# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER**
**PURSUANT TO RULE 13a-16 OR 15d-16 UNDER**
**THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of February 2021**

**Commission File Number: 001-39173**

# I-MAB

**Suite 802, West Tower, OmniVision, 88 Shangke Road, Pudong District**
**Shanghai, 201210**
**People's Republic of China**
**(Address of principal executive offices)**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**I-MAB**

By : /s/ Jielun Zhu
Name : Jielun Zhu
Title : Director and Chief Financial Officer

Date: February 5, 2021

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 99.1 | Unaudited Consolidated Interim Financial Statements |
| 99.2 | Management's Discussion and Analysis of Financial Condition and Results Of Operations |
| 101.INS | Inline XBRL Instance Document – this instance document does not appear in the Interactive Data File because its XBRL tags are not embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104 | Cover Page Interactive Data File (embedded within the Inline IXBRL document) |

**I-Mab**

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**Unaudited Interim Condensed Consolidated Financial Statements for the Nine Months Ended September 30, 2019 and 2020**

**Consolidated Balance Sheet as of December 31, 2019 and**
**Unaudited Interim Condensed Consolidated Balance Sheet**
**as of September 30, 2020**
**(All amounts in thousands, except for share and per share data, unless otherwise noted)**

| | Notes | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|---|
| | | RMB | RMB | US$ (Note 2.5) |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 2.6 | 1,137,473 | 2,960,017 | 435,963 |
| Restricted cash | 2.7 | 55,810 | — | — |
| Short-term investments | 2.8 | 32,000 | 28,526 | 4,201 |
| Prepayments and other receivables | 3 | 136,036 | 219,839 | 32,379 |
| **Total current assets** | | 1,361,319 | 3,208,382 | 472,543 |
| Property, equipment and software | 4 | 30,069 | 27,058 | 3,985 |
| Operating lease right-of-use assets | | 16,435 | 15,061 | 2,218 |
| Intangible assets | 5 | 148,844 | 122,000 | 17,969 |
| Goodwill | 6 | 162,574 | 162,574 | 23,945 |
| Investment accounted for using the equity method | 7 | — | 762,997 | 112,377 |
| Other non-current assets | | 18,331 | — | — |
| **Total assets** | | **1,737,572** | **4,298,072** | **633,037** |
| **Liabilities, mezzanine equity and shareholders' equity (deficit)** | | | | |
| **Current liabilities** | | | | |
| Short-term borrowings | 8 | 50,000 | — | — |
| Accruals and other payables | 9 | 273,553 | 338,317 | 49,829 |
| Operating lease liabilities, current | | 6,807 | 8,001 | 1,178 |
| Deferred subsidy income | 2.14 | — | 3,078 | 453 |
| Ordinary shares to be issued to Everest | 21 | 258,119 | — | — |
| **Total current liabilities** | | 588,479 | 349,396 | 51,460 |
| Convertible promissory notes | 13 | 68,199 | 64,771 | 9,540 |
| Put right liabilities | 7 | — | 124,100 | 18,278 |
| Operating lease liabilities, non-current | | 7,492 | 5,177 | 762 |
| Deferred subsidy income | 2.14 | 3,920 | 4,560 | 672 |
| Other non-current liabilities | 9 | — | 8,433 | 1,242 |
| **Total liabilities** | | **668,090** | **556,437** | **81,954** |
| Commitments and contingencies | 20 | | | |

**Consolidated Balance Sheet as of December 31, 2019 and**
**Unaudited Interim Condensed Consolidated Balance Sheet**
**as of September 30, 2020 (Continued)**
**(All amounts in thousands, except for share and per share data, unless otherwise noted)**

| | Notes | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|---|
| | | RMB | RMB | US$ (Note 2.5) |
| **Mezzanine equity** | | | | |
| Series A convertible preferred shares (US$0.0001 par value, 30,227,056 shares authorized, issued and outstanding as of December 31, 2019, and nil authorized, issued and outstanding as of September 30, 2020) | 12 | 687,482 | — | — |
| Series B convertible preferred shares (US$0.0001 par value, 30,305,212 shares authorized, issued and outstanding as of December 31, 2019, and nil authorized, issued and outstanding as of September 30, 2020) | 12 | 921,243 | — | — |
| Series C convertible preferred shares (US$0.0001 par value, 31,046,360 shares authorized, issued and outstanding as of December 31, 2019, and nil authorized, issued and outstanding as of September 30, 2020) | 12 | 1,306,633 | — | — |
| Series C-1 convertible preferred shares (US$0.0001 par value, 3,857,143 shares authorized, issued and outstanding as of December 31, 2019, and nil authorized, issued and outstanding as of September 30, 2020) | 12 | 188,819 | — | — |
| **Total mezzanine equity** | | **3,104,177** | **—** | **—** |
| **Shareholders' equity (deficit)** | | | | |
| Ordinary shares (US$0.0001 par value, 500,000,000 and 800,000,000 shares authorized as of December 31, 2019 and September 30, 2020, respectively; 8,363,719 and 153,543,910 shares issued and outstanding as of December 31, 2019 and September 30, 2020, respectively) | 11 | 6 | 106 | 16 |
| Additional paid-in capital | | 389,379 | 6,720,714 | 989,854 |
| Accumulated other comprehensive income | | 70,127 | 85,657 | 12,616 |
| Accumulated deficit | | (2,494,207) | (3,064,842) | (451,403) |
| **Total shareholders' equity (deficit)** | | **(2,034,695)** | **3,741,635** | **551,083** |
| **Total liabilities, mezzanine equity and shareholders' equity (deficit)** | | **1,737,572** | **4,298,072** | **633,037** |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**I-MAB**

**Unaudited Interim Condensed Consolidated Statements of Comprehensive Loss**
**For the Nine Months Ended September 30, 2019 and 2020**
**(All amounts in thousands, except for share and per share data, unless otherwise noted)**

| | | Nine Months Ended September 30, | | |
|---|---|---|---|---|
| | | 2019 | 2020 | |
| | Notes | RMB | RMB | US$ (Note 2.5) |
| **Revenues** | | | | |
| Licensing and collaboration revenue | 16 | 30,000 | — | — |
| **Expenses** | | | | |
| Research and development expenses | 2.17 | (578,377) | (698,461) | (102,872) |
| Administrative expenses | | (582,732) | (310,775) | (45,772) |
| **Loss from operations** | | **(1,131,109)** | **(1,009,236)** | **(148,644)** |
| Interest income | | 22,828 | 18,658 | 2,748 |
| Interest expense | | (2,466) | (957) | (141) |
| Other income, net | 17 | 1,758 | 420,900 | 61,992 |
| Fair value change of warrants | 14 | 5,609 | — | — |
| **Loss before income tax expense** | | **(1,103,380)** | **(570,635)** | **(84,045)** |
| Income tax expense | 10 | — | — | — |
| **Net loss attributable to I-MAB** | | **(1,103,380)** | **(570,635)** | **(84,045)** |
| **Net loss attributable to ordinary shareholders** | | **(1,103,380)** | **(570,635)** | **(84,045)** |
| **Net loss attributable to I-MAB** | | **(1,103,380)** | **(570,635)** | **(84,045)** |
| **Other comprehensive income:** | | | | |
| Foreign currency translation adjustments, net of nil tax | | 66,254 | 15,530 | 2,288 |
| **Total comprehensive loss attributable to I-MAB** | | **(1,037,126)** | **(555,105)** | **(81,757)** |
| **Net loss attributable to ordinary shareholders** | | **(1,103,380)** | **(570,635)** | **(84,045)** |
| Weighted-average number of ordinary shares used in calculating net loss per share—basic and diluted | 18 | 7,184,086 | 126,758,926 | 126,758,926 |
| **Net loss per share attributable to ordinary shareholders** | | | | |
| —Basic | 18 | (153.59) | (4.50) | (0.66) |
| —Diluted | 18 | (153.59) | (4.50) | (0.66) |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)**
**For the Nine Months Ended September 30, 2019 and 2020**
**(All amounts in thousands, except for share and per share data, unless otherwise noted)**

| | Ordinary shares (Note 11) (US$0.001 par value) | | Treasury stock | Additional paid-in capital | Accumulated other comprehensive income | Accumulated deficit | Total shareholders' deficit |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | | | | | |
| | | RMB | RMB | RMB | RMB | RMB | RMB |
| **Balance as of December 31, 2018** | **8,363,719** | **6** | **(1)** | **—** | **59,380** | **(1,014,489)** | **(955,104)** |
| Foreign currency translation adjustments | — | — | — | — | 66,254 | — | 66,254 |
| Net loss | — | — | — | — | | (1,103,380) | (1,103,380) |
| Share-based compensation | — | — | — | 366,885 | — | — | 366,885 |
| **Balance as of September 30, 2019** | **8,363,719** | **6** | **(1)** | **366,885** | **125,634** | **(2,117,869)** | **(1,625,345)** |
| **Balance as of December 31, 2019** | **8,363,719** | **6** | — | **389,379** | **70,127** | **(2,494,207)** | **(2,034,695)** |
| Foreign currency translation adjustments | — | — | — | — | 15,530 | — | 15,530 |
| Net loss | — | — | — | — | — | (570,635) | (570,635) |
| Share-based compensation | — | — | — | 301,525 | — | — | 301,525 |
| Exercise of stock options | 115,888 | 1 | — | 790 | — | — | 791 |
| Capital contribution from stock option surrender (Note 15 (h)) | — | — | — | 91,051 | — | — | 91,051 |
| Conversion of preferred shares to ordinary shares upon the completion of initial public offering ("IPO") | 99,760,129 | 69 | — | 3,104,108 | — | — | 3,104,177 |
| Issuance of ordinary shares to Everest | 6,078,571 | 4 | — | 254,844 | — | — | 254,848 |
| Issuance of ordinary shares upon IPO and over-allotment, net of issuance cost | 18,804,225 | 13 | — | 697,865 | — | — | 697,878 |
| Issuance of ordinary shares upon private placement, net of issuance cost | 20,421,378 | 13 | — | 1,809,278 | — | — | 1,809,291 |
| Issuance of warrants | — | — | — | 71,874 | — | — | 71,874 |
| **Balance as of September 30, 2020** | **153,543,910** | **106** | — | **6,720,714** | **85,657** | **(3,064,842)** | **3,741,635** |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**Unaudited Interim Condensed Consolidated Statements of Cash Flows**
**For the Nine Months Ended September 30, 2019 and 2020**
**(All amounts in thousands, except for share and per share data, unless otherwise noted)**

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2020 | |
| | RMB | RMB | US$ (Note 2.5) |
| **Cash flows from operating activities** | | | |
| Net loss | (1,103,380) | (570,635) | (84,045) |
| **Adjustments to reconcile net loss to net cash used in operating activities** | | | |
| Depreciation of property, equipment and software | 6,835 | 7,738 | 1,140 |
| Loss on disposal of property, equipment and software | — | 8 | 1 |
| Fair value change of short-term investments | (332) | (2,557) | (377) |
| Fair value change of warrants | (5,609) | — | — |
| Fair value change of other financial assets | 145 | — | — |
| Share-based compensation | 366,885 | 392,576 | 57,820 |
| Amortization of right-of use assets and interest of lease liabilities | 4,427 | 6,935 | 1,021 |
| Gains on deconsolidation of a subsidiary | — | (407,598) | (60,033) |
| Changes in operating assets and liabilities | | | |
| Prepayments and other receivables | 12,310 | 3,309 | 488 |
| Accruals and other payables | 32,200 | (17,623) | (2,596) |
| Advance from customers | (14,151) | — | — |
| Research and development funding received | 52,207 | — | — |
| Deferred subsidy income | 1,420 | 3,718 | 548 |
| Other non-current liabilities | — | 8,433 | 1,242 |
| Lease liabilities | (4,950) | (6,935) | (1,021) |
| **Net cash used in operating activities** | **(651,993)** | **(582,631)** | **(85,812)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, equipment and software | (4,617) | (4,761) | (701) |
| Proceeds from disposal of property, equipment and software | 12 | — | — |
| Proceeds from disposal of short-term investments | 35,332 | 276,884 | 40,781 |
| Purchase of short-term investments | (88,000) | (270,853) | (39,892) |
| Cash disposed of resulting from deconsolidation of a subsidiary | — | (257,651) | (37,948) |
| Cash received from disposal of other financial assets | 192,401 | — | — |
| **Net cash generated from (used in) investing activities** | **135,128** | **(256,381)** | **(37,760)** |

**Unaudited Interim Condensed Consolidated Statements of Cash Flows (Continued)**
**For the Nine Months Ended September 30, 2019 and 2020**
**(All amounts in thousands, except for share and per share data, unless otherwise noted)**

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2020 | |
| | RMB | RMB | US$ (Note 2.5) |
| **Cash flows from financing activities** | | | |
| Consideration received in advance from a preferred shares investor | 70,729 | — | — |
| Proceeds from initial public offering and over-allotment, net of underwriting discounts and commissions | — | 726,300 | 106,972 |
| Payment of issuance cost for initial public offering and over-allotment | (1,316) | (27,088) | (3,990) |
| Proceeds from private placement, net of payment of issuance cost | — | 1,980,548 | 291,703 |
| Proceeds from exercise of stock options | — | 791 | 117 |
| Proceeds from bank borrowings | 50,000 | — | — |
| Prepayment for stock repurchase program | — | (34,859) | (5,134) |
| Repayment of bank borrowings | (80,000) | (50,000) | (7,364) |
| **Net cash generated from financing activities** | **39,413** | **2,595,692** | **382,304** |
| **Effect of exchange rate changes on cash and cash equivalents and restricted cash** | 77,581 | 10,054 | 1,480 |
| **Net increase (decrease) in cash and cash equivalents and restricted cash** | **(399,871)** | **1,766,734** | **260,212** |
| Cash, cash equivalents, and restricted cash, beginning of period | 1,680,931 | 1,193,283 | 175,751 |
| Cash, cash equivalents, and restricted cash, end of the period | **1,281,060** | **2,960,017** | **435,963** |
| **Additional ASC 842 supplemental disclosures** | | | |
| Cash paid for fixed operating lease costs included in the measurement of lease obligations in operating activities | 4,950 | 6,935 | 1,021 |
| Right-of-use assets obtained in exchange for operating lease obligations | 2,952 | 5,029 | 741 |
| **Other supplemental cash flow disclosures** | | | |
| Interest paid | 2,466 | 957 | 141 |
| **Non-cash activities** | | | |
| Accrued initial public offering costs payable | 4,850 | 508 | 75 |
| Accrued private placement offering costs payable | — | 96,837 | 14,263 |
| Ordinary shares issued to Everest | — | 254,848 | 37,535 |
| Conversion of preferred shares to ordinary shares | — | 3,104,177 | 457,196 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

## 1. Principal Activities and Organization

I-Mab (the "Company") was incorporated in the Cayman Islands on June 30, 2016 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The Company and its subsidiaries (together the "Group") are principally engaged in discovering and developing transformational biologics in the fields of immuno-oncology and immuno-inflammation diseases in the People's Republic of China (the "PRC") and other countries and regions.

Prior to the incorporation of the Company, the Group carried out its operation in the PRC since November 2014 mainly through Third Venture Biopharma (Nanjing) Co., Ltd. ("Third Venture"), which was incorporated on November 17, 2014 in the PRC. For the purpose of introduction of overseas investors and in preparation for a listing of the Company's shares on the overseas capital markets, the Group underwent a reorganization (the "Reorganization") in 2016. The Reorganization was approved by the Board of Directors and a restructuring framework agreement was entered into by Third Venture, the Company, and the shareholders of the Company based on Reorganization framework agreement, pursuant to which on July 7, 2016, Third Venture transferred all of its assets and operations to the Company's wholly owned subsidiary, I-Mab Biopharma Co., Ltd. ("I-Mab Shanghai"), which was a transaction in which shareholders had identical ownership interests before and after the transaction and was accounted for in a manner similar to a common control transaction.

The Reorganization, as described above has been accounted for at historical cost. That Reorganization was reverse merger of Third Venture and Third Venture is the predecessor of the Company. As such, the assets and liabilities of Third Venture are consolidated in the Company's financial statements at historical cost.

On January 17, 2020, the Company consummated its IPO on the Nasdaq Global Market, where 7,407,400 American Depositary Shares ("ADSs") were issued at the price of US$14.00 per ADS for total gross proceeds of US$103.7 million. On February 10, 2020, the underwriters of the IPO have exercised their over-allotment option to purchase an additional 768,350 ADSs of the Company at the IPO price of US$14.00 per ADS. After giving effect to the exercise of the over-allotment option, the Company has issued and sold a total of 8,175,750 ADSs in the IPO, for total gross proceeds of US$114.5 million. Each ten ADSs represents twenty-three ordinary shares of the Company.

As of September 30, 2020, the Company's principal subsidiaries are as follows:

| Subsidiaries | Place of incorporation | Date of incorporation or acquisition | Percentage of direct or indirect ownership by the Company | Principal activities |
|---|---|---|---|---|
| I-Mab Biopharma Hong Kong Limited ("I-Mab Hong Kong") | Hong Kong | July 8, 2016 | 100% | Investment holding |
| I-Mab Shanghai | PRC | August 24, 2016 | 100% | Research and development of innovative medicines |
| I-Mab Bio-tech (Tianjin) Co., Ltd. ("I-Mab Tianjin") | PRC | July 15, 2017 | 100% | Research and development of innovative medicines |
| I-Mab Biopharma US Ltd. | U.S. | February 28, 2018 | 100% | Research and development of innovative medicines |

## 2. Principal Accounting Policies

### *2.1 Basis of presentation*

The accompanying unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes normally included in the annual financial statements prepared in accordance with U.S. GAAP. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted consistent with Article 10 of Regulation S-X. In the opinion of management, the Group's unaudited interim condensed consolidated financial statements and accompanying notes include all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of the Group's financial position as of September 30, 2020, and results of operations and cash flows for the nine months ended September 30, 2019 and 2020. Interim results of operations are not necessarily indicative of the results for the full year or for any future period. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2019, and related notes included in the Group's audited consolidated financial statements. The financial information as of December 31, 2019 presented in the unaudited interim condensed consolidated financial statements is derived from the audited consolidated financial statements as of December 31, 2019.

Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

### *2.2 Basis of consolidation*

The accompanying consolidated financial statements reflect the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. All inter-company balances and transactions have been eliminated in consolidation.

### *2.3 Use of estimates*

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for amounts recorded in connection with acquisitions, including initial fair value determinations of assets and liabilities and other intangible assets as well as subsequent fair value measurements. Additionally, estimates are used in determining items such as fair value measurements of wealth management products, impairment of other receivables, long-lived assets, intangible assets and goodwill, useful lives of property, equipment and software, recognition of right-of-use assets and lease liabilities, fair value measurements of warrants, variable consideration in collaboration revenue arrangements, determination of the standalone selling price of each performance obligation in the Company's revenue arrangements, valuation of share-based compensation arrangements, deferred tax assets valuation allowances and fair value of put right liabilities. Management bases the estimates on historical experience, known trends and various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**2. Principal Accounting Policies (Continued)**

***2.4 Fair value measurements***

Financial assets and liabilities of the Group primarily comprise of cash and cash equivalents, restricted cash, short-term investments, other financial assets, contract assets, other receivables, short-term borrowings, accruals and other payables and put right liabilities. As of December 31, 2019, and September 30, 2020, except for short-term investments and put right liabilities, the carrying values of these financial assets and financial liabilities approximated their fair values because of their generally short maturities. The Group reports short-term investments and put right liabilities at fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of comprehensive loss.

The Group measures its financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets that the management has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect the management's assumptions about the assumptions that market participants would use in pricing the asset. The management develops these inputs based on the best information available, including the own data.

*Assets and liabilities measured at fair value on a recurring basis*

The Group measured its short-term investments and put right liabilities at fair value on a recurring basis. As the Group's short-term investments and put right liabilities are not traded in an active market with readily observable prices, the Group uses significant unobservable inputs to measure the fair value of short-term investments and put right liabilities. These instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement.

The following table summarizes the Group's financial assets and financial liabilities measured and recorded at fair value on a recurring basis as of December 31, 2019 and September 30, 2020:

| | As of December 31, 2019 | | | |
|---|---|---|---|---|
| | Active market (Level 1) RMB | Observable input (Level 2) RMB | Non-observable input (Level 3) RMB | Total RMB |
| **Assets:** | | | | |
| Short-term investments | — | — | 32,000 | 32,000 |

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**2. Principal Accounting Policies (Continued)**

***2.4 Fair value measurements (Continued)***

| | As of September 30, 2020 | | | |
|---|---|---|---|---|
| | Active market (Level 1) RMB | Observable input (Level 2) RMB | Non-observable input (Level 3) RMB | Total RMB |
| **Assets:** | | | | |
| Short-term investments | — | — | 28,526 | 28,526 |
| **Liabilities** | | | | |
| Put right liabilities | — | — | 124,100 | 124,100 |

The roll forward of major Level 3 financial assets and financial liabilities are as follows:

| | Short-term investments | Put right liabilities |
|---|---|---|
| Fair value of Level 3 financial assets and financial liabilities as of December 31, 2019 | 32,000 | — |
| Purchase of short-term investments | 270,853 | — |
| Disposal of short-term investments | (276,884) | — |
| Grant of put right liabilities | — | 124,321 |
| Fair value changes | 2,557 | — |
| Effect of exchange rate changes | — | (221) |
| Fair value of Level 3 financial assets and financial liabilities as of September 30, 2020 | 28,526 | 124,100 |

Refer to Note 7 for additional information about Level 3 put right measured at fair value on a recurring basis for the nine months ended September 30, 2020.

***2.5 Foreign currency translation***

The Group uses Chinese Renminbi (“RMB”) as its reporting currency. The United States Dollar (“US$”) is the functional currency of the Group’s entities incorporated in the Cayman Islands, the United States of America (“U.S.”) and Hong Kong, the Australia Dollar (“AUD”) is the functional currency of the Group’s entity incorporated in Australia and the RMB is the functional currency of the Company’s PRC subsidiaries.

Transactions denominated in other than the functional currencies are translated into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in other than the functional currencies are translated at the balance sheet date exchange rate. The resulting exchange differences are recorded in the consolidated statements of comprehensive loss.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**2. Principal Accounting Policies (Continued)**

***2.5 Foreign currency translation (Continued)***

The unaudited interim condensed consolidated financial statements of the Group are translated from the functional currency to the reporting currency, RMB. Assets and liabilities of the subsidiaries are translated into RMB using the exchange rate in effect at each balance sheet date. Income and expenses are translated at the average exchange rates prevailing for the year. Foreign currency translation adjustments arising from these are reflected in the accumulated other comprehensive income. The exchange rates used for translation on December 31, 2019 and September 30, 2020 were US$1.00 = RMB6.9762 and RMB6.8101 respectively, representing the index rates stipulated by the People's Bank of China.

Translations of balances in the consolidated balance sheets, consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity (deficit) and consolidated statements of cash flows from RMB into US$ as of and for the nine months ended September 30, 2020 are solely for the convenience of the readers and were calculated at the rate of US$1.00=RMB6.7896, representing the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on September 30, 2020. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on September 30, 2020, or at any other rate. The US$ convenience translation is not required under U.S. GAAP and all US$ convenience translation amounts in the accompanying consolidated financial statements are unaudited.

***2.6 Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and bank deposits, which are unrestricted as to withdrawal and use. The Company considers all highly liquid investments with an original maturity date of three months or less at the date of purchase to be cash equivalents.

***2.7 Restricted cash***

Restricted cash consists of the guarantee deposits held in a designated bank account as security deposits under bank borrowing agreements. Such restricted cash was released when the Group repaid the related bank borrowings.

***2.8 Short-term investments***

Short-term investments represent the investments issued by commercial banks or other financial institutions with a variable interest rate indexed to the performance of underlying assets within one year. These investments are stated at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive loss.

***2.9 Property, equipment and software***

Property, equipment and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the following estimated useful lives, taking into account any estimated residual value:

| | |
|---|---|
| Laboratory equipment | 3 to 5 years |
| Software | 2 to 5 years |
| Office furniture and equipment | 5 years |
| Leasehold improvements | Lesser of useful life or lease term |

**2. Principal Accounting Policies (Continued)**

***2.9 Property, equipment and software (Continued)***

The Group recognized the gain or loss on the disposal of property, equipment and software in the consolidated statements of comprehensive loss.

***2.10 Intangible assets***

Intangible assets with definite useful lives are amortized to their estimated residual values over their estimated useful lives and reviewed for impairment if certain events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Amortization is initiated for in-process research and development (IPR&D) intangible assets that are acquired from business combination when their useful lives have been determined. IPR&D intangible assets which are determined to have an impairment in their fair value are adjusted downward and an expense recognized in research and development in the consolidated statements of comprehensive loss. These IPR&D intangible assets are tested at least on an annual basis on December 31 or when a triggering event occurs that could indicate a potential impairment (see Note 5).

***2.11 Impairment of long-lived assets***

Long-lived assets are reviewed for impairment in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Long-lived assets are reported at the lower of carrying amount or fair value less cost to sell. For the year ended December 31, 2019 and nine months ended September 30, 2020, there was no impairment of the value of the Group's long-lived assets.

***2.12 Goodwill***

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Group allocates the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized, but impairment of goodwill assessment is performed on at least an annual basis on December 31 or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

The Group has elected to first assess qualitative factors to determine whether it is more likely than not that the fair value of the Group's reporting unit is less than its carrying amount, including goodwill. The qualitative assessment includes the Group's evaluation of relevant events and circumstances affecting the Group's single reporting unit, including macroeconomic, industry, market conditions and the Group's overall financial performance. If qualitative factors indicate that it is more likely than not that the Group's reporting unit's fair value is less than its carrying amount, then the Group will perform the quantitative impairment test by comparing the reporting unit's carrying amount, including goodwill, to its fair value. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess. For the year ended December 31, 2019 and nine months ended September 30, 2020, the Group determined that there were no indicators of impairment of the goodwill.

**2. Principal Accounting Policies (Continued)**

***2.13 Long-term investments***

The Group's long-term investments include equity investments in an affiliate in which it does not have a controlling financial interest, but has the ability to exercise significant influence over the operating and financial policies of the investee. The investment is accounted for using the equity method of accounting in accordance with ASC topic 323, Investments—Equity Method and Joint Ventures ("ASC 323"). Under the equity method, the Group initially records its investments at fair value. The Group subsequently adjusts the carrying amount of the investment to recognize the Group's proportionate share of the equity investee's net income or loss after the date of investment. The Group evaluates the equity method investment for impairment under ASC 323. An impairment loss on the equity method investments is recognized in losses when the decline in value is determined to be other-than-temporary. No impairment charge was recognized for the nine months ended September 30, 2020.

***2.14 Deferred subsidy income***

Deferred subsidy income consists of deferred income from government grants. Government grants mainly consist of cash subsidies received by the Group's subsidiaries in the PRC from local governments as support on expenses relating to certain projects. Grants received with government specified performance obligations are recognized when all the obligations have been fulfilled. If such obligations are not satisfied, the Group may be required to refund the subsidy. Cash grants of RMB3,920 was recorded in deferred subsidy income as of December 31, 2019. As of September 30, 2020, cash grants of RMB7,638 was recorded in deferred subsidy income, which will be recognized when the government specified performance obligation is satisfied.

***2.15 Revenue recognition***

The Group adopted Accounting Standard Codification ("ASC") 606, *Revenue from Contracts with Customers* (Topic 606) ("ASC 606") for all periods presented. Consistent with the criteria of Topic 606, the Group recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services.

Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Group only applies the five-step model to contracts when it is probable that the entity will collect substantially all the consideration to which it is entitled in exchange for the goods or services it transfers to the customer.

Once a contract is determined to be within the scope of ASC 606 at contract inception, the Group audits the contract to determine which performance obligations it must deliver and which of these performance obligations are distinct. The Group recognizes as revenue the amount of the transaction price that is allocated to each performance obligation when that performance obligation is satisfied or as it is satisfied.

**2. Principal Accounting Policies (Continued)**

***2.15 Revenue recognition (Continued)***

*Collaboration revenue*

At contract inception, the Group analyzes its collaboration arrangements to assess whether they are within the scope of ASC 808, *Collaborative Arrangements* ("ASC 808") to determine whether such arrangements involve joint operating activities performed by parties that are both active participants in the activities and exposed to significant risks and rewards dependent on the commercial success of such activities. For collaboration arrangements within the scope of ASC 808 that contain multiple elements, the Group first determines if the collaboration is deemed to be within the scope of ASC 808. For any units of account that are reflective of a vendor-customer relationship those units of account are accounted for within the scope of ASC 606. For any units of account that are not accounted for under ASC 606 and therefore accounted for pursuant to ASC 808, an appropriate recognition method is determined and applied consistently.

The Group's collaborative arrangements may contain more than one unit of account, or performance obligation, including grants of licenses to intellectual property rights, agreement to provide research and development services and other deliverables. The collaborative arrangements do not include a right of return for any deliverable. As part of the accounting for these arrangements, the Group must develop assumptions that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract. In developing the stand-alone selling price for a performance obligation, the Group considers competitor pricing for a similar or identical product, market awareness of and perception of the product, expected product life and current market trends. In general, the consideration allocated to each performance obligation is recognized when the respective obligation is satisfied either by delivering a good or providing a service, limited to the consideration that is not constrained.

When the timing of the delivery of product is different from the timing of payments made by the customers, the Group recognizes either a contract asset (performance precedes the contractual due date) or a contract liability (customer payment precedes performance). The Group's contractual payment terms are typically due in no more than 30 days from invoicing. In limited situations, certain customer contractual payment terms require the Group to bill in arrears; thus, the Group satisfies some or all of the performance obligations before the Group is contractually entitled to bill the customer. In these situations, billing occurs subsequent to revenue recognition, which results in a contract asset. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of the time is required before payment of the consideration is due. A contract asset is recorded when the Group has transferred products or services to the customer before payment is received or is due, and the Group's right to consideration is conditional on future performance or other factors in the contract. For example, certain of the contractual arrangements do not permit the Group to bill until the completion of the production of the samples. In other limited situations, certain customer contractual payment terms allow the Group to bill in advance; thus, the Group receives customer cash payment before satisfying some or all of its performance obligations. In these situations, billing occurs in advance of revenue recognition, which results in contract liabilities.

*Licenses of Intellectual Property:* Upfront non-refundable payments for licensing the Group's intellectual property are evaluated to determine if the license is distinct from the other performance obligations identified in the arrangement. For licenses determined to be distinct, the Group recognizes revenues from non-refundable, up-front fees allocated to the license at a point in time, when the license is transferred to the licensee and the licensee is able to use and benefit from the license.

**2. Principal Accounting Policies (Continued)**

***2.15 Revenue recognition (Continued)***

*Research and Development Services:* The portion of the transaction price allocated to research and development services performance obligations is deferred and recognized as revenue over time as delivery or performance of such services provided to the Group's customers occurs.

*Milestone Payments*: At the inception of each arrangement that includes development, commercialization, and regulatory milestone payments, the Group evaluates whether the milestones are considered probable of being reached and to the extent that a significant reversal of cumulative revenue would not occur in future periods, estimates the amount to be included in the transaction price using the most likely amount method. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the Group recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Group re-evaluates the probability of achieving such development milestones and any related constraint, and if necessary, adjust the estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

*Royalties*: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties or milestone payments based on the level of sales relate, the Group recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

***2.16 Value-added-tax ("VAT") recoverable and surcharges***

Value added tax recoverable represent amounts paid by the Group for purchases. The surcharges (i.e., Urban construction and maintenance tax, educational surtax, local educational surtax), vary from 6% to 17% of the value-added-tax depending on the tax-payer's location. The deductible input VAT balance is reflected in the prepayments and other receivables, and VAT payable balance is recorded in the accruals and other payables.

***2.17 Research and development expenses***

Elements of research and development expenses primarily include (1) payroll and other related expenses of personnel engaged in research and development activities, (2) in-licensed patent rights fee of exclusive development rights of drugs granted to the Group, (3) expenses related to preclinical testing of the Group's technologies under development and clinical trials such as payments to contract research organizations ("CRO"), investigators and clinical trial sites that conduct the clinical studies (4) expenses to develop the product candidates, including raw materials and supplies, product testing, depreciation, and facility related expenses, (5) other research and development expenses. Research and development expenses are charged to expense as incurred when these expenditures relate to the Group's research and development services and have no alternative future uses.

**2. Principal Accounting Policies (Continued)**

***2.17 Research and development expenses (Continued)***

The Group has acquired rights to develop and commercialize product candidates. Upfront payments that relate to the acquisition of a new drug compound, as well as pre-commercial milestone payments, are immediately expensed as acquired in-process research and development in the period in which they are incurred, provided that the new drug compound did not also include processes or activities that would constitute a "business" as defined under U.S. GAAP, the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, has no established alternative future use. Milestone payments made to third parties subsequent to regulatory approval would be capitalized as intangible assets and amortized over the estimated remaining useful life of the related product. The conditions enabling capitalization of development expenses as an asset have not yet been met and, therefore, all development expenditures are recognized in profit or loss when incurred.

***2.18 Leases***

In accordance with ASC 842 adopted on January 1, 2019, the Group determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liability, and operating lease liability, non-current in the Group's consolidated balance sheets. The Group does not have any finance leases since the adoption date.

ROU assets represent the Group's right to use an underlying asset for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. When determining the lease term, the Group includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option, if any. As the Group's leases do not provide an implicit rate, the Group uses its incremental borrowing rate, which it calculates based on the credit quality of the Group and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease.

The Group has elected to adopt the following lease policies in conjunction with the adoption of ASU 2016-02: (i) elect for each lease not to separate non-lease components from lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component; (ii) for leases that have lease terms of 12 months or less and does not include a purchase option that is reasonably certain to exercise, the Group elected not to apply ASC 842 recognition requirements; and (iii) the Group elected to apply the package of practical expedients for existing arrangements entered into prior to January 1, 2019 to not reassess (a) whether an arrangement is or contains a lease, (b) the lease classification applied to existing leases, and (c) initial direct costs.

In connection with the adoption of ASC 842, on January 1, 2019, the Company recorded an impact of RMB13,100 on its assets and RMB11,333 on its liabilities for the recognition of operating lease right-of-use-assets and operating lease liabilities, respectively, which are primarily related to the lease of the Group's offices and warehouses. The adoption of ASC 842 did not have a material impact on the Company's results of operations or cash flows.

***2.19 Comprehensive loss***

Comprehensive loss is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220, Comprehensive Income, requires that all items that are required to be recognized under current accounting standards as components of comprehensive loss be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Group's comprehensive loss includes net loss and foreign currency translation adjustments, which are presented in the consolidated statements of comprehensive loss.

**2. Principal Accounting Policies (Continued)**

***2.20 Share-based compensation***

The Company grants restricted shares and stock options to eligible employees and accounts for share-based compensation in accordance with ASC 718, Compensation—Stock Compensation.

Employees' share-based compensation awards are measured at the grant date fair value of the awards and recognized as expenses a) immediately at the grant date if no vesting conditions are required; or b) for share based awards granted with only service conditions, using the graded vesting method net of estimated forfeitures over the vesting period; or c) for share-based awards granted with service conditions and the occurrence of an initial public offering ("IPO") as performance condition cumulative share-based compensation expenses for the options that have satisfied the service condition should be recorded upon the completion of the IPO using the graded vesting method.

