair value interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. The Group has not hedged its cash flow or fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 28.

There are no floating rate borrowings as at 31 December 2019 (2018: same).

3.1.2 Credit risk

Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

(a) Trade receivables and contract assets

Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The utilization of credit limits is regularly monitored. Credit risks mainly arises from credit exposure from CDMO and CMO customers, credit terms are usually 60 days. Management makes periodic assessments as well as individual assessment on the recoverability based on historical settlements records and experience and adjusts for forward-looking information. The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract asset.

All of the Group's customers are reputable pharmaceutical companies. As at 31 December 2019, the Group has assessed that the expected loss rate for trade receivables and contract assets was immaterial, taking into consideration the low historical default rates and the expectation that significant change of forward-looking factors is unlikely. Thus, no loss allowance provision for trade receivables and contract assets were recognized during the year (2018: same).

Notes to the consolidated financial statements

3 FINANCIAL RISK MANAGEMENT (cont'd)**3.1 Financial risk factors** (cont'd)**3.1.2 Credit risk** (cont'd)*(b) Cash and cash equivalents, financial assets at fair value through profit or loss and other receivables*

To manage this risk, cash and cash equivalents and financial assets at fair value through profit or loss are mainly placed or invested with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no history of default in the recent years in relation to these financial institutions and accordingly no loss allowance provision was recognized. Credit risks from other receivables mainly arises from a supplier (Note 18(b)) and the amount would be used to offset against purchases made by the Company. Management makes periodic assessments as well as individual assessment on the recoverability based on historical settlements records and past experience and adjusts for forward-looking information. Management has assessed that during the year, other receivables have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of each reporting date is adopted by management. The directors of the Company does not expect any losses from non-performance by the counterparties of other receivables and no loss allowance provision for other receivables was recognized.

3.1.3 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below analyses the Group's non-derivative financial liabilities that will be settled into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2019

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Accruals and other payables (Note 29)	71,310	–	–	–
Borrowings (including interest payables)	61,436	–	–	–
Lease liabilities (including interest payables)	2,849	2,238	5,919	7,380
	135,595	2,238	5,919	7,380

Notes to the consolidated financial statements

3 FINANCIAL RISK MANAGEMENT (cont'd)**3.1 Financial risk factors** (cont'd)**3.1.3 Liquidity risk** (cont'd)

As at 31 December 2018

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Accruals and other payables (Note 29)	59,377	–	–	–
Borrowings (including interest payables)	521	–	–	–
Lease liabilities (including interest payables)	2,379	2,491	5,465	8,442
	62,277	2,491	5,465	8,442

The Group recognizes the financial instruments issued to investors at fair value through profit or loss. Accordingly, the financial instruments issued to investors are managed on a fair value basis rather than by maturing dates (Note 27).

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and provide returns for shareholders if the operation turns to profit. In order to maintain or adjust the capital structure, the Group may issue shares, obtain borrowings from bank and dispose assets in order to repay or refill operation capital, adjust the amount of dividends and return capital to shareholders, to maintain or adjust the capital structure, but not limited to the above.

Notes to the consolidated financial statements

3 FINANCIAL RISK MANAGEMENT (cont'd)**3.2 Capital management** (cont'd)

The Group monitors capital on the basis of the net debt equity ratio. This ratio is calculated as "net debt" divided by "total equity". Net debt is calculated as total borrowings less cash and cash equivalents. The net debt equity ratios as of 31 December 2019 and 2018 were as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Borrowings	60,000	500
Less: Cash and cash equivalents	(539,180)	(256,751)
Net cash	(479,180)	(256,251)
Total equity/(deficit)	858,277	(184,478)
Net debt to equity ratio (Note)	N/A	N/A

Note: Net debt to equity ratio is not applicable due to the Group's net cash position as at 31 December 2019 and 2018.

3.3 Fair value estimation

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, trade and other receivables (excluding prepayments), contract assets, borrowings and accruals and other payables) approximate their fair values.

The Group applies HKFRS 13 for financial instruments that are measured in the consolidated balance sheet at fair value, which requires disclosure of fair value measurements by levels of the following fair value measurement hierarchy:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the consolidated financial statements

3 FINANCIAL RISK MANAGEMENT (cont'd)**3.3 Fair value estimation** (cont'd)

The following table presents the Group's assets and liabilities that were measured at fair value at 31 December 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Financial assets at fair value through profit or loss	–	–	32,139	32,139
Financial assets at fair value through other comprehensive income	7,991	–	–	7,991
	7,991	–	32,139	40,130

The following table presents the Group's assets and liabilities that were measured at fair value at 31 December 2018:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Financial assets at fair value through profit or loss	–	–	17,332	17,332
Financial assets at fair value through other comprehensive income	6,810	–	–	6,810
	6,810	–	17,332	24,142
Liabilities:				
Financial instruments				
– Convertible Preferred Shares	–	–	773,767	773,767

Notes to the consolidated financial statements

3 FINANCIAL RISK MANAGEMENT (cont'd)**3.3 Fair value estimation** (cont'd)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no changes in valuation techniques during the year ended 31 December 2019 (2018: same).

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year ended 31 December 2019 (2018: same).

The changes in level 3 instruments for the years ended 31 December 2019 and 2018 are presented in Notes 20 and 27.

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 31 December 2019 RMB'000	Valuation Technique	Unobservable inputs	Range of inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Financial products	32,139	Discounted cash flow method	Rate of return	2.00%-3.57% (2.29%)	The higher the rate of return, the higher the fair value

Description	Fair value at 31 December 2018 RMB'000	Valuation Technique	Unobservable inputs	Range of inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Financial products	17,332	Discounted cash flow method	Rate of return	2.20%-4.30% (2.51%)	The higher the rate of return, the higher the fair value
Convertible Preferred Shares	773,767	Binomial model	Volatility	38.29%-44.63% (42.68%)	The higher the volatility, the higher the fair value

Notes to the consolidated financial statements

3 FINANCIAL RISK MANAGEMENT (cont'd)**3.3 Fair value estimation** (cont'd)

If the rate of return of financial products held by the Group had been 1% higher/lower, the loss before income tax for the year ended 31 December 2019 would have been approximately RMB267,500 lower/higher (2018: RMB45,000 lower/higher).

Fair values of Convertible Preferred Shares are affected by changes in volatility. If the Group's volatility had increased/decreased by 5% with all other variables held constant, the loss before income tax for the year ended 31 December 2018 would have been approximately RMB11,396,000 higher/RMB11,526,000 lower.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Assessment of impairment indicators of property, plant and equipment

At the end of each reporting period, the Group assesses whether there is any indication that the Group's property, plant and equipment may be impaired. To determine whether an impairment indicator exist, management considers both internal and external source of information, including the plan and progress of the research and development projects and the prospect of the technology. If any such indication exists, the Group will estimate the recoverable amount of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

(b) Estimation of fair value of financial instruments

The Convertible Preferred Shares issued by the Company are not traded in an active market and the fair values are determined using valuation techniques. The binomial model was adopted to determine the fair value of the Convertible Preferred Shares. Key assumptions, such as discount rate, risk-free interest rate and volatility are disclosed in Note 27 and Note 3.3. Any changes in key assumptions used in the binomial model will have impacts on the fair values. All Convertible Preferred Shares of the Company had been converted into ordinary shares of the Company upon its initial public offering on 8 November 2019.

(c) Research and development expenses

Development costs incurred on the Group's drug product pipelines are capitalised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development costs 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. During the year, all expenses incurred for research and development activities were regarded as research expenses and therefore were expensed when incurred.

Notes to the consolidated financial statements

5 SEGMENT AND REVENUE INFORMATION**(a) Description of segments and principal activities**

The Group is engaged in the research, development and licensing of self-developed biological drug. The outcome of the Group's research and development activities will be given preference to be used by the Group for its own commercialization. There is one team managing and operating all revenue streams. Accordingly, management considers there is only one segment and hence no segment information is presented.

(b) License agreement with a customer

In January 2017, the Group entered into an agreement with pharmaceutical company for licensing one of its bio-pharmaceutical know-how to the customer for development and commercialization for a period of 10 years. The agreement includes non-refundable upfront payment, milestone payments and sales-based royalty upon commercialization of the know-how. During the year ended 31 December 2019, no milestone was achieved and therefore, no revenue was recognized during the year (2018: same). Details of the Group's accounting policy on revenue recognition is disclosed in Note 2.25.

(c) The amount of each category of revenue is as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Timing of revenue recognition		
At a point in time:		
– Commission revenue	29,822	26,111
– CMO	6,466	11,274
– Sales of goods	911	527
– Others	9	107
Over time:		
– CDMO	8,100	1,200
	45,308	39,219

Notes to the consolidated financial statements

5 SEGMENT AND REVENUE INFORMATION (cont'd)

(d) The following table presents the analysis of contract assets and contract liabilities related to the above-mentioned arrangements.

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Contract assets:		
– Consideration for services delivered-CDMO	–	40
– Consideration for commission	2,450	2,020
Contract liabilities-CMO	–	(1,292)
Contract liabilities-CDMO	(2,593)	(1,730)
	(143)	(962)

(i) Contract liabilities arise from CDMO and CMO which are recognized when the payments are received before the services are rendered to customers and will be recorded as revenue within one year.

(e) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Revenue recognized that was included in the balance of contract liabilities at the beginning of the year		
– Service revenue-CMO	1,292	–
– Service revenue-CDMO	1,730	207
	3,022	207

(f) Unfulfilled long-term contracts

The license contract includes an upfront fee of RMB8,400,000 (including tax) and development milestone payments of RMB48,100,000 (including tax) in aggregate. The contract also includes sales-based royalty. No revenue is recognized during the year (2018: nil) as no milestone was achieved. The remaining development milestones and sales-based royalty are not included in the transaction price based on the most likely amount and the application of the variable consideration constraint. As a result, as at 31 December 2019 after considering the constraint, there is no transaction price that would be allocated to unsatisfied performance obligations (2018: same).

Except for the above-mentioned contracts, all other revenue contracts are for periods of one year or less and are billed based on milestone. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Notes to the consolidated financial statements

5 SEGMENT AND REVENUE INFORMATION (cont'd)**(g) Geographical information**

Geographical information of revenue and non-current assets other than financial assets for the years ended 31 December 2019 and 2018 is as follows:

	Year ended 31 December			
	2019		2018	
	Revenue RMB'000	Non-current assets RMB'000	Revenue RMB'000	Non-current assets RMB'000
China	45,308	339,349	39,219	331,642
Others	–	1,127	–	1,241
	45,308	340,476	39,219	332,883

(h) Information about major customers

The major customers which contributed more than 10% of the total revenue of the Group for the year ended 31 December 2019 and 2018 are listed as below:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Customer A	29,822	26,111
Customer B	6,466	11,278
Total	36,288	37,389

Notes to the consolidated financial statements

6 EXPENSES BY NATURE

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Employee benefit expenses (Note 7)	101,067	85,826
Clinical trials (exclude employee benefit expenses)	54,710	90,462
Pre-clinical trials	5,093	2,298
R&D materials and consumables	21,038	13,591
Amortization and depreciation (Notes 13, 14 and 15)	27,351	15,656
Other third-party research contracting costs	5,826	11,482
Conference fee	3,783	9,087
Travelling expenses	7,752	7,459
Marketing and business development expenses	8,407	7,265
Professional services	8,010	4,391
Listing expenses	42,315	8,572
Commission expense for the issuance of Convertible Preferred Shares	—	8,441
Repairs and maintenance expense	8,348	3,553
Utilities	12,807	9,303
Raw materials used for CDMO and CMO service	1,059	448
Other cost of CMO service transferred from WIP	2,789	980
Office leasing expenses	202	39
Promotion and advertisement expenses	648	1,384
Other taxes	4,107	570
Auditor's remuneration		
– audit service	1,907	190
– non-audit service	847	—
Other expenses	10,963	7,207
Total cost of revenue, research and development expenses, selling expenses and general and administrative expenses	329,029	288,204

Note: Cost of revenue includes cost of sales of goods and CMO/CDMO services.

Notes to the consolidated financial statements

7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS)

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Salaries, wages and bonuses	63,456	49,336
Contributions to pension plans (a)	5,258	4,062
Housing fund, medical insurance and other social insurance	6,252	4,576
Share-based compensation expenses (Note 25)	23,557	25,677
Other welfare for employees	2,544	2,175
	101,067	85,826

- (a) (i) The employees of the Group in the PRC are members of a state-managed pension scheme operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contribution under the scheme.
- (ii) TOT Taipei has established a defined contribution pension plan under the Labour Pension Act, covering all regular Taiwan employees. Under the plan, the Group contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labour Insurance. The only obligation of the Group with respect to the defined contribution pension plan is to make the specified contribution under the plan.

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' and chief executive's emoluments**

Directors and chief executives' emoluments for the years ended 31 December 2019 and 2018 are set out as follows:

	Employer's social security costs					Share-based compensation expenses	Total
	Fees	Salary	Discretionary bonuses	Employer's social security costs	Share-based compensation expenses		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2019							
Chairman of the Board							
Mr. Fu, Shan (Note 1)	3	-	-	-	-	-	3
Non-executive directors							
Dr. Kung, Frank Fang-Chien	2	-	-	-	-	-	2
Mr. Kang, Pei	2	-	-	-	-	-	2
Mr. Qiu, Yu Min (Note 2)	2	-	-	-	-	-	2
Mr. Chang, Hong-Jen (Note 4)	2	155	-	-	-	-	157
Ms. Hu, Lan (Note 4)	2	155	-	-	-	-	157
Dr. Sun, Lijun Richard (Note 4)	2	155	-	-	-	-	157
Executive directors							
Ms. Yeh-Huang, Chun-Ying	3	1,610	71	13	3,037	-	4,734
Dr. Liu, Jun (Notes 3 and 5)	3	1,230	167	64	2,267	-	3,731
	21	3,305	238	77	5,304	-	8,945

Notes to the consolidated financial statements

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)**(a) Directors' and chief executive's emoluments** (cont'd)

	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's social security costs RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Year ended 31 December 2018						
Chairman of the Board						
Mr. Lin, Jung-Chin (Note 1)	2	-	-	-	-	2
Mr. Fu, Shan (Note 1)	1	-	-	-	-	1
Non-executive directors						
Mr. Cheng, Wann-Lai (Note 2)	1	-	-	-	-	1
Mr. Chen, Chun-Hong (Note 3)	-	-	-	-	-	-
Dr. Kung, Frank Fang-Chien	1	-	-	-	-	1
Mr. Kang, Pei	2	-	-	-	-	2
Mr. Ling, Yu-Chi (Note 3)	2	-	-	-	-	2
Mr. Qiu, Yu Min (Note 2)	1	-	-	-	-	1
Executive directors						
Ms. Yeh-Huang, Chun-Ying	2	1,649	-	54	5,309	7,014
Dr. Liang, Min (Note 3)	1	1,085	-	79	2,328	3,493
Dr. Liu, Jun (Note 3)	1	151	-	11	327	490
	14	2,885	-	144	7,964	11,007

Note 1: Mr. Lin, Jung-Chin resigned on 28 September 2018. Mr. Fu, Shan was appointed as the chairman on 28 September 2018.

Note 2: Mr. Cheng, Wann-Lai resigned on 26 September 2018. Mr. Qiu, Yu Min was appointed on 26 September 2018.

Note 3: Mr. Chen, Chun-Hong, Mr. Ling, Yu-Chi and Dr. Liang, Min resigned on 26 October 2018. Dr. Liu, Jun was appointed on 26 October 2018.

Note 4: Ms. Hu, Lan, Dr. Sun, Lijun Richard, Mr. Chang, Hong-Jen were appointed as the Company's independent non-executive directors on 12 March 2019. During the year ended 31 December 2018, the independent non-executive directors did not receive any remuneration.

Note 5: During the year ended 31 December 2019, discretionary bonuses are determined with reference to the performance of the relevant director and based on the human resources related government grants received (2018: same).

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the year (2018: Nil).

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2018: Nil).