A change in any of the terms or conditions of share-based awards is accounted for as a modification of the awards. The Group calculates incremental compensation expense of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified at the modification date. For vested awards, the Group recognizes incremental compensation cost in the period when the modification occurs. For awards not being fully vested, the Group recognizes the sum of the incremental compensation expense and the remaining unrecognized compensation expense for the original awards over the remaining requisite service period after modification.

Share-based compensation in relation to the restricted shares is measured based on the fair market value of the Group's ordinary shares at the grant date of the award. Prior to the listing, estimation of the fair value of the Group's ordinary shares involves significant assumptions that might not be observable in the market, and a number of complex and subjective variables, including discount rate, and subjective judgments regarding the Group's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants are made. Share-based compensation in relation to the stock options is estimated using the Binominal Option Pricing Model. The determination of the fair value of stock options is affected by the share price of the Group's ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple and expected dividend yield. The fair value of these awards was determined with the assistance from an independent valuation firm.

***2.21 Income taxes***

The Group accounts for income taxes under the liability method. Under the liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the tax income rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded if it is more likely than not that some portion or all of the deferred income tax assets will not be utilized in the foreseeable future.

**2. Principal Accounting Policies (Continued)**

***2.21 Income taxes (Continued)***

The Group evaluates its uncertain tax positions using the provisions of ASC 740-10, Income Taxes, which prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements. The Group recognizes in the financial statements the benefit of a tax position which is ‘‘more likely than not’’ to be sustained under examination based solely on the technical merits of the position assuming a review by tax authorities having all relevant information. Tax positions that meet the recognition threshold are measured using a cumulative probability approach, at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. It is the Group’s policy to recognize interest and penalties related to unrecognized tax benefits, if any, as a component of income tax expense.

***2.22 Borrowings***

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

***2.23 Segment information***

In accordance with ASC 280, Segment Reporting, the Group’s chief operating decision maker, the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. As the Group’s long-lived assets are substantially located in and derived from the PRC, no geographical segments are presented.

***2.24 Loss per share***

Basic loss per share is computed by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, the net loss is allocated between ordinary shares and other participating securities based on their participating rights. Net loss is not allocated to other participating securities if based on their contractual terms they are not obligated to share in the loss. Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of shares issuable upon the conversion of the preferred shares using the if-converted method, shares issuable upon the exercise of stock options using the treasury stock method, shares issuable upon the conversion of the convertible promissory notes using the if-converted method, and shares issuable upon the exercise of warrants using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted loss per share calculation when inclusion of such shares would be anti-dilutive.

**2. Principal Accounting Policies (Continued)**

***2.25 Adopted accounting pronouncements***

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This guidance requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The measurement of expected credit losses is based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses ("ASU 2018-19"), which clarifies certain topics included within ASU 2016-13. ASU 2016-13 and ASU 2018-19 are effective for the annual reporting period beginning after December 15, 2019, including interim periods within that reporting period. The impact of this ASU to the consolidated financial statements is immaterial. The Group elected to adopt this ASU and applied this guidance retrospectively to all periods presented.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The Group adopted this ASU on January 1, 2020 and the adoption of this ASU does not have a material impact to its consolidated financial statements.

In August 2018 the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. This standard modifies certain disclosure requirements on fair value measurements. This standard became effective for us on January 1, 2020.

In November 2018 the FASB issued ASU No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606. This standard makes targeted improvements for collaborative arrangements as follows:

- Clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606, Revenue from Contracts with Customers, when the collaborative arrangement participant is a customer in the context of a unit of account. In those situations, all the guidance in ASC 606 should be applied, including recognition, measurement, presentation and disclosure requirements;

- Adds unit-of-account guidance to ASC 808, Collaborative Arrangements, to align with the guidance in ASC 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of ASC 606; and

- Precludes a company from presenting transactions with collaborative arrangement participants that are not directly related to sales to third parties with revenue recognized under ASC 606 if the collaborative arrangement participant is not a customer.

This standard became effective for the Group on January 1, 2020. A retrospective transition approach is required for either all contracts or only for contracts that are not completed at the date of initial application of ASC 606, with a cumulative adjustment to opening retained earnings. Since the Group's all relevant units of accounts were accounted for under ASC 606, the adoption of this ASU does not have a material impact to the Group's consolidated financial statements, with no adjustment to its opening retained earnings.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

## 2. Principal Accounting Policies (Continued)

### *2.26 Recent accounting pronouncements*

In December 2019, the FASB issued ASU 2019-12-Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for the Company beginning on January 1, 2022. Early adoption of the amendments is permitted. The Company is currently evaluating the impact of ASU 2019-12 on its consolidated financial statements.

## 3. Prepayments and Other Receivables

| | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|
| | RMB | RMB | US$ (Note 2.5) |
| Prepayments: | | | |
| —Prepayments to CRO vendors | 78,740 | 72,285 | 10,646 |
| —Prepayments for stock repurchase program (Note 11) | — | 34,051 | 5,015 |
| —Prepayments for other services | 880 | 1,722 | 254 |
| Receivables due from employees (Note (i)) | 16,201 | — | — |
| Loans to an affiliate (Note 21) | — | 52,000 | 7,659 |
| Value-added tax recoverable | 12,517 | 25,330 | 3,731 |
| Rental deposits | 546 | 994 | 146 |
| Interest receivables | 764 | — | — |
| Others | 26,388 | 33,457 | 4,928 |
| | 136,036 | 219,839 | 32,379 |

Note:
(i) The balance mainly represented the receivables due from employees, which were arising from the Group's obligation to pay the withholding individual income tax ("IIT") for those employees' stock option activities and was collected by the Group in January 2020.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

## 4. Property, Equipment and Software

Property, equipment and software consist of the following:

| | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|
| | RMB | RMB | US$ (Note 2.5) |
| Cost | | | |
| Laboratory equipment | 24,265 | 27,336 | 4,026 |
| Leasehold improvement | 11,856 | 12,605 | 1,857 |
| Software | 10,220 | 10,201 | 1,502 |
| Office furniture and equipment | 1,526 | 1,526 | 225 |
| Total property, equipment and software | 47,867 | 51,668 | 7,610 |
| Less: accumulated depreciation and amortization | (18,221) | (25,935) | (3,820) |
| Net book value | 29,646 | 25,733 | 3,790 |
| Construction in progress | 423 | 1,325 | 195 |
| Total net book value of property, equipment and software | 30,069 | 27,058 | 3,985 |

The total amounts charged to the interim condensed consolidated statements of comprehensive loss for depreciation and amortization expenses amounted to approximately RMB6.8 million and RMB7.7 million for the nine months ended September 30, 2019 and 2020, respectively.

## 5. Intangible Assets

Intangible assets as of December 31, 2019 and September 30, 2020 are summarized as follows:

| | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|
| | RMB | RMB | US$ (Note 2.5) |
| Cost | | | |
| IPR&D | 148,844 | 122,000 | 17,969 |
| Less: accumulated amortization | — | — | — |
| Net book value | 148,844 | 122,000 | 17,969 |

IPR&D represents the fair value assigned to research and development assets that the Group acquired from business combination of I-Mab Tianjin and its subsidiaries including Chengdu Tasgen Bio-Tech Co., Ltd. and Shanghai Tianyunjian Bio-Tech Co., Ltd. (together the “Tasgen Group”) in 2017 and had not reached technological feasibility at the date of acquisition. Upon commercialization, the Group will determine the estimated useful life and amortize these amounts based upon an economic consumption method.

**5. Intangible Assets (Continued)**

The fair value assigned to the IPR&D related to TJ102 was RMB26,844 (US$3,954). On September 15, 2020, I-Mab Hong Kong and Genexine, Inc. entered into amendments to Intellectual Property License Agreement with I-Mab Hangzhou to assign and transfer all the rights and obligations related to TJ102 to I-Mab Hangzhou, pursuant to an equity transfer and investment agreement entered into between I-Mab Hong Kong and various parties (Note 7).

As of December 31, 2019 and September 30, 2020, there was no impairment of the value of the Group's intangible assets.

**6. Goodwill**

On July 15, 2017, the Group acquired 66.67% of the equity interests in the Tasgen Group by issuing convertible preferred shares and controlled the board of directors and business of I-Mab Tianjin since then. Tasgen Group is principally engaged in the research and development of innovative medicines and the Group acquired Tasgen Group for its research team, technical experience, and IPR&D pipeline assets (see Note 5). As of December 31, 2019 and September 30, 2020, the goodwill of RMB162,574 (US$23,945) represented the goodwill generated from the aforementioned acquisition of Tasgen Group and the business of Tasgen Group was fully integrated into the Company after the acquisition. There was no impairment of the value of the Group's goodwill.

As of December 31, 2019 and September 30, 2020, the Group performed a qualitative assessment by evaluating relevant events and circumstances that would affect the Group's single reporting unit and did not note any indicator that it is more likely than not that the fair value of the Group's reporting unit is less than its carrying amount and therefore the Group's goodwill was not impaired.

**7. Investment Accounted for Using the Equity Method and Put Right Liabilities**

**(a) Investment accounted for using the equity method**

I-Mab Hangzhou, incorporated on June 16, 2019, was a wholly owned subsidiary of I-Mab Hong Kong with registered capital of US$30 million, which was paid up by I-Mab Hong Kong on September 14, 2020.

On September 15, 2020 (the "Closing Date"), I-Mab Hong Kong entered into an equity transfer and investment agreement (the "SPA") with (i) a limited partnership jointly established by the management of I-Mab Hangzhou to hold restricted equity of I-Mab Hangzhou issued to the management ("Management Holdco"), (ii) a limited partnership established to hold the shares of I-Mab Hangzhou for future equity incentive plan ("ESOP Holdco") and (iii) a group of domestic investors in China ("Domestic Investors").

In accordance with the terms of the SPA,

(i) I-Mab Hong Kong agreed to assign all rights and obligations/ownership of certain drug candidates in different stages of development ("Target Pipelines") to I-Mab Hangzhou as of the Closing Date as well as to transfer employment of a team of designated management/workforce to I-Mab Hangzhou. The Target Pipelines were evaluated by an independent valuer, with a total value of US$105 million as of the Closing Date;

**7. Investment Accounted for Using the Equity Method and Put Right Liabilities (Continued)**

**(a) Investment accounted for using the equity method (Continued)**

(ii) Management Holdco would acquire 10% of the equity of I-Mab Hangzhou from I-Mab Hong Kong with no consideration. The 10% equity is represented by I-Mab Hangzhou's registered capital of US$3 million, and that after acquiring such equity, Management Holdco will pay US$3 million to I-Mab Hangzhou to fulfil its capital contribution obligations in a period of four years starting from the Closing Date;

(iii) ESOP Holdco would acquire 5% of the equity of I-Mab Hangzhou from I-Mab Hong Kong with no consideration. The 5% equity is represented by I-Mab Hangzhou's registered capital of US$1.5 million. All of such equity will be used to implement I-Mab Hangzhou's equity incentive plan.

(iv) Domestic Investors would acquire a total of 40% of the equity of I-Mab Hangzhou from I-Mab Hong Kong with no consideration. The 40% equity is represented I-Mab Hangzhou's registered capital of US$12 million, and after acquiring such equity of I-Mab Hangzhou, Domestic Investors would pay US$120 million collectively to I-Mab Hangzhou to fulfil its capital contribution obligations.

After completion of the equity transfer, the registered capital of I-Mab Hangzhou remained to be US$30 million. The equity interest in I-Mab Hangzhou held by I-Mab Hong Kong, Domestic Investors, Management Holdco and ESOP Holdco are 45%, 40%, 10% and 5% respectively.

On the same day, I-Mab Hong Kong also entered into a shareholders agreement with the aforementioned investors (the "SHA"). According to the SHA and I-Mab Hangzhou's articles of association, the board of directors of I-Mab Hangzhou shall be composed of seven directors. The directors shall be elected in the following ways: I-Mab Hong Kong is entitled to appoint three directors, including the chairman of the board of directors, as well as nominate one independent director; the Management Holdco is entitled to appoint one director; two non-related entities of the Domestic Investors are entitled to appoint one director respectively ("Investors Directors"). Each director of the board of directors shall have one vote. I-Mab Hong Kong, Management Holdco and ESOP Holdco agree to act in concert, as long as each of Management Holdco and ESOP Holdco respectively holds equity in I-Mab Hangzhou, when exercising the rights as a shareholder.

As a result of the above transactions, I-Mab Hangzhou became an affiliate of the Group on the Closing Date in accordance with ASC 810 since I-Mab Hangzhou meets the definition of a business under ASC 805. In accordance with ASC 810-10, I-Mab Hangzhou is a variable interest entity, and no shareholder shall consolidate I-Mab Hangzhou under variable interest entity model as neither party have the power to direct all the activities that most significantly impact the economic performance of I-Mab Hangzhou. Therefore, the Group deconsolidated I-Mab Hangzhou and retained 45% equity interest in I-Mab Hangzhou. The investment was accounted for using the equity method. The retained investment in the common stock of I-Mab Hangzhou was initially measured at fair value in accordance with ASC 810-10-40.

The Group determined the fair value of its retained equity interest with the assistance of an independent third-party valuation firm. The Group used equity allocation model to estimate the fair value of the investment. The fair value as of the Closing Date was US$112,039 (equivalent to approximately RMB764,352) which reflected the fact that the shares subscribed by Management Holdco and ESOP Holdco were not issued and outstanding as of the Closing Date. The carrying value of the Group's long-term investment measured under equity method was RMB762,997 as of September 30, 2020.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**7. Investment Accounted for Using the Equity Method and Put Right Liabilities (Continued)**

**(a) Investment accounted for using the equity method (Continued)**

A gain of RMB407,598 was recognized as a result of the deconsolidation. The gain represented the difference between:

i) The fair value of the retained noncontrolling investment in I-Mab Hangzhou at the Closing Date; and

ii) The aggregate of all of the following:

a) the carrying amount of transferred intellectual property related to TJ102 at the Closing Date (Note 5);

b) the fair value of the put right liabilities written by I-Mab Hong Kong to Domestic Investors;

c) the carrying amount of I-Mab Hangzhou's net assets at the Closing Date.

**(b) Put right liabilities**

Pursuant to the SHA, if I-Mab Hangzhou fails to close a public offering of I-Mab Hangzhou's shares on the China Stock Exchange's Science and Technology Innovation Board, Main Board, Small and Medium-Sized Enterprise Board, Growth Enterprise Board, or Hong Kong Stock Exchange, U.S. Stock Exchange, or other stock exchanges approved by the shareholders of I-Mab Hangzhou in accordance with provisions of the SHA within 4 years after September 15, 2020, I-Mab Hong Kong has agreed to repurchase the equity held by Domestic Investors by cash or I-Mab's stock (subject to the approval procedures of I-Mab) within 3 years after the expiration of the 4-year period after September 15, 2020.

The put right written by I-Mab Hong Kong to Domestic Investors is a freestanding equity-linked instrument, which is classified as a put right liability and recorded at fair value with changes in fair value recorded in the income statement.

The Group determined the fair value of the put right with the assistance of an independent third-party valuation firm. The Group used the option pricing model (finnerty model) to estimate the fair value of the put right using the following assumptions:

| | As of September 15, and September 30, 2020 |
|---|---|
| Expected terms (Year) | 4 |
| Estimated volatility | 55.2% |
| Spot price | US$ 143,401 |
| Probability of triggering event for redemption option | 65% |

The model requires the input of highly subjective assumptions including the expected terms, estimated volatility, spot price and probability of triggering event for redemption option. Expected terms is estimated based on the timing of a hypothetical redemption event which is assumed to be the earlier of expected redemption date or expected public offering date. Expected volatility is estimated based on daily stock prices of the comparable company for a period with length commensurate to the expected terms of redemption event. The spot price was determined with assistance from an independent third-party valuation firm. The Group's management is ultimately responsible for the determination of the spot price and probability of triggering event for redemption option.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**7. Investment Accounted for Using the Equity Method and Put Right Liabilities (Continued)**

**(b) Put right liabilities (Continued)**

Significant decreases in interval between valuation date and maturity date, estimated volatility, spot price and probability of triggering event for redemption option would result in a significantly lower fair value measurement.

**8. Short-term Borrowings**

In June 2019, I-Mab Bio-tech (Tianjin) Co., Ltd. borrowed a loan of RMB50,000 from China Merchant Bank Co., Ltd. for a term of one year and at the interest rate of 4.15% per annum. To facilitate this borrowing, another subsidiary of the Company in Hong Kong placed cash deposits of US$8,000 (equivalent to approximately RMB55,810) with the bank. The use of such cash deposits and the interest earned thereon are restricted by the bank during the period of the borrowing. The deposits have a one-year term and bear interest at 2.63% per annum. The borrowing was repaid in June 2020.

**9. Accruals and Other Payables**

| | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|
| | RMB | RMB | US$ (Note 2.5) |
| Current: | | | |
| Staff salaries and welfare payables | 30,166 | 15,783 | 2,325 |
| Accrued external research and development activities related expenses | 144,000 | 150,622 | 22,184 |
| Accrued initial public offering costs payable | 17,504 | 508 | 75 |
| Accrued private placement offering costs payable | — | 96,837 | 14,263 |
| Withholding IIT payable related to stock options | 16,201 | — | — |
| Non-refundable incentive payment from depositary bank (Note) | — | 2,630 | 387 |
| Accrued traveling expenses, office expenses and others | 65,682 | 71,937 | 10,595 |
| | 273,553 | 338,317 | 49,829 |
| Non-current: | | | |
| Non-refundable incentive payment from depositary bank (Note) | — | 8,433 | 1,242 |

**9. Accruals and Other Payables (Continued)**

Note: The Group received a non-refundable incentive payment of US$1,857 (equivalent to approximately RMB12,982) from depositary bank in April 2020. The amount was recorded ratably as other gains over a five-year arrangement period. For the nine months ended September 30, 2020, the Group has recorded RMB1,731 as other income in the interim condensed consolidated financial statements.