Notes to the consolidated financial statements

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)**(d) Consideration provided to third parties for making available directors' services**

During the year, the Company did not pay consideration to any third parties for making available directors' services (2018: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2018: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year (2018: Nil).

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two directors (2018: three directors) for the year ended 31 December 2019. Their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals (2018: two individuals) during the year are as follows (Note):

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Salaries, wages and bonuses	3,443	4,268
Social security costs	228	150
Share-based compensation expenses	5,386	4,410
	9,057	8,828

Note: Emoluments of RMB8,828,000 for the year ended 31 December 2018 include the emoluments of certain current and past directors in the capacity as an employee, during the period prior to appointment of the relevant director or after resignation of the relevant director. The emoluments of such individuals solely in the capacity of a director is disclosed in Note 8(a).

Notes to the consolidated financial statements

8 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)**(g) Five highest paid individuals** (cont'd)

The emoluments of the top five highest paid individuals fell within the following bands:

	Year ended 31 December	
	2019	2018
Emoluments bands		
Nil to HKD1,000,000	–	–
HKD1,000,001 to HKD1,500,000	–	–
HKD1,500,001 to HKD3,000,000	1	1
HKD3,000,001 to HKD4,500,000	2	1
HKD4,500,001 to HKD6,000,000	2	2
HKD6,000,001 to HKD7,500,000	–	–
HKD7,500,001 to HKD9,000,000	–	1
	5	5

9 OTHER GAINS – NET

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Government grants (Note)	13,390	12,514
Net foreign exchange gains/(losses)	2,396	(1,191)
Loss on disposals of property, plant and equipment	(459)	(5)
Write-off of property, plant and equipment	(1,070)	–
Fair value gain on wealth management products at fair value through profit or loss (Note 20)	1,026	628
Others	(1,166)	(138)
	14,117	11,808

Note: There are no unfulfilled conditions or other contingencies attaching to these grants.

Notes to the consolidated financial statements

10 FINANCE COSTS – NET

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Finance income		
– Interest income on bank deposits	1,680	727
Finance costs		
– Interest expenses on bank borrowings (Note 28)	(1,519)	(2,120)
– Interest expenses on lease liabilities	(772)	(284)
	(2,291)	(2,404)
	(611)	(1,677)

11 INCOME TAX EXPENSE

The Group's principal applicable taxes and tax rates are as follows:

(a) Hong Kong

No provision for Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 16.5%) as the Company has no estimated assessable profit.

(b) Mainland China

No provision for Mainland China income tax has been provided for at a rate of 25% or 15% (2018: 25% or 15%) pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), as the Group's PRC entities have no estimated assessable profits.

TOT BIOPHARM Co., Ltd. ("TOT Suzhou") is qualified as a "High and New Technology Enterprise" under the relevant PRC laws and regulations in 2014 and 2017. Accordingly, TOT Suzhou was entitled to a preferential income tax rate of 15% on its estimated assessable profits commencing from 2014 to 2020.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2018, and applicable until 2020, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year.

Notes to the consolidated financial statements

11 INCOME TAX EXPENSE (cont'd)**(c) Taiwan corporate income tax**

No provision for Taiwan corporate income tax has been provided for at a rate of 20% (2018: 20%) as the Group's Taiwan subsidiary has no estimated assessable profit.

- (d) The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the consolidated entities as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Loss before income tax	(299,300)	(268,263)
Tax calculated at statutory tax rates applicable to each group entity	(46,545)	(34,109)
Tax effect of:		
Expenses not deductible for tax purposes	16,569	1,088
Additional deduction of research and development and other expenses	(15,325)	(15,394)
Temporary differences not recognized as deferred tax assets	66	131
Tax loss not recognized as deferred tax assets	45,235	48,284
Income tax expense	—	—

- (e) Deferred tax assets not recognized:

The Group has not recognized any deferred tax assets in respect of the following items:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Deductible losses	144,733	102,569
Deductible temporary differences	451	385
	145,184	102,954

Notes to the consolidated financial statements

11 INCOME TAX EXPENSE (cont'd)

(f) Deductible losses that are not recognized as deferred tax assets will be expired as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
2019	–	279
2020	642	642
2021	619	619
2022	936	936
2023	7,658	7,658
2024	7,343	7,218
2025	8,930	8,930
2026	12,989	13,865
2027	14,574	15,373
2028	45,932	47,049
2029	45,110	–
	144,733	102,569

Note: The tax losses of the Company's PRC subsidiaries will expire within five years (except for TOT Suzhou which will expire within ten years for High and New Technology Enterprise) while the tax losses of the Company's Taiwan subsidiary will expire within 10 years.

Notes to the consolidated financial statements

12 LOSS PER SHARE**(a) Basic loss per share**

Basic loss per share is calculated by dividing the loss of the Group attributable to owners of the Company by weighted average number of ordinary shares issued during the year.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss attributable to equity holders of the Company (RMB'000)	(299,300)	(268,263)
Weighted average number of ordinary shares in issue (thousand) (Note)	335,654	293,359
Basic loss per share (RMB)	(0.89)	(0.91)

Note: The weighted average number of ordinary shares for the purpose of basic and diluted loss per share for the years ended 31 December 2019 and 2018 has been retrospectively adjusted for the capitalization issue (Note 23).

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2019, the Company had one category of potential ordinary shares: the stock options granted to employees (Note 25) (2018: the Company had two category of potential ordinary shares: the Convertible Preferred Shares (Note 27) and the stock options granted to employees (Note 25)). As the Group incurred losses for the years ended 31 December 2019 and 2018, the potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended 31 December 2019 and 2018 is the same as basic loss per share of the respective years.

Notes to the consolidated financial statements

13 PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Plant and equipment RMB'000	Machinery RMB'000	Testing equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019							
Cost	134,295	44,916	18,538	64,788	8,000	86,627	357,164
Accumulated depreciation	(32,050)	(3,587)	(6,435)	(18,259)	(2,413)	-	(62,744)
Net book amount	102,245	41,329	12,103	46,529	5,587	86,627	294,420
Year ended 31 December 2019							
Opening net book amount	102,245	41,329	12,103	46,529	5,587	86,627	294,420
Additions	5,804	819	260	11,227	3,075	10,330	31,515
Disposals	(212)	-	(20)	(243)	(3)	-	(478)
Transfers	8,813	135	13,682	11,488	3,143	(37,261)	-
Depreciation charge (Note 6)	(9,433)	(4,410)	(1,918)	(6,670)	(1,726)	-	(24,157)
Write-off	-	-	(1,070)	-	-	-	(1,070)
Closing net book amount	107,217	37,873	23,037	62,331	10,076	59,696	300,230
At 31 December 2019							
Cost	148,470	45,870	31,064	86,935	14,207	59,696	386,242
Accumulated depreciation	(41,253)	(7,997)	(8,027)	(24,604)	(4,131)	-	(86,012)
Net book amount	107,217	37,873	23,037	62,331	10,076	59,696	300,230
At 1 January 2018							
Cost	72,914	6,376	15,120	50,792	3,297	103,446	251,945
Accumulated depreciation	(26,182)	(2,981)	(6,147)	(13,064)	(1,683)	-	(50,057)
Net book amount	46,732	3,395	8,973	37,728	1,614	103,446	201,888
Year ended 31 December 2018							
Opening net book amount	46,732	3,395	8,973	37,728	1,614	103,446	201,888
Additions	4,109	66	540	33	43	101,445	106,236
Disposals	-	-	-	-	(5)	-	(5)
Transfers	57,272	38,474	3,846	13,963	4,709	(118,264)	-
Depreciation charge (Note 6)	(5,868)	(606)	(1,256)	(5,195)	(775)	-	(13,700)
Net exchange differences	-	-	-	-	1	-	1
Closing net book amount	102,245	41,329	12,103	46,529	5,587	86,627	294,420
At 31 December 2018							
Cost	134,295	44,916	18,538	64,788	8,000	86,627	357,164
Accumulated depreciation	(32,050)	(3,587)	(6,435)	(18,259)	(2,413)	-	(62,744)
Net book amount	102,245	41,329	12,103	46,529	5,587	86,627	294,420

Notes to the consolidated financial statements

13 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) Depreciation charges have been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	1,165	1,560
Research and development expenses	20,686	11,206
Selling expenses	18	14
General and administrative expenses	2,288	920
	24,157	13,700

(b) Prepayments for property, plant and equipment amounted to RMB9,244,000 (2018: RMB7,042,000) as at 31 December 2019. During the year, RMB4,981,000 (2018: RMB22,327,000) was transferred from prepayments for property, plant and equipment to machinery, testing equipment and construction in progress.