**10. Income Taxes**

The Group has incurred net accumulated operating losses for income tax purposes since its inception. The Group believes that it is more likely than not that these net accumulated operating losses will not be utilized in the future. Therefore, the Group has provided full valuation allowances for the deferred tax assets as of December 31, 2019 and September 30, 2020.

**11. Ordinary Shares**

As of December 31, 2019 and September 30, 2020, 500,000,000 ordinary shares had been authorized by the Company. Each ordinary share is entitled to one vote. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors of the Company.

On October 29, 2019, the Company's shareholders and board of directors approved that immediately prior to the completion of initial public offering, the Company's authorized share capital will be changed into US$80,000 divided into 800,000,000 ordinary shares of a par value of US$0.0001 each.

On January 17, 2020, the Company completed its IPO and became listed on the Nasdaq Global Market by issuing 7,407,400 American Depositary Shares ("ADSs") at the price of US$14.00 per ADS for total gross proceeds of US$103.7 million. On February 10, 2020, the underwriters of the IPO have exercised their over-allotment option to purchase an additional 768,350 ADSs of the Company at the IPO price of US$14.00 per ADS. After giving effect to the exercise of the over-allotment option, the Company has issued and sold a total of 8,175,750 ADSs in the IPO, for total net proceeds of US$101.3 million (equivalent to RMB697,788), netting of issuance cost from total gross proceeds of US$114.5 million. Each ten ADSs represent twenty-three ordinary shares of the Company.

On January 17, 2020, the Company also issued 6,078,571 ordinary shares to Everest (see Note 16 for details).

Upon the completion of the IPO, the Company's then outstanding 30,227,056 Series A Preferred Shares, 23,288,783 Series B Preferred Shares, 3,714,580 Series B-1 Preferred Shares, 3,301,849 Series B-2 Preferred Shares, 31,046,360 Series C Preferred Shares and 3,857,143 Series C-1 Preferred Shares were converted into 30,227,056, 23,288,783, 3,714,580, 3,571,427, 34,420,469 and 4,537,814 ordinary shares, respectively.

On July 15, 2020, the Group's Board of Directors approved a share repurchase program to repurchase in the open market up to US$20 million worth of outstanding ADSs of the Group. The Group paid total prepayment of US$5,000 (equivalent to RMB34,051) for the share repurchase. As of September 30, 2020, none of the ordinary shares were repurchased.

On September 3, 2020, the Group entered into definitive subscription agreements with a consortium of institutional investors (the "Investors") to raise approximately US$418 million through a private placement. The consortium is led by Hillhouse Capital Group ("Hillhouse"), with significant participation by GIC Private Limited, and also includes certain other leading Asian and U.S. biotech investment funds, Hillhouse is entitled to nominate one representative to I-Mab's Board of Directors.

**11. Ordinary Shares (Continued)**

The private placement comprises (1) the sale to the Investors of the Group's 29,133,502 ordinary shares (equivalent to 12,666,740 ADSs) at a purchase price equivalent to US$33 per ADS amounting to approximately US$418 million; and (2) warrants (the "Investor Warrants", see Note 14(b)) to subscribe for an aggregate of 5,341,267 ordinary shares (equivalent to 2,322,290 ADSs) at an exercise price equivalent to US$45 per ADS, which may further increase the proceeds of approximately US$104.5 million if the Investor Warrants are fully exercised. The Investor Warrants will remain exercisable at the election of the Investors within 12 months after the closing of the private placement.

The subscription agreement with the Hillhouse entities contemplates two closings. The first closing occurred on September 11, 2020, and the second closing is conditioned upon an existing director of the Group having resigned to enable the Hillhouse entities to appoint a director to replace such director and the lemzoparlimab out-licensing agreement with AbbVie (see Note 16) being or remaining effective. As of September 30, 2020, 20,421,378 ordinary shares and 3,744,032 Investor Warrants were issued to the Investors for total gross proceeds of approximately US$293 million. In December 2020, the Group entered into a written amendment made to the subscription agreement with the Hillhouse entities, which removed one of the two conditions for the second closing that an existing director of the Group having resigned to enable the Hillhouse entities to appoint a director to replace such director. The second closing occurred as the other condition was satisfied and 8,712,124 ordinary shares as well as 1,597,235 Investor Warrants were issued to the Hillhouse entities for total gross proceeds of approximately US$125.0 million.

As of September 30, 2020, 115,888 stock options under 2017 Employee Stock Option Plan were exercised.

**12. Convertible Preferred Shares**

On January 17, 2020, immediately prior to the completion of the Company's IPO, all of the convertible redeemable preferred shares were converted to ordinary shares. Prior to their conversion, the convertible redeemable preferred shares were entitled to certain privileges over ordinary shares with respect to dividends, conversion, and liquidation. The transactions and impact are disclosed as below.

On October 18, 2016, the Company issued 5,141,587 shares of Series A-1 and A-2 Preferred Shares with a consideration of US$11,282 (equivalent to approximately RMB74,742). In connection with the Series A-1 and A-2 Preferred Shares issuance, the Company also issued 2,246,744 warrant to purchase its Series A-3 Preferred Shares ("Series A-3 Warrants" and see Note 14).

On September 6, 2017, in connection with the Group's acquisition of Tasgen Group, the Company issued 16,723,646 shares of Series A-3 Preferred Shares at a price of US$2.55 per share with a total consideration of US$42,645 (equivalent to approximately RMB289,024).

Series A-1 Preferred Shares, Series A-2 Preferred Shares and Series A-3 Preferred Shares are also referred to as Series A Preferred Shares.

On September 22, 2017, the Company issued 15,894,594 shares of Series B Preferred Shares with a consideration of US$52,546 (equivalent to approximately RMB346,515). In connection with the Series B Preferred Shares issuance, the Company also issued convertible promissory notes that are convertible into Series B-1 Preferred Shares ("2017 Notes" and see Notes 13) and 5,633,780 warrants to purchase its Series B-2 Preferred Shares ("Series B Warrant" and see Note 14).

**12. Convertible Preferred Shares (Continued)**

Concurrently with the Company's issuance of Series B Preferred Shares, the Company also completed a round of onshore financing with respect to the Group's subsidiary I-MAB Tianjin ("Series B Onshore Financing"). Series B Onshore Financing comprised 1) capital injection to I-Mab Tianjin by a number of investors ("Series B Onshore Investors") (see Note 13), 2) I-Mab Tianjin's issuance of convertible loans ("Onshore Convertible Loans" and see Note 13), and 3) the Company's issuance of 2,620,842 warrants to purchase its Series B-2 Preferred Shares ("Series B Warrants" and see Note 14).

On June 29, 2018, the Company issued total 8,361,823 shares of Series A-3 Preferred Shares upon exercise of Series A-3 Option held by its holder.

On June 29, 2018, the Company issued 2,535,201 shares of Series B-1 Preferred Shares upon conversion of 2017 Notes and issued 2,253,512 shares of Series B-2 Preferred Shares upon exercise of Series B Warrant by Series B preferred shareholders.

On June 29, 2018, the Company issued 5,938,640 shares of Series B Preferred Shares upon exercise of the Series B Option held by a Series B Onshore Investor and issued 947,218 shares of Series B-1 Preferred Shares upon conversion of Onshore Convertible Loans by a Series B Onshore Investor (see Note 13), respectively.

On July 6, 2018, the Company issued 1,455,549 shares of Series B Preferred Shares upon exercise of the Series B Option held by a Series B Onshore Investor, issued 232,161 shares of Series B-1 Preferred Shares upon conversion of Onshore Convertible Loans by a Series B Onshore Investor (see Note 13) and issued 1,048,337 shares of Series B-2 Preferred Shares upon exercise of Series B Warrant by Series B Onshore Investors, respectively.

Series B Preferred Shares, Series B-1 Preferred Shares and Series B-2 Preferred Shares are also referred to as Series B Preferred Shares.

On July 6, 2018, the Company issued 31,046,360 shares of Series C Preferred Shares at a price of US$6.4419 per share with a total consideration of US$200,000 (equivalent to approximately RMB1,323,363). In connection with the offering of the Series C Preferred Shares, the Company incurred issuance costs of RMB16,730.

On July 25, 2019, the Group entered into a share purchase agreement with certain third party investors, under which these investors will subscribe for an aggregate of 3,857,143 Series C-1 convertible preferred shares of the Company for an aggregate purchase price of US$27.0 million. Out of the aforementioned subscription of 3,857,143 Series C-1 convertible preferred shares by certain third party investors, 1,428,571 Series C-1 convertible preferred shares were issued to an investor on October 17, 2019, and the Group also received the cash consideration of US$10,000 (equivalent to approximately RMB70,036). On November 6, 2019, the Group received cash consideration of US$17,000 (equivalent to approximately RMB119,387) for the remaining 2,428,572 Series C-1 convertible preferred shares from the investors and the issuance of such 2,428,572 Series C-1 convertible preferred shares were consummated on that day. In connection with the offering of the Series C-1 convertible preferred shares, the Company incurred issuance costs of approximately US$840 (equivalent to approximately RMB5,887).

**12. Convertible Preferred Shares (Continued)**

Upon the completion of the IPO on January 17, 2020, all outstanding 30,227,056 Series A Preferred Shares, 23,288,783 Series B Preferred Shares, 3,714,580 Series B-1 Preferred Shares, 3,301,849 Series B-2 Preferred Shares, 31,046,360 Series C Preferred Shares and 3,857,143 Series C-1 Preferred Shares were converted into 30,227,056, 23,288,783, 3,714,580, 3,571,427, 34,420,469 and 4,537,814 ordinary shares, respectively.

Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series C-1 Preferred Shares are collectively referred to as Preferred Shares.

Key terms of the Preferred Shares are summarized as follows:

*Dividends*

The holders of Preferred Shares are entitled to receive dividends, out of any assets legally available therefore, prior and in preference to any declaration or payment of any dividend on the ordinary shares or any other class or series of shares of the Group at the rate of eight percent (8%) of the original issue price per share per annum on each Preferred Share, payable in US$ and annually when, as and if declared by the Board of Directors. Such distributions shall not be cumulative. No dividend, whether in cash, in property or in shares of the capital of the Group, shall be paid on or declared and set aside for any ordinary shares or any other class or series of shares of the Group unless and until all dividends have been paid in full on the Preferred Shares (on an as-converted basis).

*Conversion*

Each Preferred Share may be converted at any time into ordinary shares at the option of the preferred shares holders at the then applicable conversion price. The initial conversion ratio is 1:1, subject to adjustment in the event of (i) share splits, share combinations, share dividends or distribution, other dividends, recapitalizations and similar events, or (ii) issuance of ordinary shares (excluding certain events such as issuance of ordinary shares pursuant to a public offering) at a price per share less than the conversion price in effect on the date of or immediately prior to such issuance.

The Preferred Shares shall be automatically converted into ordinary shares immediately upon the closing of a public offering of the Company's shares with an offering price (exclusive of underwriting commissions and expenses) that reflects a market capitalization (immediately prior to the public offering) of not less than US$1,000,000,000 or otherwise approved by all directors and certain preferred shareholders as specified in the Company's memorandum and articles of association (the "Qualified Public Offering").

The Group determined that there were no beneficial conversion features ("BCF") identified for any of the Preferred Shares during any of the periods. In making this determination, the Company compared the fair value of the ordinary shares into which the Preferred Shares are convertible with the respective effective conversion price at the issuance date. In all instances, the effective conversion price was greater than the fair value of the ordinary shares. To the extent a conversion price adjustment occurs, as described above, the Group will reevaluate whether or not a beneficial conversion feature should be recognized.

**12. Convertible Preferred Shares (Continued)**

*Liquidation*

In the event of any liquidation (unless waived by the preferred shareholders) including deemed liquidation, dissolution or winding up of the Company, holders of the Preferred Shares shall be entitled to receive a per share amount equal to one hundred percent (100%) of the original issue price on each Preferred Share, plus an amount representing an internal rate of return of twelve percent (12%) per annum on the original issue price as adjusted for share dividends, share splits, combinations, recapitalizations or similar events, plus all accrued and declared but unpaid dividends thereon, in the sequence of Series C Preferred Shares, Series B Preferred Shares and Series A Preferred Shares. After such liquidation amounts have been paid in full, any remaining funds or assets of the Company legally available for distribution to shareholders shall be distributed on a pro rata basis among the holders of the Preferred Shares, on an as-converted basis, together with the holders of the ordinary shares.

**Accounting for preferred shares**

The Preferred Shares are redeemable by the holders upon a liquidation event, including a deemed liquidation event (e.g., change in control), and as such are presented as mezzanine equity on the consolidated balance sheets. In accordance with ASC 480-10-S99, each issuance of the convertible preferred shares should be recognized at the date of issuance after deducting fair value allocated to the detachable warrants and issuance costs.

**Modification of preferred shares**

The Company assesses whether an amendment to the terms of its convertible preferred shares is an extinguishment or a modification using the fair value model.

When convertible redeemable preferred shares are extinguished, the difference between the fair value of the consideration transferred to the convertible redeemable Preferred Shareholders and the carrying amount of such preferred shares (net of issuance costs) is treated as a deemed dividend to the Preferred Shareholders. When convertible redeemable preferred shares are modified and such modification results in value transfer between Preferred Shareholders and ordinary shareholders, the change in fair value resulted from the amendment is treated as a deemed dividend to or from the Preferred Shareholders.

On December 25, 2019, the Company’s shareholders and board of directors approved that, where the final offering price of a Qualified Public Offering is no less than US$4.176 per ordinary share, the agreed provisions related to the number of shares to be converted into the Company’s ordinary shares shall apply with respect to the Series C-1 Preferred Shares, Series C Preferred Shares, Series B-2 Preferred Shares and Series B-1 Preferred Shares, which will generally give rise to a one to multiple conversion of the such rounds of Preferred Shares, provided that unanimous consent of the directors on the final offering price needs to be obtained in the event that the final offering price per ordinary share of such IPO is fixed at a price equal to or higher than US$4.176 per ordinary share but lower than US$5.22 per ordinary share.

The Company evaluated the aforementioned modifications and concluded that they represented modifications, rather than extinguishment, to Series B-1, B-2 and C Preferred Shares, which resulted in a transfer of value from ordinary shareholders to preferred shareholders. The combined change in fair value of Series B-1, B-2 and C Preferred Shares immediately before and after the modification was US$4.0 million (equivalent to approximately RMB27.8 million) on December 25, 2019. This decrease in fair value of the ordinary shares of US$4.0 million (equivalent to approximately RMB27.8 million) on December 25, 2019 was, in substance, a transfer of wealth mostly from ordinary shareholders to preferred shareholders, and therefore was recorded as a deemed dividend to the preferred shareholders**.**

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**12. Convertible Preferred Shares (Continued)**

**Modification of preferred shares (Continued)**

The Company evaluated the aforementioned modifications and concluded that they represented extinguishment to Series C-1 Preferred Shares. The difference between the fair value of the modified Series C-1 Preferred Shares and the carrying value of the original Series C-1 Preferred Shares was amounting US$0.8 million on December 25, 2019 and represented the fair value of the consideration transferred, and therefore was recognized as a deemed dividend to the preferred shareholders and adjustment to the carrying amount of Series C-1 Preferred Shares**.**

The Company's convertible preferred shares activities for the nine months ended September 30, 2019 and 2020 are summarized below:

| | Series A Preferred Shares | | | Series B Preferred Shares | | | Series C Preferred Shares | | | Series C-1 Preferred Shares | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount US$ | Amount RMB | Number of shares | Amount US$ | Amount RMB | Number of shares | Amount US$ | Amount RMB | Number of shares | Amount US$ | Amount RMB |
| Balance as of January 1, 2019 and September 30, 2019 | 30,227,056 | 102,852 | 687,482 | 30,305,212 | 139,407 | 921,243 | 31,046,360 | 197,478 | 1,306,633 | — | — | — |
| Balance as of January 1, 2020 | 30,227,056 | 102,852 | 687,482 | 30,305,212 | 139,407 | 921,243 | 31,046,360 | 197,478 | 1,306,633 | 3,857,143 | 26,914 | 188,819 |
| Conversion to ordinary shares upon IPO | (30,227,056) | (102,852) | (687,482) | (30,305,212) | (139,407) | (921,243) | (31,046,360) | (197,478) | (1,306,633) | (3,857,143) | (26,914) | (188,819) |
| Balance as of September 30, 2020 | — | — | — | — | — | — | — | — | — | — | — | — |

**13. Convertible Promissory Notes**

On February 3, 2018, the Company issued US$9,000 (equivalent to approximately RMB59,704) convertible promissory notes ("2018 Notes") to an investor of Series A-3 Preferred Shares at an annual interest rate of 0%, maturing on 36 months after the issuance date. Under the agreement, the holder of the 2018 Notes may convert the 2018 Notes outstanding principal amount into Series B-1 Preferred Shares at the conversion price being lower of US$10 per share and fair market value at any time prior to the maturity date. Alternatively, the 2018 Notes shall be automatically converted into the Company's Series B Preferred Shares upon the maturity. As the fair value of the Company's ordinary shares on February 3, 2018 of US$3.96 was equal to the effective conversion price (being lower of US$10 per share and fair market value), the Company did not record a BCF. In December 2020, the Group issued 900,000 ordinary shares to Genexine, Inc. upon the full conversion of the 2018 Notes with the conversion price of US$10 per share.

**14. Warrants**

***(a) Warrants to purchase preferred shares***

In connection with the issuance of the Series B Preferred Shares on September 22, 2017, 5,633,780 Series B Warrants were issued to Series B preferred shareholders, which provided the holders the right to purchase Series B-2 Preferred Shares.

In connection with the Company's Series B Onshore Financing that took place on September 25, 2017, 2,620,842 Series B Warrants were issued to Series B Onshore Investors, which provided the holders the right to purchase Series B-2 Preferred Shares.

During the period from June 29, 2018 to July 6, 2018, 3,301,849 Series B Warrants (representing Tranche I of Series B Warrants) were exercised to purchase 3,301,849 Series B-2 Preferred Shares with proceeds of US$20,000 (equivalent to approximately RMB132,332).

On July 6, 2018, the Series B Warrants holders agreed that the Series B Warrants shall be divided into two tranches and exercisable in accordance with different time schedules, such that: (i) the holders have exercised part of the Series B Warrants in the total consideration of US$20,000 ("Tranche I of Series B Warrants") and 3,301,849 Series B-2 Preferred Shares of the Company in aggregate have been newly issued to such holders on a pro rata basis; (ii) only when the Company fails to submit a Qualified Public Offering application at an internationally recognized securities exchange by March 31, 2019, the Warrant Holders may exercise the remaining part of Series B Warrants, in the total consideration of US$30,000 ("Tranche II of Series B Warrants") and 4,952,773 Series B-2 Preferred Shares of the Company in aggregate will be issued to such holders on a pro rata basis; (iii) provided that the Company successfully submits a Qualified Public Offering application at an internationally recognized securities exchange by March 31, 2019, the holders shall unconditionally and irrevocably waive and cancel Tranche II of Series B Warrants; and (iv) the Tranche II of Series B Warrants may only be concurrently exercised by all the Warrant Holders in one lump. This is considered to be a modification to Series B Warrants.

According to the confirmations issued by the Company's Series B Warrants holders in July 2019, the holders of Series B Warrants has unconditionally and irrevocably waived and cancelled the Tranche II of Series B Warrants. The fair value gain of warrants for the nine months ended September 30, 2019 and 2020 was amounting to RMB5,609 and nil, respectively.

*Accounting of warrants for purchase preferred shares*

The warrant is a freestanding instrument and is recorded as liability in accordance with ASC 480, *Distinguishing Liabilities from Equity*.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**14. Warrants (continued)**

***(a) Warrants to purchase preferred shares (continued)***

As the Company's issuance of warrants were bundled with other instruments (such as convertible preferred shares, convertible promissory notes, etc.), out of total considerations, the warrants are initially recognized at fair value and the remaining were allocated to other instruments on a relative fair value basis (if applicable). The fair value changes of the warrants (including the fair value changes arising from modification of warrants) up to the time of exercise or termination were recognized in earnings. Upon exercise, the total carrying value of the associated warrant liabilities was reclassified into the carrying value of the Preferred Shares into which it was converted.

The Company determined the fair value of the warrants with the assistance of an independent third-party valuation firm.

***(b) Warrants to purchase ordinary shares***

As mentioned in Note 11, on September 3, 2020, the Group entered into definitive subscription agreements with the Investors to raise approximately US$418 million through a private placement, which comprises the Investor Warrants to subscribe for an aggregate of 5,341,267 ordinary shares (equivalent to 2,322,290 ADSs) at an exercise price equivalent to US$45 per ADS.

The Subscription Agreement with the Hillhouse entities contemplates two closings. In the first closing occurred on September 11, 2020, the Investor Warrants were issued with fixed exercise prices of US$45.00 per ADS (equivalent to US$19.57 per share) and lives of one year. The number of common share purchasable upon exercise of the Investor Warrants shall be proportionally adjusted to reflect any share dividend, share split, combination of shares or reverse share split, or other similar event affecting the number of outstanding common shares.

*Accounting for warrants to purchase ordinary shares*

The Investor Warrants are regarded as indexed to the Company's own stock and were classified as equity and initially measured at fair value and subsequent changes in fair value are not recognized as long as the Investor Warrants continue to be classified as equity. The estimated fair value of the Investor Warrants was RMB71,874 as shown below, which were used to determine the allocation of the total proceeds for the sale of ordinary shares between the Investor Warrants and ordinary shares.

| | Terms | Exercise Price per share US$ | Outstanding Units | Fair value at September 11, 2020 RMB'000 |
|---|---|---|---|---|
| Warrants to purchase ordinary shares (first closing) | 12 months | 19.57 | 3,744,032 | 71,874 |

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**14. Warrants (Continued)**

***(b) Warrants to purchase ordinary shares (Continued)***

The Group determined the fair value of the warrants with the assistance of an independent third-party valuation firm. The Group used the binomial model to estimate the fair value of the warrant on September 11, 2020 when the Investor Warrants were issued using the following assumptions:

| | As of September 11, 2020 |
|---|---|
| Risk-free rate of return | 0.12% |
| Maturity date | September 11, 2021 |
| Estimated volatility rate | 60.72% |
| Exercise price | US$19.57 |

The model requires the input of assumptions including the risk-free rate of return, maturity date and estimated volatility rate. The risk-free rate for periods within the contractual life is based on the US treasury strip bond with maturity similar to the maturity of the warrants as of valuation dates plus a China country risk premium. For expected volatilities, the Group has made reference to the historical daily stock prices volatilities of ordinary shares of several comparable companies in the same industry as the Group.

**15. Share-based Compensation**

***(a) Restricted shares***

During the year ended December 31, 2016, the Company issued 4,019,554 ordinary shares to Mr. Zang Jingwu Zhang, Ms. Qian Lili, Mr. Wang Zhengyi and Mr. Fang Lei (collectively the “Founders”), including the 369,301 shares which represented the equity interests of Third Venture held by the Founders, and the Company recorded share-based compensation expense of RMB18.7 million for issuance and grant of 3,650,253 ordinary shares to the Founders in June 2016.

In October 2016, the Founders entered into an arrangement with other investors of the Company, and the 87,441 ordinary shares issued to the Founders in June 2016 were canceled and out of the remaining 3,932,113 ordinary shares held by the Founders, 70% became restricted and subject to service vesting conditions, that should vest 20%, 20% and 30% over the next three years, respectively. There shall be no acceleration of the vesting schedule except that, in case of a change of control of the Company or a Qualified Public Offering, or the termination of the Founder’s employment with the Group without cause.

Deferred share-based compensation was measured for the restricted shares using the estimated fair value of the Company’s ordinary shares of US$0.77 at the date of imposition of the restriction in October 2016, and was amortized to the interim condensed consolidated statements of comprehensive loss by using graded vesting method over the vesting term of 3 years. As of December 31, 2019, all the restricted shares were fully vested.

The amounts of shared-based compensation expense in relation to the restricted shares recognized in the year ended December 31, 2019 was RMB1,566, of which RMB1,556 was recognized in the nine months ended September 30, 2019. No share-based compensation expense was recognized in the nine months ended September 30, 2020.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(a) Restricted shares (Continued)***

Share-based compensation expenses related to restricted shares are included in:

| | Year Ended December 31, | Nine Months Ended September 30, | | |
|---|---|---|---|---|
| | 2019 | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ (Note 2.5) |
| Research and development expenses | 470 | 467 | — | — |
| Administrative expenses | 1,096 | 1,089 | — | — |
| | 1,566 | 1,556 | — | — |

***(b) 2017 Employee Stock Option Plan ("2017 Plan")***

In October 2017, the Company adopted the 2017 Plan. Under the 2017 Plan, a maximum aggregate number of 13,376,865 shares that may be issued pursuant to all awards granted was approved. Stock options granted to an employee under the 2017 Plan will be exercisable upon the Company completes a listing and the employee renders service to the Company in accordance with a stipulated service schedule starting from the employee's date of employment. Employees are generally subject to a three-year service schedule, under which an employee earns an entitlement to vest in 50% of the option grants on the second anniversary of the grant date, a vesting of the remaining 50% on the third anniversary of the applicable grant date. The stock option under 2017 Plan, to the extent then vested, shall become exercisable only upon the earlier of (i) a listing, and (ii) occurrence of a change in control.

On December 25, 2019, the Second Amended and Restated 2017 Plan was approved by the shareholders and board of directors of the Company, pursuant to which, in connection with the Company's IPO, the maximum aggregate number of shares that may be granted pursuant to all awards under 2017 Plan shall be adjusted in accordance with a formula pre-approved by the shareholders. In connection with above amendments to 2017 Plan, each of the Company's founders, namely Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang, is willing to irrevocably surrender by him or her, for no consideration, a portion of the unvested options granted to him or her, which, if vested, would entitle him or her to acquire up to 130,000 ordinary shares of the Company, par value US$0.0001 per share, at an exercise price of US$1.0, respectively, under the Second Amended and Restated 2017 Plan (in respect of each individual, the "Founder's Surrendered Options"). On December 25, 2019, the board of directors of the Company approved that the Company accepts all Founder's Surrendered Options from each of the founders, Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang, for no consideration, with effect immediately prior to the completion of the IPO and such surrendered options be cancelled with effect immediately prior to the completion of the IPO.

Prior to the Company completes a listing, all stock options granted to an employee shall be forfeited at the time the employee terminates his employment with the Group. After the Company completes a listing, vested options not exercised by an employee shall be exercised until later of: (i) 90 days after the date when the options become exercisable, or (ii) 30 days after the date of cessation of employment or directorship, or such longer period as the Board of Directors may otherwise determine.

The Group granted 640,000 stock options to employees for the year ended December 31, 2019 and did not grant any stock options to employees for the nine months ended September 30, 2020. No options were exercisable as of December 31, 2019 and 8,047,548 stock options were exercisable as of September 30, 2020. No options were exercised as of December 31, 2019 and 115,888 stock options were exercised as of September 30, 2020.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(b) 2017 Employee Stock Option Plan ("2017 Plan") (Continued)***

The following table sets forth the stock options activities of 2017 Plan for the nine months ended September 30, 2020 is presented below:

| | Number of shares | Weighted average exercise price US$ | Weighted average remaining contractual term | Aggregate intrinsic value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2019 | 9,812,881 | 0.93 | 7.76 | 47,671 |
| Exercised | (115,888) | 1.00 | — | — |
| Forfeited | (336,377) | 1.00 | — | — |
| Surrendered (Note 15 (h)) | (332,566) | 1.00 | — | — |
| Outstanding as of September 30, 2020 | 9,028,050 | 0.93 | 7.01 | 175,576 |
| Exercisable as of September 30, 2020 | 8,047,548 | 0.92 | 6.91 | 156,567 |

A summary of non-vested stock option activities for the nine months ended September 30, 2020 is presented below:

| | Number of shares | Weighted average Grant date fair value US$ |
|---|---|---|
| Non-vested at December 31, 2019 | 9,812,881 | 2.10 |
| Vested | (8,047,548) | 1.74 |
| Exercised | (115,888) | 2.14 |
| Forfeited | (336,377) | 2.26 |
| Surrendered | (332,566) | 1.47 |
| Non-vested at September 30, 2020 | 980,502 | 5.02 |

Since the exercisability is dependent upon the listing, and it is not probable that this performance condition can be achieved until a listing, no share-based compensation expense relating to the 2017 Plan was recorded for the year ended December 31, 2019.

On January 17, 2020, the Group completed its IPO. After achieving this performance condition, the options continue to vest based only on service period completed according to the graded vesting schedule. The Group has begun recognizing share-based compensation expense for the options granted using the graded vesting method with a cumulative catch-up for the service period completed to date during the nine months ended September 30, 2020 and recognized RMB56,019 and RMB69,204 share-based compensation expenses in administrative expenses and research and development expenses respectively relating to options vested cumulatively. According to the amendments to 2017 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under 2017 Plan was changed to 9,609,084. Each of the Group's founders, namely Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang surrendered 83,142 unvested stock options that were granted to him or her under 2017 Plan before, totally 332,566 unvested options, for no consideration, and these stock options were cancelled immediately.

**15. Share-based Compensation (Continued)**

***(c) 2018 Employee Stock Option Plan ("2018 Plan")***

On February 22, 2019, the Group adopted the 2018 Plan, which was subsequently amended on July 22, 2019. Under the amended and restated 2018 Plan, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards is 14,005,745, and if the Group successfully lists on an internationally recognized securities exchange for a Qualified Public Offering by December 31, 2019, the maximum aggregate number of ordinary shares which may be issued shall be 15,452,620.

On December 25, 2019, the Second Amended and Restated 2018 Plan were approved by the shareholders and board of directors of the Company, pursuant to which, in connection with the Company's IPO, the maximum aggregate number of shares that may be granted pursuant to all awards under 2018 Plan shall be adjusted in accordance with a formula pre-approved by the shareholders. In connection with above amendments to 2018 Plan, the director of the Company, Dr. Jingwu Zhang Zang is willing to irrevocably surrender by him, for no consideration, of the right to acquire a certain amount of ordinary shares of the Company, par value US$0.0001 per share, at an exercise price of US$1.0 pursuant to the options granted to him under the Second Amended and Restated 2018 Plan (the "Dr. Zang's Surrendered Options"). On December 25, 2019, the board of directors of the Company approved that the Company accepts the irrevocable surrender of Dr. Zang's Surrendered Options for no consideration, with effect immediately prior to the completion of the IPO and such surrendered options be cancelled with effect immediately prior to the completion of the IPO.

Stock options granted to an employee under the 2018 Plan will be generally exercisable when the Company completes a listing and the employee renders service to the Company in accordance with a stipulated service schedule starting from the employee's date of employment. The vesting schedule shall generally be a two-year vesting schedule consisting of a cliff vesting 50% on the first anniversary of the applicable vesting commencement date, and a vesting of the remaining 50% on the second anniversary of the applicable vesting commencement date. If a listing occurs at anytime prior to any option granted under the 2018 Plan becoming full vested, and to the extent such option has been granted and outstanding, any such option shall vest in full with immediate effect upon the listing. Except as otherwise approved by the board of directors, vested portion of option shall become exercisable upon the earlier of six months after a listing or the occurrence of a change in control; provided, however that in each case, no option of an employee shall become exercisable until the third anniversary of such employee's employment commencement date.

Pursuant to the Board of Director's approval of 2018 Plan on February 22, 2019, the 10,893,028 stock options granted to a director of the Group under 2018 Plan were fully vested and exercisable upon the adoption of 2018 Plan. Out of aforementioned total 10,893,028 stock options, 454,940 stock options were repurchased by the Group (see Note15(d) for further details).

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(c) 2018 Employee Stock Option Plan ("2018 Plan") (Continued)***

The amounts of shared-based compensation expense in relation to the aforementioned grant of stock options to a director of the Group (except for those repurchased by the Group as described in Note 15(d)) recognized in the nine months ended September 30, 2019 and in the year ended December 31, 2019 was RMB365,329, included in administrative expenses.

The following table sets forth the stock options activities of 2018 Plan for the nine months ended September 30, 2020 is presented below:

| | Number of shares | Weighted average exercise price US$ | Weighted average remaining contractual term | Aggregate intrinsic value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2019 | 13,536,588 | 1.00 | 9.15 | 64,840 |
| Surrendered (Note 15 (h)) | (2,544,917) | 1.00 | — | — |
| Outstanding as of September 30, 2020 | 10,991,671 | 1.00 | 8.40 | 213.764 |
| Exercisable as of September 30, 2020 | 10,166,671 | 1.00 | 8.40 | 197,720 |

A summary of non-vested stock option activities for the nine months ended September 30, 2020 is presented below:

| | Number of shares | Weighted average grant-date fair value US$ |
|---|---|---|
| Non-vested at December 31, 2019 | 3,098,500 | 5.57 |
| Vested | (2,273,500) | 5.57 |
| Non-vested at September 30, 2020 | 825,000 | 5.57 |

Except for the aforementioned grant of stock options to a director of the Group under 2018 Plan, since the exercisability is dependent upon the listing, and it is not probable that this performance condition can be achieved until a listing, no share-based compensation expense related to the 2018 Plan was recorded for the year ended December 31, 2019.

On January 17, 2020, the Group completed its IPO. After achieving this performance condition, the options continue to vest based only on service period completed according to the graded vesting schedule. The Group has begun recognizing share-based compensation expense for the options granted using the graded vesting method with a cumulative catch-up for the service period completed to date during the nine months ended September 30, 2020 and recognized RMB46,312 and RMB66,496 share-based compensation expense in administrative expenses and research and development expenses, respectively relating to options vested cumulatively. According to the amendments to 2018 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under 2018 Plan was changed to 11,005,888. The director of the Company, Dr. Jingwu Zhang Zang surrendered 2,544,917 unvested options that were granted to him under 2018 Plan, for no consideration, and these stock options were cancelled immediately.

**15. Share-based Compensation (Continued)**

***(d) Repurchase of share awards held by a director***

On February 22, 2019, the amendment and restated 2017 equity incentive plan was approved by the Board of Directors of the Group, pursuant to which only the 3,435,215 stock options held by the director under the 2017 equity incentive plan became fully vested and exercisable on February 22, 2019. As a result of the performance condition being waived, the stock options held by the director of the Group were accounted for as a Type III modification where a condition that the Group expects will not be satisfied is changed to a condition that the Group expects will be satisfied.

Additionally, on the same day, the Group repurchased such 3,435,215 stock options under the amendment and restated 2017 equity incentive plan that was held by the director of the Group along with 454,940 of his stock options under the 2018 equity incentive plan for which the share awards also became fully vested and exercisable, at a total consideration of US$21,902 (equivalent to approximately RMB148,308) at an average share price of US$5.63 per share.

For the nine months ended September 30, 2019, the Group recorded the total payment of US$21,902 (equivalent to approximately RMB148,308) as share-based compensation costs (included in administrative expenses) in the condensed consolidated statement of comprehensive loss. There was no impact to the overall stockholder's equity balance as the amended shares vested immediately and were repurchased.

***(e) 2019 Share Incentive Plan ("2019 Plan")***

On October 29, 2019, the Group adopted 2019 Share Incentive Plan (the "2019 Plan"), which will become effective immediately prior to the completion of the Group's initial public offering. Under the 2019 Plan, the maximum aggregate number of ordinary shares available for issuance shall initially be 100,000.