(c) Capitalized borrowing costs are not material in the year ended 31 December 2019 (2018: same).

14 INTANGIBLE ASSETS

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Software		
Cost	3,860	2,806
Accumulated amortization	(1,469)	(905)
Net book amount	2,391	1,901
Opening net book amount	1,901	730
Additions	1,054	1,552
Amortization charge (Note 6)	(564)	(381)
Closing net book amount	2,391	1,901

Notes to the consolidated financial statements

14 INTANGIBLE ASSETS (cont'd)

Amortization charge has been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
General and administrative expenses	564	381

15 RIGHT-OF-USE ASSETS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Land use rights	14,020	14,366
Others	14,415	14,958
	28,435	29,324

(a) Land use rights

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC and the lease term is 50 years. The net book amount of which is analysed as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost	17,273	17,273
Accumulated amortization	(3,253)	(2,907)
Net book amount	14,020	14,366
Opening net book amount	14,366	14,711
Amortization charges (Note 6)	(346)	(345)
Closing net book amount	14,020	14,366

Notes to the consolidated financial statements

15 RIGHT-OF-USE ASSETS (cont'd)**(a) Land use rights** (cont'd)

Amortization charge has been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Research and development expenses	288	282
General and administrative expenses	58	63
	346	345

(b) Others

The Group leases properties for own use. Information about leases for which the Group is a lessee is presented below:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost	18,233	16,523
Accumulated depreciation	(3,818)	(1,565)
Net book amount	14,415	14,958
Opening net book amount	14,958	1,950
Additions	1,718	14,210
Depreciation charge (Note 6)	(2,284)	(1,230)
Net exchange differences	23	28
Closing net book amount	14,415	14,958

Notes to the consolidated financial statements

15 RIGHT-OF-USE ASSETS (cont'd)**(b) Others** (cont'd)

The consolidated statement of comprehensive loss and the consolidated statement of cash flows contain the following amounts relating to leases:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Depreciation and amortization charge of right-of-use assets	2,630	1,575
Interest expenses	772	284
Expenses relating to short-term leases	280	39
The cash outflow for leases as operating activities	280	39
The cash outflow for leases as financing activities	1,583	774

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Opening balance	6,810	6,455
Changes in the fair value of equity instruments at fair value through other comprehensive income (Note 24)	1,181	355
Closing balance	7,991	6,810

The balance represents the interest in equity securities which were listed at over-the-counter market of Taiwan. Accordingly, the fair value of the Group's investment is measurable, based on quoted market price. The currency of the Group's investment is NTD.

Notes to the consolidated financial statements

17 INVENTORIES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials	6	–
Work in progress	–	2,789
Finished goods	148	316
Consumables	15,096	–
	15,250	3,105

During the year, the Group has carried out regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption, physical condition and management judgement. As a result, inventories of RMB362,000 (2018: RMB430,000) have been written off and recognized in the consolidated statement of comprehensive loss.

18 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables from contracts with customers	6,741	6,938
Other receivables	7,665	2,756
Trade and other receivables	14,406	9,694

(a) Trade receivables

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables from contracts with customers	6,741	6,938

Customers are generally granted with credit terms ranging from 15 to 60 days.

Notes to the consolidated financial statements

18 TRADE AND OTHER RECEIVABLES (cont'd)**(a) Trade receivables** (cont'd)

As of 31 December 2019 and 2018, the ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within 30 days	4,727	4,792
31 days to 90 days	2,014	2,146
	6,741	6,938

The carrying amounts of the Group's trade receivables are denominated in RMB and USD and approximate their fair values.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables mentioned above.

(b) Other receivables

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Advance to a supplier (Note (i))	2,600	2,504
Advance to employees (Note (ii))	1,393	–
Other receivables	3,672	252
Other receivables	7,665	2,756

Note (i) The party is a supplier of TOT Taipei. According to the purchase contract, the amount of the advance will be used to offset the purchase amount. In the scenario where the relevant purchase contract is early terminated and the advance has not been fully utilised, the supplier will repay the remaining amount within 60 days on an interest-free basis. The amount is unsecured.

Note (ii) The advance to employees was unsecured, interest bearing at 6% per annum, and repayable within one year (2018: nil).

Notes to the consolidated financial statements

18 TRADE AND OTHER RECEIVABLES (cont'd)**(b) Other receivables** (cont'd)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
RMB	4,310	1,805
USD	10,093	5,385
NTD	–	2,504
HKD	3	–
	14,406	9,694

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The carrying amounts of the Group's other receivables approximate their fair values.

19 PREPAYMENTS AND OTHER NON-CURRENT ASSETS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Prepayments – current		
Prepaid research expenses	–	194
Prepayments for consumables	5,302	1,895
Prepayments for listing expenses	–	2,890
Prepaid insurance	12	185
Prepayments for inventories	2,132	2,504
Other prepayments	3,492	3,077
	10,938	10,745
Other non-current assets		
Value-added tax recoverable	49,786	36,053
Deposits	4,746	1,805
Other non-current assets	176	196
	54,708	38,054
	65,646	48,799

Notes to the consolidated financial statements

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Opening balance	17,332	47,835
Change in fair value (Note 9)	1,026	628
Additions	131,800	116,500
Disposals	(118,019)	(147,631)
Closing balance	32,139	17,332

The Group entered into contracts in respect of wealth management products from banks or other financial institutions with an expected but not guaranteed rates of return ranging from 2.00% to 3.57% per annum for the year ended 31 December 2019 (2018: ranging from 2.20% to 4.30%). According to the contract terms, the Group should hold the financial products for at least 7 days. The Group managed and evaluated the performance of investments on a fair value basis, in accordance with the Group's risk management and investment strategy and hence are designated as financial assets at fair value through profit or loss as at 31 December 2019 (2018: same).

21 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	539,180	256,751

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Cash on hand		
– RMB	182	156
– NTD	5	7
Cash at bank		
– RMB	435,195	9,923
– USD	11,729	238,606
– NTD	23,678	8,059
– HKD	68,391	–
	539,180	256,751

Notes to the consolidated financial statements

22 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Assets		
Financial assets at fair value:		
– Financial assets at fair value through profit or loss (Note 20)	32,139	17,332
– Financial assets at fair value through other comprehensive income (Note 16)	7,991	6,810
Financial assets at amortized costs:		
– Deposits (Note 19)	4,746	1,805
– Trade receivables and other receivables (Note 18)	14,406	9,694
– Cash and cash equivalents (Note 21)	539,180	256,751
Total	598,462	292,392
Liabilities		
Financial liabilities at amortized cost		
– Other payables (Note 29)	71,310	59,737
– Borrowings (Note 28)	60,000	500
Lease liabilities at amortized cost-current (Note 30)	2,775	2,317
Lease liabilities at amortized cost-non-current (Note 30)	12,299	12,810
Financial liabilities at fair value		
– Convertible Preferred Shares (Note 27)	–	773,767
Total	146,384	849,131

Notes to the consolidated financial statements

23 SHARE CAPITAL

Issued and fully paid:

	Number of ordinary shares	Share capital RMB'000
As at 1 January 2018 and 31 December 2018	84,000,000	537,859
Issue of shares upon exercise of share options (Note (a))	2,267,500	19,801
Conversion of Convertible Preferred Shares to ordinary shares (Note (b))	51,174,876	817,276
Capitalization issue (Note (c))	342,557,624	–
Issue of shares upon initial public offering, net of underwriting commissions and other issuance costs (Note (d))	90,000,000	499,502
As at 31 December 2019	570,000,000	1,874,438

Note (a) In July to August 2019, five participants exercised part of their respective share options at an exercise price of USD1.00 per ordinary share, following which a total of 2,267,500 ordinary shares were issued on 6 September 2019. Upon the exercise of the share options, share-based compensation reserve of RMB4,151,000 is transferred to share capital, as set out in Note 24. The exercise price of the outstanding share options had been adjusted subsequently from USD1.00 per share to USD0.29 per share. Details are set out in Note 25(a).