The options shall vest when the Group completes a listing and the employee renders service to the Group in accordance with a stipulated service schedule starting from the employee's date of employment. Stock options granted to 3 independence directors under the 2019 Plan will be generally exercisable under the following terms:(a) a cliff vesting of 1/3 of the option on the first anniversary of the vesting commencement date (January 17, 2020);(b) a cliff vesting of 1/3 of the option on the second anniversary of the vesting commencement date (January 17, 2020);(c) a vesting of the remaining 1/3 of the option on the third anniversary of the vesting commencement date. In the last year of the grantee's service, the options shall vest on a prorated basis to reflect the portion of the year during which the grantee provided services to the Group.

For the nine months ended September 30, 2020, the Group granted 72,000 stock options to 3 independent directors (all with an exercise price of US$6.09) and recognized RMB741 share-based compensation expenses according to the options' vesting schedule. No options were exercisable as of September 30, 2020.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(e) 2019 Share Incentive Plan ("2019 Plan") (Continued)***

The following table sets forth the stock options activities of 2019 Plan for the nine months ended September 30, 2020 presented:

| | Number of shares | Weighted average exercise price US$ | Weighted average remaining contractual term | Aggregate intrinsic value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2019 | — | — | — | — |
| Granted | 72,000 | 6.09 | — | — |
| Outstanding as of September 30, 2020 | 72,000 | 6.09 | 9.59 | 1,034 |
| Exercisable as of September 30, 2020 | — | — | — | — |

A summary of non-vested stock options activity for the nine months ended September 30, 2020 is presented below:

| | Number of shares | Weighted average grant-date fair value US$ |
|---|---|---|
| Non-vested at December 31, 2019 | — | — |
| Granted | 72,000 | 6.09 |
| Non-vested at September 30, 2020 | 72,000 | 6.09 |

Stock options granted to the 3 independent directors were measured at fair value on the dates of grant using the Binomial Option Pricing Model with the following assumptions:

| | Nine Months Ended September 30, 2020 |
|---|---|
| Expected volatility | 54.88% |
| Risk-free interest rate (per annum) | 0.79% |
| Exercise multiple | 2.80 |
| Expected dividend yield | — |
| Contractual term (in years) | 10 |

The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the expected term of the Group's options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in US$ for a term consistent with the expected term of the Group's options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price when employees would decide to voluntarily exercise their vested options. As the Group did not have sufficient information of past employee exercise history, it was estimated by referencing to a widely-accepted academic research publication. Expected dividend yield is zero as the Group has never declared or paid any cash dividends on its shares, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the option.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(f) 2020 Share Incentive Plan ("2020 Plan")***

On July 15, 2020, the Company adopted the 2020 Plan. Under the 2020 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards shall be 10,760,513 ordinary shares, provided that the maximum number of shares may be issued pursuant to awards in the form of restricted share units under this plan shall not exceed 7,686,081 ordinary shares.

Stock options granted to employees under the 2020 Plan will be exercisable under the following items: (a) a vesting of 25% the option on the first anniversary of the applicable vesting commencement date;(b) a vesting of 25% of the option on the second anniversary of the applicable vesting commencement date;(c) a vesting of 25% of the option on the third anniversary of the applicable vesting commencement date;(d) a vesting of 25% of the option on the fourth anniversary of the applicable vesting commencement date.

For the nine months ended September 30, 2020, the Group granted 1,068,733 stock options to its employees and recognized RMB2,052 and RMB3,606 share-based compensation expense according to the options' vesting schedule in administrative expenses and research and development expenses respectively. No options were exercisable as of September 30, 2020.

The following table sets forth the stock options activities of 2020 Plan for the nine months ended September 30, 2020:

| | Number of shares | Weighted average exercise price US$ | Weighted average remaining contractual term | Aggregate intrinsic value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2019 | — | — | — | — |
| Granted | 1,068,733 | 5.91 | — | — |
| Forfeited | (18,693) | 5.91 | — | — |
| Outstanding as of September 30, 2020 | 1,050,040 | 5.91 | 9.88 | 15,265 |
| Exercisable as of September 30, 2020 | — | — | — | — |

A summary of non-vested stock option activities for the nine months ended September 30, 2020 is presented below:

| | Number of shares | Weighted average grant-date fair value US$ |
|---|---|---|
| Non-vested at December 31, 2019 | — | — |
| Granted | 1,068,733 | 8.65 |
| Forfeited | (18,693) | 8.65 |
| Non-vested at September 30, 2020 | 1,050,040 | 8.65 |

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(f) 2020 Share Incentive Plan ("2020 Plan") (Continued)***

Stock options granted to the employees were measured at fair value on the dates of grant using the Binomial Option Pricing Model with the following assumptions:

| | Nine Months Ended September 30, 2020 |
|---|---|
| Expected volatility | 56.51% |
| Risk-free interest rate (per annum) | 0.86% |
| Exercise multiple | 2.20-2.80 |
| Expected dividend yield | — |
| Contractual term (in years) | 10 |

The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the expected term of the Group's options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in US$ for a term consistent with the expected term of the Group's options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price when employees would decide to voluntarily exercise their vested options. As the Group did not have sufficient information of past employee exercise history, it was estimated by referencing to a widely-accepted academic research publication. Expected dividend yield is zero as the Group has never declared or paid any cash dividends on its shares, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the option.

Restricted share units granted to employees under the 2020 Plan will be exercisable under the following items:

(a) 1/3 of the awarded restricted share units shall vest based on the following time attribution:(i) a vesting of 25% of the time attribution based restricted share units on the first anniversary of the applicable adoption date;(ii) a vesting of 25% of the time attribution based restricted share units on the second anniversary of the applicable adoption date;(iii) a vesting of 25% of the time attribution based restricted share units on the third anniversary of the applicable adoption date;(iv) a vesting of 25% of the time attribution based restricted share units on the fourth anniversary of the applicable adoption date.

(b) 1/3 of the awarded restricted share units shall vest based on the Group's weighted average market value during the last 30 days prior to the initial vesting date, the terms and conditions of which are set forth in the executed award agreements. In the event that dilution of additional share issuance occurs, the market value targets herein shall be adjusted accordingly with the proportion of additional share issuance. In the event that the average market value of Standard & Poor's 500 index falls by more than 20% from the date of grant, it shall be deemed as a decline of the market, and the board of the Group or a committee that board delegated its powers or authority to shall adjust the vesting schedule as appropriate.

(c) 1/3 of the awarded restricted share units shall vest based on certain performance conditions:(i) a vesting of 20% of the performance conditions based restricted share units if one of the performance conditions has been met at the initial vesting date;(ii) a vesting of 40% of the performance conditions based restricted share units if two of the performance conditions have been met at the initial vesting date;(iii) a vesting of 60% of the performance conditions based restricted share units if three of the performance conditions have been met at the initial vesting date;(iv) a vesting of 80% of the performance conditions based restricted share units if four of the performance conditions have been met at the initial vesting date; (v) a vesting of all of the performance conditions based restricted share units if five of the performance conditions have been met at the initial vesting date.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(f) 2020 Share Incentive Plan ("2020 Plan") (Continued)***

Notwithstanding the foregoing, if the Group's weighted average market value during the last 30 days prior to the initial vesting date reaches US$2 billion or above, and to the extent such restricted share units have been granted and outstanding, any such restricted share unit (except for those are based on time attribution) shall vest in full with immediate effect, inure to the benefit of the related grantees.

For the nine months ended September 30, 2020, the Group granted 3,564,798 restricted share units to employees and recognized RMB20,189 and RMB20,054 share-based compensation expense according to the restricted share units' vesting schedule in administrative expenses and research and development expenses respectively. No restricted share units were exercisable as of September 30, 2020.

The following table sets forth the restricted share units of 2020 Plan for the nine months ended September 30, 2020:

| | Number of restricted share units | Weighted average exercise price US$ | Weighted average remaining contractual term | Aggregate intrinsic value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2019 | — | — | — | — |
| Granted | 3,564,798 | — | — | — |
| Forfeited | (13,461) | — | — | — |
| Outstanding as of September 30, 2020 | 3,551,337 | — | 9.91 | 72,617 |

A summary of non-vested restricted share units activities for the nine months ended September 30, 2020 is presented below:

| | Number of restricted share units | Weighted average grant-date fair value US$ |
|---|---|---|
| Non-vested at December 31, 2019 | — | — |
| Granted | 3,564,798 | 13.63 |
| Forfeited | (13,461) | 11.75 |
| Non-vested at September 30, 2020 | 3,551,337 | 13.68 |

Besides the aforementioned restricted share units, up to 1,446,875 shares may be issued in the form of restricted share unit to eligible grantees that the board of the Group or a committee that board delegated its powers or authority determined appropriate with immediate effect of being fully vested, which are defined as special awards and subject to terms and conditions under 2018 Plan.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(f) 2020 Share Incentive Plan ("2020 Plan") (Continued)***

For the nine months ended September 30, 2020, the Group granted 1,328,120 such restricted share units to employees and recognized RMB42,644 and RMB65,259 share-based compensation expense according to the restricted share units' vesting schedule in administrative expenses and research and development expenses respectively. 558,200 restricted share units were vested but not issued as ordinary shares as of September 30, 2020 as the employees will not be entitled to the rights of ordinary shares from the Group until they settle the individual income tax for the transaction.

The following table sets forth the restricted share units subject to terms and conditions under 2018 Plan for the nine months ended September 30, 2020:

| | Number of restricted share units | Weighted average exercise price US$ | Weighted average remaining contractual term | Aggregate intrinsic value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2019 | — | — | — | — |
| Granted | 1,328,120 | 1.00 | — | — |
| Outstanding as of September 30, 2020 | 1,328,120 | 1.00 | 9.90 | 25,829 |

A summary of non-vested restricted share units activities for the nine months ended September 30, 2020 is presented below:

| | Number of restricted share units | Weighted average grant-date fair value US$ |
|---|---|---|
| Non-vested at December 31, 2019 | — | — |
| Granted | 1,328,120 | 13.34 |
| Vested | (558,200) | 13.98 |
| Non-vested at September 30, 2020 | 769,920 | 12.88 |

***(g) Establishment of Biomaster Trust***

Biomaster Trust was established under the trust deed dated October 23, 2019, between the Company and TMF Trust (HK) Limited, or TMF Trust, as the trustee of the Biomaster Trust. Through the Biomaster Trust, the Company's ordinary shares and other rights and interests under awards granted pursuant to 2017 Plan and 2018 Plan may be provided to certain recipients of equity awards. Upon satisfaction of vesting conditions, TMF Trust will exercise the equity awards and transfer the relevant ordinary shares and other rights and interests under the equity awards to the relevant grant recipients with the consent of the advisory committee of Biomaster Trust. TMF Trust shall not exercise the voting rights attached to such ordinary shares unless otherwise directed by the advisory committee, whose members shall be appointed by I-Mab. The Company has the power to direct the relevant activities of Biomaster Trust and it has the ability to use its power over the Biomaster Trust to affect its exposure to returns. Therefore, the assets and liabilities of the Biomaster Trust are included in the Group's consolidated statement of financial position.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**15. Share-based Compensation (Continued)**

***(h) Surrender of stock options***

On January 17, 2020, the Group completed its IPO. According to the amendments to 2017 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under 2017 Plan was changed to 9,609,084. Each of the Company's founders, namely Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang surrendered 83,142 unvested stock options that were granted to him or her under 2017 Plan before, totally 332,566 unvested options, for no consideration, and these stock options were cancelled immediately. According to the amendments to 2018 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under 2018 Plan was changed to 11,005,888. The director of the Company, Dr. Jingwu Zhang Zang surrendered 2,544,917 unvested options that were granted to him under 2018 Plan, for no consideration, and these stock options were cancelled immediately. Upon the completion of the Company's IPO in January 2020, the Group has recorded RMB91,051 share-based compensation expense related to these surrendered options.

The stock options surrendered by the founders should be accounted for as capital contribution. As the founders did not get the title of the stock options to be surrendered and the number of stock options would not be determined until listing, the capital contribution was not accounted for during the year ended December 31, 2019. For the nine months ended September 30, 2020, the Group has reclassified RMB91,051 from additional paid-in capital – share-based compensation to additional paid-in capital – capital contribution relating to the stock options surrendered in the condensed consolidated financial statement of comprehensive loss.

**Share-Based Compensation Expense**

The allocation of share-based compensation expense was as follows:

| | Year Ended December 31, | Nine Months Ended September 30, | | |
|---|---|---|---|---|
| | 2019 | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ (Note 2.5) |
| Research and development expenses | 470 | 467 | 224,619 | 33,083 |
| Administrative expenses | 514,733 | 514,726 | 167,957 | 24,737 |
| | **515,203** | **515,193** | **392,576** | **57,820** |

**16. Licensing and Collaboration Arrangements**

The following is a description of the Group's significant licensing and collaboration agreements entered into from January 1, 2017 to September 30, 2020.

***A. In-Licensing Arrangements***

*Licensing Agreement with MorphoSys AG ("MorphoSys")*

In November 2017, the Group entered into a license and collaboration agreement with MorphoSys, with respect to the development and commercialization of MOR202/TJ202, MorphoSys´s proprietary investigational antibody against CD38 (the "CD38 product").

**16. Licensing and Collaboration Arrangements (Continued)**

***A. In-Licensing Arrangements (Continued)***

Under this agreement, MorphoSys granted to the Group an exclusive, royalty-bearing, sublicensable license to exploit MOR202/TJ202 for any human therapeutic or diagnostic purpose in the licensed territory, namely mainland China, Hong Kong, Macau and Taiwan (collectively "Greater China").

Pursuant to this agreement, the Group granted to MorphoSys an exclusive license to its rights in any inventions that the Group make while exploiting the CD38 product under this agreement, solely to exploit the CD38 product outside of Greater China.

Pursuant to this agreement, the Group paid to MorphoSys an upfront license fee of US$20.0 million (equivalent to approximately RMB132.7 million). The Group also agreed to make milestone payments to MorphoSys, conditioned upon the achievement of certain development, regulatory and commercial milestones, in the aggregate amount of US$98.5 million (equivalent to approximately RMB653.5 million). Such milestones include first patient dosed in human clinical trials, marketing approval, and first annual net sales of CD38 products covered by the agreement in excess of a certain amount.

In addition, the Group is required to pay tiered low-double-digit royalties to MorphoSys on a country-by-country and product-by-product basis during the term, commencing with the first commercial sale of a relevant licensed product in Greater China. Unless terminated earlier in accordance with the terms thereof, this agreement will remain in effect until the expiration of the Group's last payment obligation under the agreement.

In 2017, the Group paid US$20.0 million (equivalent to approximately RMB132.7 million) upfront fee to MorphoSys, which was recorded as research and development expense. No additional payments were made in 2018. Due to the uncertainty involved in meeting these developments and commercialization based targets, the Group evaluated and concluded that the remaining milestones are still not probable as of December 31, 2018. In March and April 2019, the project achieved the first and second milestone and the Group paid US$8.0 million (equivalent to approximately RMB55.7 million) of milestone fees to MorphoSys, which was recorded as research and development expense in the interim condensed consolidated statement of comprehensive loss for the nine months ended September 30, 2019 and for the year ended December 31, 2019. No additional payments were made for the nine months ended September 30, 2020 as no milestone has been achieved.

*Licensing Agreement with Genexine, Inc. ("Genexine")*

In December 2017, the Group entered into an intellectual property license agreement with Genexine with respect to GX-I7/TJ107, a long-acting IL-7 cytokine. Under this agreement, the Group obtained an exclusive, sublicensable and transferable license to use and otherwise exploit certain intellectual property in connection with the pre-clinical and clinical development, manufacturing, sale and distribution of GX-I7 to treat cancer in Greater China.

Under the terms of the agreement, the Group made an upfront payment of US$12.0 million (equivalent to approximately RMB79.6 million) to Genexine which was recorded as a research and development expense in January 2018. The Group also agreed to make milestone payments in the aggregate amount of US$23.0 million (equivalent to approximately RMB152.6 million), conditioned upon the achievement of certain development milestones, including completion of Phase 2 and Phase 3 clinical studies and new drug application ("NDA") or biologic license application ("BLA") approval in Greater China.

**16. Licensing and Collaboration Arrangements (Continued)**

***A. In-Licensing Arrangements (Continued)***

Further, the Group agreed to make milestone payments in the aggregate amount of US$525.0 million (equivalent to approximately RMB3,482.7 million), conditioned upon the achievement of certain cumulative net sales of GX-*I7* up to US$2,000 million. The Group also is required to pay Genexine a low-single-digit percentage royalty in respect of the total annual net sales of GX-I7. The aforesaid milestones and royalties (other than the upfront payment) will be reduced by 50% following the entry of a generic version of GX-I7 in China, Hong Kong, Macau and Taiwan without the consent or authorization of the Group or any of the Group's sublicensees.

Unless terminated earlier in accordance with the terms thereof, this agreement will remain in effect until the later of (i) the expiry of the last to expire patent of the licensed intellectual property that includes a valid claim for Greater China and that covers the composition of GX-I7; and (ii) 15 years from the date of the first commercial sale of GX-I7.

No additional payments to Genexine were made in the nine months ended September 30, 2019 and 2020. Due to the uncertainty involved in meeting these developments and commercialization based targets, the Group evaluated and concluded that the remaining milestones are still not probable as of December 31, 2019 and September 30, 2020.

In May 2020, the Group and Genexine entered into an amendment to this agreement whereby both parties desire to establish collaboration on TJ107 GBM Study in Greater China Under the terms of the expanded collaboration, the Group will be mainly responsible for using commercially reasonable efforts to conduct the Phase 2 GBM clinical trial in Greater China, and Genexine will share the development strategies, data and costs for success of this clinical trial. The Group shall undertake to bear two-thirds (2/3) proportion of the clinical development costs and Genexine shall undertake to bear one-third (1/3) proportion of these costs. As of September 30, 2020, the costs incurred for the development of this new indication was RMB1.4 million and thus RMB0.9 million expense was recorded in the unaudited interim condensed consolidated statement of comprehensive loss for the nine months ended September 30, 2020.

*Licensing Agreement with MorphoSys*

In November 2018, the Group entered into a license and collaboration agreement with MorphoSys for MorphoSys´s proprietary antibody (MOR210/TJ210) directed against C5aR (the "C5aR Agreement"). Under this agreement, the Group obtained an exclusive, royalty-bearing license to explore, develop and commercialize certain anti-C5aR antibodies in Greater China and South Korea.

The Group will perform and fund all global development activities related to the development of MOR210/TJ210 in Greater China and South Korea, including all relevant clinical trials (including in the U.S. and China) and all development activities required for IND filing in the US as well as CMC development of manufacturing processes. MorphoSys retains rights in respect of development and commercialization of MOR210/TJ210 in the rest of the world.

Under the terms of the agreement, the Group also agreed to make milestone payments conditional upon the achievement of certain development milestones and certain annual net sales of anti-C5aR antibodies. The Group is also required to pay to MorphoSys tiered mid-single-digit royalties on annual net sales of anti-C5aR antibody products within the licensed territory.

**16. Licensing and Collaboration Arrangements (Continued)**

***A. In-Licensing Arrangements (Continued)***

In 2018, the Group paid US$3.5 million (equivalent to approximately RMB23.2 million) upfront fee to MorphoSys, which was recorded as research and development expense. No additional payments were made in the year ended December 31, 2019. In August 2020, the project achieved the first milestone and the Group paid US$1.0 million (equivalent to approximately RMB6.8 million) of milestone fees to Morphosys, which was recorded as research and development expenses in the unaudited interim condensed consolidated statement of comprehensive loss for the nine months ended September 30, 2020.

*Licensing Agreement with MacroGenics*

In July 2019, the Group entered into a license and collaboration agreement with MacroGenics, Inc. for development and commercialization of an Fc-optimized antibody known as enoblituzumab that targets B7-H3, including in combination with other agents, such as the anti-PD-1 antibody known as MGA012, in the People's Republic of China, Hong Kong, Macau and Taiwan("Greater China"). Under this agreement, the Group obtained an exclusive, sublicenseable, royalty-bearing license to MacroGenics' patents and know-how to develop and commercialize the enoblituzumab product, and a combination regimen of enoblituzumab and MGA012, in Greater China during the term of the agreement.

In exchange for these rights, in addition to certain financial consideration, the Group will grant to MacroGenics a royalty-free, sublicenseable, license outside of Greater China, to the patents and know-how that are related to the enoblituzumab product or useful or necessary for MacroGenics to develop or commercialize the enoblituzumab product or a product containing MGA012, and combinations thereof. The license is (i) non-exclusive with respect to the enoblituzumab product, and (ii) exclusive with regard to MGA012.

Pursuant to the agreement, the Group paid an upfront fee of US$15.0 million (equivalent to approximately RMB104.4 million) to MacroGenics, which was recorded as research and development expense in the consolidated statement of comprehensive loss for the year ended December 31, 2019. No additional payments were made in the nine months ended September 30, 2020. Under the terms of the agreement, the Group also agreed to pay MacroGenics development milestone fees of up to US$75.0 million and regulatory milestones fees of up to US$60.0 million, respectively, and tiered double-digit royalties (ranging from mid-teens to twenty percent) based on annual net sales in the territories.

The Group is responsible for all development costs in Greater China. MacroGenics is responsible for all development costs in the rest of the world, except that the Group is responsible for 20% of the costs incurred in (i) activities supporting global clinical trials in which the Group participates, (ii) certain CMC activities for material intended to be used in clinical trials in Greater China, and (iii) companion diagnostic development and validation for indications being studied in Greater China.

Due to the uncertainty involved in meeting these developments and commercialization based targets, the Group evaluated and concluded that no milestones are probable as of December 31, 2019 and September 30, 2020.

**16. Licensing and Collaboration Arrangements (Continued)**

***A. In-Licensing Arrangements (Continued)***

*Other In-Licensing Arrangements*

In addition to the above arrangements, the Group has entered into other various in-licensing and collaboration agreements with third party licensors to develop and commercialize drug candidates. Based on the terms of these agreements the Group is contingently obligated to make additional material payments upon the achievement of certain contractually defined milestones. The Group recorded US$1.2 million (equivalent to approximately RMB8.4 million) milestone payment under these agreements during the year ended December 31, 2019 and made in total US$1.5 million (equivalent to approximately RMB10.5 million) milestone payment as of December 31, 2019, of which US$0.4 million (equivalent to approximately RMB2.9 million) milestone payment was recorded during the nine months ended September 30, 2019. The Group additionally recorded US$1.2 million (equivalent to approximately RMB8.2 million) milestone payment during the nine months ended September 30, 2020. Under the terms of the agreements, the licensors are eligible to receive from the Group up to an aggregate of approximately US$164.4 million (equivalent to approximately RMB1,144.5 million) in milestone payments upon the achievement of contractually specified development milestones and sales milestones, such as regulatory approval for the drug candidates, which may be before the Group has commercialized the drug or received any revenue from sales of such drug candidate, which may never occur.

***B. Out-Licensing and collaboration Arrangements***

*Licensing Agreement among HDYM, I-Mab and Hangzhou HealSun Biopharm Co., Ltd. (“HealSun”)*

In April 2017, one of the Company’s subsidiaries, I-Mab Shanghai, entered into a technology transfer agreement with HDYM and HealSun with respect to anti-PD-L1 humanized monoclonal antibodies. Under the agreement, I-Mab Shanghai agreed to grant to HDYM exclusive, worldwide and sublicensable rights to develop, manufacture, have manufactured, use, sell, have sold, import, or otherwise exploit certain PD-L1 related patents, patent applications, know-hows, data and information of I-Mab Shanghai, relevant cell lines as well as any anti-PD-L1 monoclonal antibody arising from such cell lines for the treatment of diseases. Further, I-Mab Shanghai and its cooperative party, HealSun agreed to provide subsequent research and development services on such intellectual property to HDYM, including the selection and examination of innovative anti-PD-L1 humanized monoclonal antibodies, cultivation and selection of stable cell lines, establishment of cell bank, research and development of manufacturing processes and preparation of samples, toxicological and pharmacological testing, pre-clinical pharmaceutical experiment report drafting, and application for and registration of clinical trials. HDYM agreed to make milestone payments conditioned upon achieving certain contractually defined milestones.

The Group determined that this collaboration is reflective of a vendor-customer relationship and therefore within the scope of ASC 606. Under this agreement, due to the early stage nature of the development, in which the underlying intellectual property is significantly modified by the development activities being performed, the Group determined the license to the intellectual property and research and development services are not distinct and thus were accounted for as a single performance obligation that is satisfied over time. The Group would receive RMB51.0 million (inclusive of VAT) milestone payments under this agreement, and considered that the achievements of milestone II, III, IV are constrained such that the transaction price shall initially only include the milestones payment which have been achieved (that means when uncertainty associated with the variable consideration is subsequently resolved), the additional milestone payment shall be included in the total transaction price when it is no longer probable that a significant reversal of cumulative revenue would occur in future periods.

**16. Licensing and Collaboration Arrangements (Continued)**

***B. Out-Licensing and collaboration Arrangements (Continued)***

All the revenue has been recognized before the year ended December 31, 2019 and all the milestone payments were received by the Group as of December 31, 2019.

*Collaboration Agreement with Everest ("Everest")*

In January 2018, the Group entered into a collaboration agreement with Everest, which is controlled by the ultimate controlling party of a principal shareholder of the Group. Under the agreement, both parties agreed to collaborate on programs to co-develop MorphoSys' proprietary anti-CD38 antibody for all indications in hematologic oncology and commercialize of MOR202/TJ202 in Greater China.

A joint steering committee with equal representation from each party was established to coordinate and oversee the development and commercialization of the CD38 product. All decisions of the joint steering committee shall be made by unanimous vote.

Under the agreement, the Group is primarily responsible for carrying out the development, manufacture and supply of the CD38 product, as well as seeking regulatory approval of the CD38 product. Everest is primarily responsible for sharing the development costs of the CD38 product, including payments due to MorphoSys under the Licensing Agreement, dated November 30, 2017, in the proportion of 75% by Everest and 25% by the Group.

The joint steering committee will decide which party shall be responsible for conducting the commercialization of the CD38 product pursuant to the commercialization plan approved by the committee. If Everest is selected to be responsible for commercialization, the Group shall grant an exclusive royalty-free license to Everest to commercialize the CD38 product for all indications in hematologic oncology in Greater China.

The Group and Everest will share the profit and loss and out-licensing revenue derived from the CD 38 product in proportion to the costs that each party incur in developing the product. The parties will also split out-license revenue according to the proportion of development costs incurred, with the Group getting an additional five percent (5%) share and Everest receiving five percent (5%) less. Everest cannot share in any profit from the commercialization of CD38 product until it has fulfilled its payment obligations under this agreement.

Upon any termination of this arrangement, the terminating party has the right to continue the development and commercialization of CD38 product. If Everest is the rightful terminating party, the Group shall reasonably cooperate with Everest to facilitate the following: (i) assign the MorphoSys license to Everest (subject to the terms and conditions of such license); (ii) grant to Everest an exclusive license to all intellectual property rights that the Group owns or controls to further develop, manufacture, and commercialize the CD38 product; (iii) transfer the development, manufacture and commercialization of the CD38 product to Everest. The terminating party shall be solely responsible for the cost and expense of such development and commercialization after termination. In the event that such continuing party successfully develops and commercializes the CD38 product, it shall pay to the other party a percentage of the product profit and out-license revenue generated therefrom in accordance with the terms of this agreement.

**16. Licensing and Collaboration Arrangements (Continued)**

***B. Out-Licensing and collaboration Arrangements (Continued)***

During the year ended December 31, 2018, the US$26.0 million in aggregate proceeds from Everest under the agreement represented the funding available under the agreement and was recorded as a research and development funding received liability (equivalent to approximately RMB178.7 million) on the consolidated balance sheet as of December 31, 2018, in accordance with ASC 730, Research and Development. Because there is a significant related party relationship between the Group and Everest, the Group is treating its obligation to make payments under the commercialization stage as an implicit obligation to repay the funds advanced by Everest (see Note 21). During the nine months ended September 30, 2019, an additional US$7.6 million (equivalent to approximately RMB51.6 million) of funding was received and recorded as a research and development funding received liability, no further funding received from July 1, 2019 to the date of termination agreement entered into with Everest. No additional milestone has been achieved in the year ended December 31, 2019.

*Termination Agreement with Everest*

On November 4, 2019, the Group and Everest have terminated the collaboration agreement with respect to the co-development and commercialization of TJ202 in Greater China. Upon the termination, Everest will not retain any rights or entitlements to develop or commercialize TJ202 or any economic interest in its commercialization. All intellectual property rights in respect of TJ202 arising from its development under the collaboration agreement are vested and owned by I-Mab, and the Group holds all intellectual property rights and have maximum flexibility to further develop, manufacture and commercialize TJ202 in Greater China. In consideration of the above arrangements, the board of directors of the Group has approved the issuance of a total value of US$37.0 million (equivalent to approximately RMB258.1 million) of ordinary shares (the “CPP Shares”) to Everest, representing Everest’s historical contribution to the collaboration and the associated time cost. The CPP Shares will be issued concurrently with, and subject to, the completion of the Company’s initial public offering within 180 days from termination of the collaboration agreement. The total value of US$37.0 million was calculated based on the sum of (1) US$33.7 million, which equals cumulative paid-in contributions historically made by Everest under the collaboration agreement; and (2) a negotiated US$3.3 million time cost of the foregoing historical contribution in light of I-Mab’s exclusive rights over the commercialization of TJ202 after this termination. The issuance of the CPP Shares was approved by I-Mab’s existing shareholders on December 25, 2019. In the event that the initial public offering has not been completed within 180 days from the termination of the collaboration agreement, the Company will issue 4,762,751 ordinary shares (the “Subject Shares”) to Everest on the 181st day. As a result of the aforementioned termination of the collaboration agreement with Everest, the Group derecognized the research and development funding received from Everest and recognized a liability that represented the ordinary shares to be issued to Everest, which was measured at fair value in accordance with ASC 480, and the difference of US$3.3 million (equivalent to approximately RMB23.0 million) between the initial fair value of the liability and the carrying amount of research and development funding received was recognized as other expenses in the consolidated statements of comprehensive loss for the year ended December 31, 2019. Upon the completion of the IPO in January 2020, the Group issued 6,078,571 ordinary shares to Everest.

**16. Licensing and Collaboration Arrangements (Continued)**

***B. Out-Licensing and collaboration Arrangements (Continued)***

*Licensing Agreement with ABL Bio*

In July 2018, the Group entered into a license and collaboration agreement with ABL Bio, under which the Group granted to ABL Bio exclusive, worldwide (excluding Greater China), royalty-bearing rights to develop and commercialize a bispecific antibody ("BsAb").

The Group agreed to share costs fifty-fifty (50:50) with ABL Bio through the completion of in vivo studies, with ABL Bio responsible for all costs and activities following that time. As of December 31, 2019, in total US$0.2 million (equivalent to approximately RMB1.4 million) expenses were incurred by ABL Bio, of which US$0.1 million (equivalent to approximately RMB0.7 million) were incurred for the nine months ended September 30, 2019. In the nine months ended September 30, 2020, US$0.04 million (equivalent to approximately RMB0.3 million) expenses were incurred by ABL Bio. Accordingly, the Group recorded US$0.02 million (equivalent to approximately RMB0.15 million) (50% cost sharing) of expenses in the Group's consolidated statement of comprehensive loss for the nine months ended September 30, 2020.

Pursuant to the license and collaboration agreement that signed in July 2018 and memorandum of understanding that subsequently entered into with ABL Bio in January 2020, ABL Bio agreed to pay the Group an upfront fee of US$2.5 million (equivalent to approximately RMB17.2 million), and milestone payments in the aggregate amount of US$97.5 million (equivalent to approximately RMB690.3 million) conditioned upon achieving certain research, clinical development and sales milestones. These include clinical milestones of up to US$32.5 million (equivalent to approximately RMB230.1 million) and sales milestones of up to US$65 million (equivalent to approximately RMB460.2 million). Further, ABL Bio agreed to pay the Group royalties at mid-single-digit percentages in respect of the total annual net sales of the licensed BsAb product.

In addition, ABL Bio granted to the Group an exclusive, royalty-free, sublicensable license to use the BsAb technology solely to exploit the licensed BsAb product for all indications in Greater China.

The Group determined that this collaboration is reflective of a vendor-customer relationship and therefore within the scope of ASC 606. Under this agreement, the only one performance obligation was to grant the BsAb license to ABL Bio. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Achievement of milestones that are not within the control of the Group or the licensee, such as regulatory approvals, are not considered probable until the approvals are achieved.

The Group recognized revenue of US$2.5 million (equivalent to RMB17.2 million) of revenue in the consolidated statements of comprehensive loss for the year ended December 31, 2018, which was the upfront fee related to the grant of the rights of BsAb to ABL Bio as mentioned above. As of December 31, 2019 and September 30, 2020, no other milestone has been achieved. No revenue was recognized for the nine months ended September 30, 2020 and 2019.

**16. Licensing and Collaboration Arrangements (Continued)**

***B. Out-Licensing and collaboration Arrangements (Continued)***

*Collaboration Agreement with ABL Bio*

In July 2018, the Group and ABL Bio entered into a collaboration agreement (the "ABL Bio Collaboration") whereby both parties agreed to collaborate to develop three PD-L1 based bispecific antibodies by using ABL Bio's proprietary BsAb technology and commercialize them in their respective territories, which, collectively, include Greater China and South Korea, and other territories throughout the rest of the world if both parties agree to do so in such other territories during the performance of the agreement.

At contract inception, as both I-Mab and ABL Bio participate actively in the research and development activity. Also, the parties share the risk of failure of the BsAb products and share the income of licensing, so this contract meet the criteria of the definition of a collaborative arrangement, the Group categorized this agreement within the scope ASC 808. Prior to commercialization, the Group recorded the share of the expenses incurred by the collaboration for the development of three PD-L1 based bispecific antibodies products in research and development expense in the interim condensed consolidated statements of comprehensive loss. As of December 31, 2019, in total RMB12.2 million expenses were incurred by the Group and RMB8.0 million expenses were incurred by ABL, of which, RMB6.0 million expenses were incurred by the Group and RMB6.6 million expenses were incurred by ABL for the nine months ended September 30, 2019. According to the terms set out in the agreement, the Group recorded RMB6.3 million (50% cost sharing) of expenses in the Group's interim condensed consolidated statements of comprehensive loss for the nine months ended September 30, 2019. For the nine months ended September 30, 2020, RMB12.4 million expenses were incurred by the Group and RMB39.6 million expenses were incurred by ABL. According to the terms set out in the agreement, the Group recorded RMB26.0 million (50% cost sharing) of expenses in the Group's interim condensed consolidated statements of comprehensive loss for the nine months ended September 30, 2020.