Note (b) All preferred shares were converted into 51,174,876 ordinary shares upon the initial public offering on 8 November 2019. The principal amount of these preferred shares and the cumulative changes in fair value are capitalized as share capital accordingly.

Note (c) On 8 November 2019, pursuant to the resolution passed by the shareholders on 30 September 2019, 342,557,624 shares were allotted and issued without payment and as fully paid shares to existing shareholders after the conversion of the Convertible Preferred Shares and prior to the completion of the initial public offering.

Note (d) On 8 November 2019, the Company issued 90,000,000 ordinary shares at HK\$6.55 per share, and raised gross proceeds of approximately HK\$589,500,000. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 8 November 2019. The gross proceeds, net of underwriting commissions and other issuance costs, are capitalized as share capital accordingly.

Notes to the consolidated financial statements

24 OTHER RESERVES

	Share-based compensation reserve (i) RMB'000	Foreign currency translation reserve (ii) RMB'000	Gain from investments in equity instruments measured at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2019	26,186	(333)	5,596	31,449
Share-based compensation expense (Note 25)	23,557	–	–	23,557
Issue of shares upon exercise of share options	(4,151)	–	–	(4,151)
Currency translation differences	–	(15,111)	–	(15,111)
Gain from investments in equity instruments measured at fair value through other comprehensive income (Note 16)	–	–	1,181	1,181
At 31 December 2019	45,592	(15,444)	6,777	36,925
At 1 January 2018	509	19,230	5,241	24,980
Share-based compensation expense (Note 25)	25,677	–	–	25,677
Currency translation differences	–	(19,563)	–	(19,563)
Gain from investments in equity instruments measured at fair value through other comprehensive income (Note 16)	–	–	355	355
At 31 December 2018	26,186	(333)	5,596	31,449

- (i) Share-based compensation reserve arises from share-based payments granted to employees of the Group.
- (ii) Foreign currency translation reserve represents the difference arising from the translation of financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Group.

Notes to the consolidated financial statements

25 SHARE-BASED PAYMENTS**(a) Stock options granted**

On 20 February 2013, the board of directors passed a resolution to grant 3,300,000 stock options (the "2013 Plan") to certain directors and senior management of the Group as rewards for their services, full time devotion and professional expertise to certain of the Group's subsidiaries. The exercise price of the options is USD1.00 per ordinary share. All options shall expire in ten years from the respective grant dates. The details of the vesting conditions are set out in note (b) below.

On 11 December 2017, the board of directors passed a resolution to (i) amend the vesting conditions of the grants under the 2013 plan and (ii) grant an additional 9,300,000 stock options (the "2017 Plan") to certain directors, senior management and employees of the Group, as rewards for their services to certain of the Group's subsidiaries. The exercise price of the options is USD1.00 per ordinary share. All options shall expire in ten years from the respective grant dates. The details of the vesting conditions are set out in note (b) below.

On 20 December 2018, the board of directors passed a resolution to grant 2,300,000 stock options (the "2018 Plan") to certain directors and senior management of the Group, as rewards for their services to certain of the Group's subsidiaries. The exercise price of the options is USD1.00 per ordinary share. All options shall expire in ten years from the respective grant dates. The details of the vesting conditions are set out in note (b) below.

In November 2019, as a result of the capitalization issue which took place immediately prior to the initial public offering of the Company on 8 November 2019, the exercise price of the outstanding share options under the 2013 Plan, 2017 Plan and 2018 Plan (together, the "Stock Option Plans") had been modified from USD1.00 per share to USD0.29 per share pursuant to the terms of the Stock Option Plans. The modifications to the Stock Option Plans did not result in any incremental fair value granted. It was also agreed that additional shares will be issued and allotted to stock option holders of the Stock Option Plans whose outstanding stock options had been diluted as a result of the said capitalization issue.

(b) The Group's employee stock options arrangements are as follows:

Type of arrangement	Grant date	Contract period	Vesting conditions
Employee stock options – 2013	2013.2	10 years	(Note i)
Employee stock options – 2017	2017.12-2018.7	10 years	(Note ii)
Employee stock options – 2018	2019.1-2019.2	10 years	(Note iii)
Employee stock options – 2018	2019.1	10 years	(Note iv)

- (i) The options are vested at different rates conditional on a service period of 2 years and achievement of certain performance condition.

On 11 December 2017, the board of directors passed a resolution to amend the vesting condition of share options granted under the 2013 plan. Such share options are 100% vested immediately.

Notes to the consolidated financial statements

25 SHARE-BASED PAYMENTS (cont'd)**(b) The Group's employee stock options arrangements are as follows:** (cont'd)

- (ii) Options are vested at different rates according to years worked as of 31 December 2017. The rates are shown as follows:

Years worked as of 31 December 2017	Vesting rates					
	1st year	2nd year	3rd year	4th year	5th year	6th year
Within 3 years	5%	10%	15%	20%	25%	25%
Between 3 and 4 years	10%	15%	20%	25%	30%	–
Between 4 and 5 years	15%	20%	20%	20%	25%	–
Over 5 years	25%	25%	25%	25%	–	–

- (iii) Options are vested at different rates according to years worked as of 31 December 2018. The rates are shown as follows:

Years worked as of 31 December 2018	Vesting rates					
	1st year	2nd year	3rd year	4th year	5th year	6th year
Within 3 years	5%	10%	15%	20%	25%	25%
Between 3 and 4 years	10%	15%	20%	25%	30%	–
Between 4 and 5 years	15%	20%	20%	20%	25%	–
Over 5 years	25%	25%	25%	25%	–	–

- (iv) The options are vested at different rates conditional on achievement of certain performance conditions.

(c) Set out below are summaries of options granted:

	Year ended 31 December			
	2019		2018	
	Average exercise price per stock option (in USD)	Number of share options (thousand shares)	Average exercise price per stock option (in USD)	Number of share Options (thousand shares)
As at beginning of the year	USD1.00	11,730	USD1.00	5,800
Granted during the year	USD1.00	3,949	USD1.00	6,270
Exercise of share options	USD1.00	(2,268)	USD1.00	–
Forfeited during the year	USD1.00	(788)	USD1.00	(340)
Adjusted during the year	USD0.29	–	–	–
As at year end	USD0.29	12,623	USD1.00	11,730
Vested and exercisable at end of year	USD0.29	3,731	USD1.00	2,813

No options expired during the year covered by the above table (2018: same).

Notes to the consolidated financial statements

25 SHARE-BASED PAYMENTS (cont'd)

(d) The fair value of the stock options granted have been valued by an independent qualified valuer using binomial option-pricing model as at the grant date. Key assumptions are set as below:

	2013 Plan	2017 Plan	2018 Plan
Risk-free interest rate	0.7725%	3.6306%-4.0004%	3.2260%-3.2634%
Expected term-year	8.3	6.66-6.84	7.27-7.36
Expected volatility	25.22%	39.98%-42.22%	40.39%
Grant date option fair value per share	NTD0.365	USD0.967-USD1.258	USD1.028-USD1.237
Exercise price	USD1.00	USD1.00	USD1.00

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognized during the year ended 31 December 2019 as part of employee benefit expense are RMB23,557,000 (2018: RMB25,677,000).

26 DIVIDEND

No dividend has been paid or declared by the Company or the companies now comprising the Group during the year (2018: Nil).

27 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Convertible Preferred Shares (a)	–	773,767

The key terms of these financial instruments are summarised as follows:

Notes to the consolidated financial statements

27 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS (cont'd)**Class A Convertible Preferred Shares**

The Company issued USD30,000,000 and USD15,000,000 convertible bonds in 2017 and 2018, respectively. On 25 September 2018, the holders of convertible bonds agreed to settle such convertible bonds and acquired 25,417,983 shares of Class A Convertible Preferred Shares ("Class A Preferred Shares"). The fair value of Class A Preferred Shares was RMB382,889,000 on the date of issue.

Class B Convertible Preferred Shares

The Company issued 25,756,893 shares of Class B Convertible Preferred Shares ("Class B Preferred Shares") at cash consideration of USD57,000,000 (equivalent to RMB391,926,000) in September 2018.

Terms of Class A Preferred Shares and Class B Preferred Shares

The Class A Preferred Shares and Class B Preferred Shares are collectively referred as "Convertible Preferred Shares". The key terms of the Preferred Shares are summarised as follows:

(a) Conversion right of the Class A Preferred Shares and Class B Preferred Shares

The Convertible Preferred Shares can be converted into fully-paid, non-assessable ordinary shares, based on the then-effective applicable conversion price at any time.

The conversion price is fixed at the preferred issue price per conversion share. The number of shares to be converted is fixed. In the event that the Company issues additional ordinary shares for a consideration per share received by the Company that is less than the applicable conversion price in effect on the date of and immediately prior to such issue, then and in such event, the relevant conversion price shall be reduced.

Pursuant to the confirmations from the holders of the Convertible Preferred Shares, all Convertible Preferred Shares would be automatically converted into ordinary shares upon the closing of the global offering in connection with the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

(b) Liquidation preferences of the Class A Preferred Shares and Class B Preferred Shares

In the event of any liquidation, dissolution or winding up of the Company, either voluntarily or involuntarily, the convertible preferred shareholders shall be entitled to receive the liquidation preference amount, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of ordinary shares. The liquidation preference amount per share is calculated as follows:

The liquidation amount = Convertible preferred stock price*(1+8%)^N

N: The total days from the delivery date to the actual payment date of the settlement/365 days

27 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS (cont'd)**Terms of Class A Preferred Shares and Class B Preferred Shares** (cont'd)*(b) Liquidation preferences of the Class A Preferred Shares and Class B Preferred Shares* (cont'd)

If the value of the remaining assets of the Company is less than aggregate liquidation preference amount payable to the holders of Convertible Preferred Shares, then the remaining assets of the Company shall be distributed pro rata amongst the holders of all outstanding Convertible Preferred Shares. After distributing or paying in full the liquidation preference amount to all of the convertible preferred shareholders, the remaining assets of the Company available for distribution to members, if any, shall be distributed to the holders of ordinary shares and the convertible preferred shareholders on a pro rata basis, based on the number of ordinary shares then held by each shareholder on an as converted basis.

A liquidation event means (i) any liquidation, dissolution or winding up, either voluntarily or involuntarily, of the Company and (ii) any transaction involving (a) any sale, disposition, lease or conveyance by the Company of all or substantially all of its assets (including the sale or exclusive licensing of all or substantially all the intellectual property assets of the Company); or (b) any merger or consolidation of the Company with or into any other corporation or corporations or other entity or entities or any other corporate reorganization after which the holders of the Company's voting shares prior to such transaction own or control less than a Majority (means more than 50% of votes of each class of shares or more than 50% of votes of the Directors) of the outstanding voting shares of the surviving corporation or other entity on account of shares held by them prior to the transaction.

(c) Redemption right of Class B Preferred Shares

The holders of Class A Preferred Shares do not have redemption right. The holders of Class B Preferred Shares have the right to require the Company to redeem the Class B Preferred Shares when the following events happen:

- (a) The Company failed to complete qualified IPO or acquisition by another group within 48 months after the delivery date.
- (b) Due to certain outstanding litigations of the Company, the sponsor (or underwriters) reasonably believes that the Company cannot complete the qualified IPO within 48 months after the delivery date.
- (c) The controlling shareholders of the Company and/or the Company has materially breached applicable laws, the shareholders' agreement and/or the articles of association.

The Redemption amount = $A * P * (1 + 8\%)^N + B$

A: the shares of redemption

P: Class B Preferred Share unit price

N: The total days from the delivery date to the actual payment date of the redemption/365 days

B: Any accrued or declared but unpaid dividends on the Class B Preferred Shares.

Notes to the consolidated financial statements

27 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS (cont'd)**Terms of Class A Preferred Shares and Class B Preferred Shares** (cont'd)*(c) Redemption right of Class B Preferred Shares* (cont'd)

Pursuant to the confirmations from the holders of the Class B Preferred Shares, the redemption rights (except for the rights under (a)) were terminated on 25 April 2019. In the event that a qualified IPO has not been completed on or prior to 31 December 2019, such redemption rights shall be automatically reinstated.

Convertible Preferred Shares are recognized as financial liabilities at fair value through profit or loss because Convertible Preferred Shares have embedded derivatives for the conversion feature. They are initially recognized at fair value.

All Convertible Preferred Shares were automatically converted into ordinary shares on 8 November 2019 upon the Company's listing on the Main board of The Stock Exchange of Hong Kong Limited.

The movements of Convertible Preferred Shares for the years ended 31 December 2019 and 2018 are set out below:

	Total RMB'000
At 1 January 2019	773,767
Fair value loss	29,085
Currency translation differences	14,424
Conversion of Convertible Preferred Shares into ordinary shares (Note 23)	(817,276)
At 31 December 2019	–
At 1 January 2018	–
Issuance	774,815
Fair value gain	(370)
Currency translation differences	(678)
At 31 December 2018	773,767

Note: The fair value change in financial instruments issued to investors during the year ended 31 December 2018 included (i) fair value gain on Convertible Preferred Shares of RMB370,000; (ii) fair value loss on convertible bonds of RMB33,659,000; and (iii) a de-recognition gain on conversion from convertible bonds to Class A Preferred Shares of RMB3,880,000.

Notes to the consolidated financial statements

27 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS (cont'd)

The Company has engaged an independent valuer to determine the fair value of Convertible Preferred Shares. The binomial model was adopted to determine the fair value of the Convertible Preferred Shares.

Key valuation assumptions used to determine the fair value of Convertible Preferred Shares as at 8 November 2019 (the date of conversion to ordinary shares) and 31 December 2018 are as follows:

	As at 8 November 2019 RMB'000	As at 31 December 2018 RMB'000
Discount rate	N/A	N/A
Risk-free interest rate	0.4948%	0.49%~3.00%
Volatility	34.45%	38.29%~44.63%
Probability for a qualified IPO	100%	70%

28 BORROWINGS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Current		
– Unsecured bank borrowings	60,000	500

As at 31 December 2019 and 2018, the Group's bank borrowings were repayable as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within 1 year	60,000	500

The weighted average effective interest rates at each balance sheet date were as follows:

	As at 31 December	
	2019	2018
Bank borrowings – RMB	4.788%	5.438%

The fair values of borrowings equal to their carrying amounts as the discounting impact is not significant.

As at 31 December 2019, the Group has unutilised bank facility of RMB122,000,000 (2018: nil).

Notes to the consolidated financial statements

29 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Staff salaries and welfare payables	10,108	9,605
Payables for purchase of property, plant and equipment	15,879	18,448
Accrued costs for research and development	20,200	27,419
Accrued promotion and advertisement fee	1,017	622
Accrued listing expenses	20,629	5,679
Payables due to related parties (Note 33)	520	3,071
Accrued office expenses and others	13,065	4,456
	81,418	69,300

The Group's accruals and other payables are denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
– RMB	52,519	58,741
– NTD	1,934	4,612
– HKD	12,969	1,574
– USD	11,937	4,373
– GBP	1,493	–
– EUR	566	–
	81,418	69,300

Notes to the consolidated financial statements

30 LEASE LIABILITIES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Minimum lease payments due		
– Within 1 year	2,849	2,379
– Between 1 and 2 years	2,238	2,491
– Between 2 and 5 years	5,919	5,465
– Later than 5 years	7,380	8,442
	18,386	18,777
Less: future finance charges	(3,312)	(3,650)
Present value of lease liabilities	15,074	15,127

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within 1 year	2,775	2,317
Between 1 and 2 years	2,047	2,312
Between 2 and 5 years	4,983	4,605
Later than 5 years	5,269	5,893
Present value of lease liabilities	15,074	15,127

The Group leases various properties and equipment and these lease liabilities were measured at net present value of the lease payments to be paid during the lease terms.

Extension options, at the Group's discretion, are included in a number of property leases across the Group.

Lease liabilities were discounted at incremental borrowing rates of the Group ranging from 4.76% to 4.90%.

For the total cash outflows for leases including payments of lease liabilities and payments of interest expenses on leases are disclosed in Note 15.

Notes to the consolidated financial statements

31 CASH USED IN OPERATIONS**(a) Reconciliation of loss before income tax to net cash used in operations**

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Loss before income tax	(299,300)	(268,263)
Adjustments for:		
– Depreciation and amortization (Notes 13, 14 and 15)	27,351	15,656
– Share-based compensation expenses (Note 25)	23,557	25,677
– Interest income (Note 10)	(1,680)	(727)
– Interest on bank borrowings (Note 10)	1,519	2,120
– Interest on lease liabilities (Note 10)	772	284
– Fair value change in financial instruments (Note 27)	29,085	29,409
– Fair value change on financial assets at fair value through profit or loss (Note 20)	(1,026)	(628)
– Income from reversal of lease liability	(117)	–
– Loss on disposals of property, plant and equipment (Note 9)	459	5
– Write-off of property, plant and equipment (Note 9)	1,070	–
	(218,310)	(196,467)
Changes in working capital:		
– Inventories	(12,145)	(2,125)
– Trade receivables and other receivables	(4,712)	(3,194)
– Prepayments and other non-current assets	(16,698)	(10,564)
– Contract assets (Note 5)	(390)	146
– Cash paid for deposits	(2,941)	(1,549)
– Accruals and other payables (Note 29)	4,820	35,831
– Contract liabilities (Note 5)	(429)	2,815
	(32,495)	21,360
Cash used in operations	(250,805)	(175,107)

Notes to the consolidated financial statements

31 CASH USED IN OPERATIONS (cont'd)

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net book amount (Note 13)	478	5
Losses on disposal of property, plant and equipment (Note 9)	(459)	(5)
Proceeds from the disposal	19	–

(c) Major non-cash transactions:

During the year ended 31 December 2019, all Convertible Preferred Shares were converted into ordinary shares upon the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. For details, please refer to Note 27. This transaction did not affect the Group's cash flows.

During the year ended 31 December 2018, the Company issued Class A Preferred Shares to settle its convertible bonds in September 2018 and this settlement did not affect the Group's cash flows.

(d) Changes in liabilities from financing activities:

	Short-term liabilities		Long-term liabilities		
	Lease Liabilities RMB'000	Borrowings RMB'000	Lease Liabilities RMB'000	Borrowings RMB'000	Financial instruments issued to investors RMB'000
At 1 January 2019	2,317	500	12,810	–	773,767
Cash flows	(1,583)	59,500	–	–	–
Conversion of Convertible Preferred Shares into ordinary shares	–	–	–	–	(817,276)
Increase of right-of use assets	433	–	1,699	–	–
Impact of changes in foreign exchange rate	(485)	–	–	–	14,424
Other non-cash movement	2,210	–	(2,210)	–	–
Income from reversal of lease liability	(117)	–	–	–	–
Changes in fair value	–	–	–	–	29,085
At 31 December 2019	2,775	60,000	12,299	–	–

Notes to the consolidated financial statements

31 CASH USED IN OPERATIONS (cont'd)

(d) Changes in liabilities from financing activities (cont'd):

	Short-term liabilities		Long-term liabilities		
	Lease Liabilities RMB'000	Borrowings RMB'000	Lease Liabilities RMB'000	Borrowings RMB'000	Financial instruments issued to investors RMB'000
At 1 January 2018	833	3,000	1,178	27,000	236,776
Cash flows	(774)	(2,500)	–	(27,000)	489,321
Increase of right-of use assets	1,493	–	12,370	–	–
Impact of changes in foreign exchange rate	13	–	14	–	18,261
Other non-cash movement	752	–	(752)	–	–
Changes in fair value	–	–	–	–	29,409
At 31 December 2018	2,317	500	12,810	–	773,767

32 COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Property, plant and equipment	27,944	41,101

Notes to the consolidated financial statements

32 COMMITMENTS (cont'd)**(b) Operating lease commitments**

At the balance sheet dates, lease commitments of the Group for leases not yet commenced for short-term lease and low-value lease are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
No later than 1 year	151	237
Later than 1 year and no later than 2 years	28	118
Later than 2 years and no later than 5 years	14	42
	193	397

(c) CRO contract commitments

The Group contracted third party to conduct research and development at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
CRO Contract	28,515	4,576

Notes to the consolidated financial statements

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2019 and 2018, and balances arising from related party transactions as at 31 December 2019 and 2018.

(a) Name and relationship with related parties

Name of related party	Nature of relationship
Center Laboratories Inc. ("Centerlab")	Parent company up to 25 September 2018 (Note)
BioEngine Technology Development Inc.	Controlled by Center Laboratories, Inc.
Univision Pharmaceutical Co., Ltd.	Controlled by Center Laboratories, Inc.
TPG Biologics, Inc.	Controlled by Center Laboratories, Inc.
Lumosa Therapeutics Co., Ltd.	Associate of Center Laboratories, Inc.

Note: On 25 September 2018, the Company issued Convertible Preferred Shares and Centerlab's ownership percentage in the Company decreased due to dilution. As a result, Centerlab ceased to have control over the Company on 25 September 2018 and the Company then became an associate of Centerlab.

(b) Transactions with related parties*Continuing transactions**(i) Service revenue*

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Lumosa Therapeutics Co., Ltd.	658	527

(ii) Rental expenses

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Lumosa Therapeutics Co., Ltd.	34	24

Notes to the consolidated financial statements

33 RELATED PARTY TRANSACTIONS (cont'd)

(b) Transactions with related parties (cont'd)

Continuing transactions (cont'd)(iii) *Research contracting costs*

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	463	2,982

(iv) *Conference fee*

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	–	2
BioEngine Technology Development Inc.	13	3
	13	5

Non-continuing transactions(i) *Consultation service expense*

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Univision Pharmaceutical Co., Ltd.	–	40

(ii) *Management service expense*

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	13	53

The related party transactions above were carried out on terms mutually agreed between the parties. In the opinion of the directors of the Company, these transactions are in the ordinary courses of business of the Group and in accordance with the terms of underlying agreements.

Notes to the consolidated financial statements

33 RELATED PARTY TRANSACTIONS (cont'd)**(c) Balances with related parties – trade***(i) Receivables on service revenue*

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Lumosa Therapeutics Co., Ltd.	776	–

(ii) Payables on management service

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	–	5

(iii) Payables on conference fee

	As at 31 December	
	2019 RMB'000	2018 RMB'000
BioEngine Technology Development Inc.	14	6

(iv) Payables on contracting costs

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	506	3,060

The balances due to related parties were unsecured, non-interest bearing and had no fixed repayment term as at 31 December 2019 (2018: same).

(d) Leasing arrangements

In February 2016, the Group signed a five-year office rental contract with Centerlab, which has an option for automatic extension upon expiry of the contract. The lease terms and prices were determined in accordance with mutual agreement, and rental payments are made on a monthly basis.

Notes to the consolidated financial statements

33 RELATED PARTY TRANSACTIONS (cont'd)

(d) Leasing arrangements (cont'd)

(i) Acquisition of right-of-use assets:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	650	1,205

(ii) Lease liabilities:

– Outstanding balance:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	697	1,262

– Interest expense:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Centerlab	47	73

(e) Key management compensation

Key management includes directors of the Company. The compensation paid or payable to key management for their services is shown below:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Salaries, wages and bonuses	3,564	2,899
Share-based compensation expenses	5,304	7,964
	8,868	10,863

Notes to the consolidated financial statements

34 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at year ended 31 December 2019 and 2018 are set out below:

Company name	Country/place and date of incorporation	Principle activities	Issued and paid up capital or registered capital	Effective interests held by the Group		Direct or Indirect
				2019	2018	
TOT BIOPHARM Co., Ltd (東曜藥業有限公司)	Suzhou, PRC 5 July 2010	Research and development, Manufacturing and sales of new drugs	USD171,000,000	100%	100%	Direct
TOT BIOPHARM Company Limited (東源國際醫藥股份有限公司)	Taipei, Taiwan 14 March 2016	Business development	NTD230,000,000	100%	100%	Direct
Shengyang Biopharm (Hong Kong) Limited (昇洋醫藥國際有限公司)	Hong Kong 24 June 2008	Investing company	USD5,906,415	100%	100%	Direct
Dongyuan Biotech (Shanghai) Co., Ltd. (東源生物醫藥科技(上海)有限公司)	Shanghai, PRC 14 April 2010	Research and development New drugs	USD3,730,000	100%	100%	Indirect
Jiang Su Tung Yang Biopharm Tech Co., Ltd. (江蘇東揚醫藥科技有限公司)	Taizhou, PRC 11 February 2009	Research and development And sales of new drugs	USD2,000,000	100%	100%	Indirect

The English names of Taiwan and PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies, as no English names have been registered.

Notes to the consolidated financial statements

35 BALANCE SHEET OF THE COMPANY

	Note	As at 31 December	
		2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		1,273,393	1,159,944
Financial assets at fair value through other comprehensive income		7,991	6,810
		1,281,384	1,166,754
Current assets			
Other receivables		4,786	2
Amounts due from subsidiaries		26,815	192
Prepayments		–	3,010
Cash and cash equivalents		431,063	58,529
		462,664	61,733
Total assets		1,744,048	1,228,487
EQUITY			
Share capital	23	1,874,438	537,859
Other reserves	(a)	36,362	31,192
Accumulated losses		(193,639)	(120,482)
Total equity		1,717,161	448,569
LIABILITIES			
Non-current liabilities			
Financial instruments issued to investors		–	773,767
Current liabilities			
Accruals and other payables		26,887	6,151
Total liabilities		26,887	779,918
Total equity and liabilities		1,744,048	1,228,487
Net current assets		435,777	55,582
Total assets less current liabilities		1,717,161	1,222,336

The balance sheet of the Company was approved by the Board of Directors on 17 March 2020 and was signed on its behalf.

Ms. Yeh-Huang, Chun-Ying
Director

Mr. Liu, Jun
Director

Notes to the consolidated financial statements

35 BALANCE SHEET OF THE COMPANY (cont'd)

(a) Reserve movement of the Company

	Attributable to equity holders of the Company				
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000	
Balance at 1 January 2019	537,859	31,192	(120,482)	448,569	
Loss for the year	–	–	(73,157)	(73,157)	
Other comprehensive loss	–	(14,236)	–	(14,236)	
Total comprehensive loss	–	(14,236)	(73,157)	(87,393)	
Transactions with owners					
Share-based compensation expense	24	–	23,557	–	23,557
Issue of shares upon exercise of share options		19,801	(4,151)	–	15,650
Conversion of Convertible Preferred Shares into ordinary shares		817,276	–	–	817,276
Issue of new shares upon initial public offering		526,302	–	–	526,302
Transaction costs attributable to issue of new shares		(26,800)	–	–	(26,800)
Total transactions with owners		1,336,579	19,406	–	1,355,985
Balance at 31 December 2019	1,874,438	36,362	(193,639)	1,717,161	
Balance at 1 January 2018	537,859	24,862	(71,966)	490,755	
Loss for the year	–	–	(48,516)	(48,516)	
Other comprehensive loss	–	(19,347)	–	(19,347)	
Total comprehensive loss	–	(19,347)	(48,516)	(67,863)	
Transactions with owners					
Share-based compensation expense		–	25,677	–	25,677
Total transactions with owners		–	25,677	–	25,677
Balance at 31 December 2018	537,859	31,192	(120,482)	448,569	

36 SUBSEQUENT EVENTS

Save as disclosed in the notes to the consolidated financial statements, the following significant events took place subsequent to 31 December 2019:

- (a) After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and will continue to be implemented across the PRC, including but not limited to temporary suspension of on-site works, restrictions on enterprises from resuming work and stringent control over hygiene measures. The Group has officially resumed work since 10 February, 2020. However, some of the research and development projects are still subject to various regulatory or administrative measures to control the outbreak of COVID-19, which resulted in delays in resumptions of clinic trials in hospitals and delays in our research and development progress.

The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Pending development of such subsequent non-adjusting event, the Group’s financial results may be affected, the extent of which could not be estimated as at the date of this report.

THREE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December		
	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	45,308	39,219	51,608
Operating loss	(269,604)	(237,177)	(105,969)
Loss before income tax	(299,300)	(268,263)	(148,687)
Loss for the year and attributable to the equity holders of the Company	(299,300)	(268,263)	(148,687)
Total comprehensive loss for the year and attributable to the equity holders of the Company	(313,230)	(287,471)	(141,401)

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December		
	2019 RMB'000	2018 RMB'000	2017 RMB'000
Non-current assets	402,999	377,551	276,083
Current assets	614,363	299,687	87,974
Total assets	1,017,362	677,238	364,057
Non-current liabilities	12,299	786,577	264,954
Current liabilities	146,786	75,139	21,787
Total liabilities	159,085	861,716	286,741
Total equity/(deficit)	858,277	(184,478)	77,316

DEFINITIONS

“ANDA”	abbreviated new drug application
“AGM”	the annual general meeting of the Company to be held in June 2020
“Amended and Restated Articles of Association”	the amended and restated articles of association of the Company which were adopted on 30 September 2019 and became effective on 28 October 2019
“Board”	the board of Directors of the Company
“CDMO”	contract development and manufacturing organization, which is a pharmaceutical company that develops and manufactures drugs for other pharmaceutical companies on a contractual basis
“Centerlab”	Center Laboratories Inc. (晟德大藥廠股份有限公司), a company incorporated in Taiwan with limited liability on 4 November 1959 whose shares are listed on the Taipei Exchange (stock code: 4123), which is a controlling shareholder of the Company
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“CMO”	contract manufacturing organization, which is a pharmaceutical company that manufactures drugs for other pharmaceutical companies on a contractual basis
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	TOT BIOPHARM International Company Limited (東曜藥業股份有限公司) (formerly known as TOT BIOPHARM International Company Limited (東源國際醫藥股份有限公司)), a company incorporated in Hong Kong with limited liability on 4 December 2009 whose Shares are listed on the Stock Exchange (stock code: 1875)
“CRO”	contract research organization, which is a pharmaceutical company that conducts research for other pharmaceutical companies on a contractual basis
“date of this report”	17 March 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
“Director(s)”	the director(s) of the Company
“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require) and except where the context indicates otherwise, includes their respective predecessor (if any)

Definitions

“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IPO” or “Global Offering”	the initial public offering of the Company which was completed on the Listing Date
“Listing Date”	8 November 2019, the date on which the Shares were listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Lumosa Therapeutics”	Lumosa Therapeutics Co., Ltd. (順天醫藥生技股份有限公司), a company incorporated in Taiwan with limited liability on 13 November 2000, which is an associate of Centerlab
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“NDA”	new drug application
“PB-Hybrid Technology”	the Group’s self-developed Perfusion-Batch Hybrid Technology
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this annual report, Hong Kong, Macau Special Administrative Region and Taiwan
“Pre-IPO Share Option”	the share options granted under the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Company on 20 February 2013 and subsequently amended by the Board on 11 December 2017, 20 December 2018, 12 March 2019, 16 April 2019 and 22 July 2019
“Prospectus”	the prospectus dated 29 October 2019 published by the Company
“R&D”	research and development
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of Share(s)

Definitions

“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taipei Exchange”	Taipei Exchange (證券櫃檯買賣中心), an over-the-counter market in Taiwan
“TTY Biopharm”	TTY Biopharm Company Limited (台灣東洋藥品工業股份有限公司), a company incorporated in Taiwan with limited liability on 22 July 1960, which is a former Shareholder
“United States” or “US”	the United States of America
“Vivo Capital”	Vivo Capital Fund VIII, L.P. and Vivo Capital Surplus Fund VIII, L.P., both of which are limited partnerships organized in the State of Delaware of the United States on December 17, 2014 and are Shareholders

In this annual report, the terms “associate(s)”, “close associate(s)”, “connected transaction(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.