*Collaboration Agreements with Tracon Pharmaceuticals, Inc. ("Tracon")*

In November 2018, the Group entered into collaboration agreements with Tracon, under which both parties agreed to co-develop the Group's proprietary CD73 antibody, TJD5 (the "TJD5 Agreement") and co-develop up to five BsAbs (the "BsAbs Agreement"). Both agreements may be terminated by either party for the other party's uncured material breach, bankruptcy or insolvency or for safety reasons. In addition, the agreement in respect of TJD5 may be terminated by the Group: (i) for convenience within a certain period upon completing different clinical stages subject to certain payments and royalties, based on the clinical stage, that would be owed to Tracon upon the exercise of such termination for convenience; (ii) in the event that Tracon causes the Phase 1 study timeline to be delayed beyond the agreed extension periods; or (iii) if the Group decides to end the development of the collaborative product prior to its first commercial sale. Further, prior to the first commercial sale, Tracon may deem this agreement to be terminated by the Group if it reasonably believes that the Group has discontinued all meaningful development of the collaborative product for at least 12 months and certain other conditions are met. Additionally, in March 2019, the Group agreed with Tracon and F. Hoffmann-La Roche Ltd ("Roche") on a clinical supply agreement for Roche to supply atezolizumab for use in clinical studies under the collaboration agreement with Tracon. As of December 31, 2019, the Group has recorded US$4.0 million (equivalent to approximately RMB27.8 million) of research and development costs in the consolidated statement of comprehensive loss for the year ended December 31, 2019, of which US$3.4 million (equivalent to approximately RMB24.3 million) was recorded in the nine months ended September 30, 2019. As of September 30, 2020, no payments or royalties are due under this agreement. For the nine months ended September 30, 2020, the Group has recorded US$0.03 million (equivalent to approximately RMB0.2 million) of research and development costs in the interim condensed consolidated statements of comprehensive loss.

**16. Licensing and Collaboration Arrangements (Continued)**

***B. Out-Licensing and collaboration Arrangements (Continued)***

*Licensing Agreement with CSPC Pharmaceutical Group Limited ("CSPC")*

In December 2018, the Group entered into a product development agreement with CSPC. The Group granted to CSPC exclusive, non-transferable, non-irrevocable and sublicensable rights in the PRC (excluding Hong Kong, Macau and Taiwan) to develop and commercialize TJ103 for treating type 2 diabetes.

CSPC is responsible for developing, obtaining market approval and commercializing the licensed products. The Group is responsible for transferring the manufacturing technology of the licensed products to CSPC and assisting CSPC in the continued optimization of such manufacturing technology thereafter.

In consideration of the license, CSPC agreed to pay the Group an upfront fee of RMB15.0 million and milestone payments in an aggregate amount of RMB135.0 million conditioned upon achieving certain clinical development and regulatory approval milestones. In addition, the Group is also entitled to royalties of up to low-double-digit percentages in respect of the total annual net sales of the products after its commercialization in the PRC.

The Group determined that this collaboration is reflective of a vendor-customer relationship and therefore within the scope of ASC 606. Under this agreement, the only one performance obligation was to grant TJ103 license to CSPC. considering that the achievements of milestones are constrained such that the transaction price shall initially only include upfront payment and subsequently, once another milestone was achieved (that means when uncertainty associated with the variable consideration is subsequently resolved), the additional milestone payment shall be included in the total transaction price when it is no longer probable that a significant reversal of cumulative revenue would occur in future periods. As of December 31, 2018, the amount received of RMB14.2 million (net of VAT) was recorded as advance from customers in the consolidated balance sheet. In February 2019, an additional amount of RMB0.8 million (net of VAT) was received, and the license was also approved by China intellectual property office in May 2019. The first milestone was achieved in September 2019 and the amount of RMB15.0 million (net of VAT) was received according to the terms of the agreement. Accordingly, RMB30.0 million was recognized as revenue in the consolidated statements of comprehensive loss for the year ended December 31, 2019, of which RMB15.0 million of upfront payment and RMB15.0 million milestone payment were recognized for the nine months ended September 30, 2019. No additional revenue was recognized in the nine months ended September 30, 2020 as no further milestone has been achieved.

*Strategic Alliance Agreement with PT Kalbe Genexine Biologics ("KG Bio")*

In March 2020, the Group entered into a strategic partnership with Kalbe Genexine Biologics ("KG Bio") to grant a right of first negotiation for an exclusive license for the development and commercialization of two I-Mab-discovered product candidates: uliledlimab, a highly differentiated anti-CD73 antibody in Phase 1 development for advanced solid tumors ("First Program"), and an I-Mab product candidate ("Second Program") to be agreed upon by both parties in certain regions. Through this agreement, both parties intend to negotiate the terms that will be reflected in definitive agreements for each prospective program covered under this agreement.

**16. Licensing and Collaboration Arrangements (Continued)**

***B. Out-Licensing and collaboration Arrangements (Continued)***

If and when the Group and KG Bio enter into the definitive licensing agreement, the Group will be eligible to receive from KG Bio an aggregate amount of up to approximately US$340 million, including an upfront payment and subsequent payments conditional upon achieving certain development and commercial milestones. KG Bio will pay the Group tiered royalties in the low to mid-teen percentages on net sales from certain regions. As the right of first negotiation has not been exercised and the definitive agreement has not been entered into as of September 30, 2020, no revenue was recognized during the nine months ended September 30, 2020.

*Global Strategic Partnership with AbbVie*

On September 3, 2020, the Group, through I-Mab Biopharma (Shanghai) Co., Ltd. and I-Mab Biopharma US Limited, each a wholly-owned subsidiary of the Group, entered into a broad global strategic partnership with AbbVie Ireland Unlimited Group ("AbbVie").

Pursuant to this collaboration, the Group will grant AbbVie a global license, excluding Mainland China, Macau, and Hong Kong, to develop and commercialize lemzoparlimab (also known as TJC4), an innovative anti-CD47 monoclonal antibody internally discovered and developed by I-Mab for the treatment of multiple cancers. The Group will retain all rights to develop and commercialize lemzoparlimab (as well as certain other compounds directed against CD47) in Mainland China, Macau, and Hong Kong. AbbVie will conduct further global clinical trials (which the Group may elect to co-fund) to evaluate lemzoparlimab in multiple cancers. This deal also allows for potential collaboration on future CD47-related therapeutic agents, including CD47-based bispecific antibodies and combination therapies with lemzoparlimab and AbbVie's venetoclax (Venclexta®). Each party will have the opportunity, subject to rights of first negotiation to further licenses, to explore certain of each other's related CD47-antibody programs in their respective territories. In addition, the Group and AbbVie will share manufacturing responsibilities, with AbbVie being the primary manufacturer supply outside of Mainland China, Hong Kong and Macau and the Group being the primary manufacturer for supply for Mainland China, Hong Kong and Macau. The Group believes that this collaboration will accelerate its establishment of commercial production operations in China.

AbbVie will pay the Group an upfront payment of US$180 million. Additionally, in connection with the recently released clinical data from the Phase 1 trial of lemzoparlimab in the United States, the Group expects to be paid a first milestone payment of US$20 million. The Group will also be eligible to receive up to US$1.74 billion in further success-based development, regulatory and sales milestone payments for lemzoparlimab, of which US$840 million are based on clinical development and regulatory approval milestones, with the remainder based on commercial milestones. Upon commercialization of lemzoparlimab, AbbVie will also pay tiered royalties from low double-digit percentages on global net sales outside of Mainland China, Macau, and Hong Kong. In addition, AbbVie has a license and right of first negotiation to further develop and commercialize two additional lemzoparlimab-based bispecific antibodies discovered and currently being developed by the Group and the Group cannot commercialize products containing these two additional lemzoparlimab-based bispecific antibodies outside of Mainland China, Macau and Hong Kong even if AbbVie does not exercise its right of first negotiation or both parties are unable to come to an agreement of financial terms on such products. The potential value of each such license is minimum US$500 million in upfront and milestone payments, for a combined total of no less than US$1 billion.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**16. Licensing and Collaboration Arrangements (Continued)**

***B. Out-Licensing and collaboration Arrangements (Continued)***

As of September 30, 2020, certain contractual obligations and regulatory approval were not obtained to bring the contract into effect. Thus, there was no financial impact in the interim condensed consolidated statement of comprehensive loss for the nine months ended September 30, 2020. Subsequently, it has become effective on December 10, 2020. The Group received the upfront payment of US$180 million in December 2020. Additionally, the first milestone event was achieved before the end of 2020 and the Group is entitled to receive the first milestone payment of US$20 million.

***17. Other Income, Net***

The following table summarizes other income and expenses, recognized for the nine months ended September 30, 2019 and 2020:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2020 | |
| | RMB | RMB | US$ (Note 2.5) |
| Fair value change of short-term investments | 332 | 2,557 | 377 |
| Income of incentive payment from depository bank (Note 9) | — | 1,731 | 255 |
| Net foreign exchange gains | 1,489 | (1,760) | (260) |
| Subsidy income (Note (i)) | 180 | 10,658 | 1,570 |
| Fair value change of other financial assets | (145) | — | — |
| Gains on deconsolidation of a subsidiary (Note 7) | — | 407,598 | 60,033 |
| Others | (98) | 116 | 17 |
| | 1,758 | 420,900 | 61,992 |

Note:
(i) For the nine months ended September 30, 2020, subsidy income consists primarily of the government grant of RMB10 million. The government grant was granted by the project management office of Shanghai Zhangjiang Science City to support the research and development activities in the local region.

***18. Net Loss Per Share***

Basic and diluted net loss per share for each of the periods presented are calculated as follows:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2020 | |
| | RMB | RMB | US$ (Note 2.5) |
| Numerator: | | | |
| Net loss attributable to ordinary shareholders | (1,103,380) | (570,635) | (84,045) |
| Denominator: | | | |
| Weighted average number of ordinary shares outstanding—basic and diluted | 7,184,086 | 126,758,926 | 126,758,926 |
| Net loss per share—basic and diluted | (153.59) | (4.50) | (0.66) |

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**18. Net Loss Per Share (Continued)**

For the nine months ended September 30, 2019 and 2020, the effects of all outstanding convertible preferred shares, restricted shares, warrants and certain restricted share units and stock options have been excluded from the computation of diluted loss per share for the nine months ended September 30, 2019 and 2020 as their effects would be anti-dilutive.

For the nine months ended September 30, 2019 and 2020, the Group also has certain dilutive potential stock options. These stock options which cannot be exercised until the Company completed its listing are not included in the computation of diluted earnings per shares as such contingent event had not taken place.

The potentially dilutive securities that have not been included in the calculation of diluted net loss per share as their inclusion would be anti-dilutive are as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2020 |
| Convertible preferred shares | 95,222,315 | 5,593,305 |
| Restricted shares | 1,179,634 | — |
| Restricted share units | — | 1,071,194 |
| Stock options | 11,445,457 | 17,321,232 |

**19. Employee Benefits**

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries of the Group make contributions to the government for these benefits based on certain percentage of the employees' salaries, up to a maximum amount specified by the government. The Group has no legal obligation for the benefits beyond the contribution made. The total amounts charged to the interim condensed consolidated statements of comprehensive loss for such employee benefits amounted to approximately RMB9,987 and RMB8,815 for the nine months ended September 30, 2019 and 2020, respectively.

**20. Commitments and Contingencies**

***Contingencies***

The Group is a party to or an assignee of license and collaboration agreements that may require it to make future payments relating to milestone fees and royalties on future sales of licensed products (Note 16).

The Group did not have significant capital and other commitments, long-term obligations, or guarantees as of December 31, 2019 and September 30, 2020.

(All amounts in thousands, except for share and per share data, unless otherwise noted)

## 21. Related Party Balances and Transactions

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2019 and September 30, 2020:

| Name of related parties | Relationship with the Group |
|---|---|
| Everest | Controlled by the ultimate controlling party of a principal shareholder of the Group |
| Tasly Pharmaceutical Group Co., Ltd. | Controlled by the ultimate controlling party of a principal shareholder of the Group |
| CMAB Biopharma (Suzhou) Inc. | Controlled by the ultimate controlling party of a principal shareholder of the Group |
| I-Mab Biopharma (Hangzhou) Co., Limited | Subsidiary of the Group before September 15, 2020; Affiliate of the Group after September 15, 2020 |

Details of related party balance as of December 31, 2019 and September 30, 2020 are as follows:

*Ordinary Shares to be issued to Everest**

| | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|
| | RMB | RMB | US$ (Note 2.5) |
| Everest (Note 16) | 258,119 | — | — |

*Loans to an affiliate*

| | As of December 31, 2019 | As of September 30, 2020 | |
|---|---|---|---|
| | RMB | RMB | US$ (Note 2.5) |
| I-Mab Hangzhou (Note(i)) | — | 52,000 | 7,659 |

Note(i): In July 2019 and July 2020, I-Mab Shanghai provided an interest free loan to I-Mab Hangzhou of RMB2,000 and RMB50,000 respectively to finance I-Mab Hangzhou's operation. These loans were repaid in November 2020.

Details of related party transactions for the nine months ended September 30, 2019 and 2020 are as follows:

*Receipt of CRO services—recognized in research and development expenses*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2020 | |
| | RMB | RMB | US$ (Note 2.5) |
| Tasly Pharmaceutical Group Co., Ltd. | 5,590 | — | — |

(All amounts in thousands, except for share and per share data, unless otherwise noted)

**21. Related Party Balances and Transactions (Continued)**

*Receipt of research and development funding*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2020 | |
| | RMB | RMB | US$ (Note 2.5) |
| Everest (Note 16) | 52,207 | — | — |

*Project development fee – recognized in research and development expenses*

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2019 | 2020 | |
| | RMB | RMB | US$ (Note 2.5) |
| CMAB Biopharma (Suzhou) Inc. | — | 690 | 102 |

***22. Concentration of Credit Risk***

Financial instruments that are potentially subject to significant concentration of credit risk consist of cash and cash equivalents, restricted cash, short-term investments and other receivables. The carrying amounts of cash and cash equivalents, restricted cash, and short-term investments represent the maximum amount of loss due to credit risk. As of December 31, 2019 and September 30, 2020, all of the Group's cash and cash equivalents, restricted cash and short-term investments were held by major financial institutions located in the PRC and international financial institutions outside of the PRC which management believes are of high credit quality and continually monitors the credit worthiness of these financial institutions. With respect to the contract assets, other receivables and other financial assets, the Group performs on-going credit evaluations of the financial condition of its customers and counterparties.

***23. Subsequent Events***

(a) In December 2020, the Group issued 900,000 ordinary shares to Genexine, Inc. upon the full conversion of the 2018 Notes with the conversion price of US$10 per share.

(b) In December 2020, the broad global strategic partnership with AbbVie became effective as the conditions of the effective date were satisfied. The Group received the upfront payment of US$180 million in December 2020. Additionally, the first milestone event was achieved before the end of 2020 and the Group is entitled to receive the first milestone payment of US$20 million.

(c) In December 2020, the Group entered into a written amendment made to the subscription agreement with the Hillhouse entities, which removed one of the two conditions for the second closing that an existing director of the Group having resigned to enable the Hillhouse entities to appoint a director to replace such director. The second closing occurred as the other condition was satisfied and 8,712,124 ordinary shares as well as 1,597,235 Investor Warrants were issued to the Hillhouse entities for total gross proceeds of approximately US$125.0 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

We are a clinical stage biopharmaceutical company committed to the discovery, development and commercialization of novel or highly differentiated biologics to treat diseases with significant unmet medical needs, particularly cancers and autoimmune disorders.

We were founded to capture the opportunities presented by the confluence of two major developments—the emergence of an attractive and growing biologics market in China, and the revolutionary scientific breakthroughs in cancer and autoimmune disease medicines. We believe we are well-positioned to become a biotech leader in China because of our innovative discovery expertise, fit-for-purpose technology platforms, biomarker-enabled translational medicine capabilities, and clinical development capabilities. These integrated capabilities are further enhanced by our deep understanding of China's biologics regulatory framework and our direct access to extensive pre-clinical and clinical trial resources in China. To date, we have developed an innovative pipeline of more than 10 clinical and pre-clinical stage assets through our internal research and development efforts and in-licensing arrangements with global pharmaceutical and biotech companies.

We are fully aware of the competitive and regulatory challenges we face as an innovative clinical stage biotech company based in China, including need to raise significant capital, significant competition from global and other China-based biopharmaceutical companies, less streamlined regulatory pathway compared to countries with long-established regulatory systems, and potential implementation challenges and uncertainties of the recent government reform of the drug approval system. However, with these challenges in mind, we have been mitigating the risks through our internal R&D system that integrates multi-functional aspects of our drug development process to proactively deal with some of the regulatory challenges mentioned above. Furthermore, through our Beijing office which focuses on regulatory matters, we have established an effective communication channel with the regulatory agencies to discuss and resolve various regulatory issues promptly and effectively. We see vast opportunities for immuno-oncology and autoimmune biologics therapies in China. First, both the incidence and mortality of cancers in China have been increasing in recent years and are outpacing those in the United States and the rest of the world. Second, many innovative biologics approved to treat cancer and autoimmune diseases in the United States and Europe are not yet available in China. Third, the Chinese government has implemented new policies and regulations to simplify the review and approval cycle of clinical trials and new drug applications to encourage biologics innovation. Fourth, there has been a continuous and rapid increase in personal disposable income in China coupled with ongoing improvement in basic national health insurance coverage, making innovative biologics more accessible to more Chinese patients.

We believe we are uniquely positioned as a China-based global player to tap into these vast commercial opportunities. This is best demonstrated by our short journey in becoming one of the top clinical stage immunology companies in China. For example, in 2018 and 2019, we are the only China-based biotech company recognized by Genetic Engineering & Biotechnology News (GEN) as a top 10 immuno-oncology start-up in the world. To date, our research and development capabilities encompass discovery, translational medicine, biologics CMC development, pre-clinical development and clinical development with footprints in Shanghai, Beijing and the United States. We are now at a critical juncture to transition from a clinical stage biotech company into a fully integrated end-to-end global biopharmaceutical company in the next few years.

Since the commencement of our operation in 2014, we have devoted most of our efforts and financial resources to organize and staff our operations, business planning, raise capital, establish our intellectual property portfolio and conduct pre-clinical and clinical trials of our drug candidates.

We have raised in excess of US$940 million in the past four years. We have not generated any revenue from product sales, and as a result, we have never been profitable and have incurred net losses since the commencement of our operations. In 2017, 2018, 2019 and the nine months ended September 30, 2020, our net losses were RMB298.2 million, RMB402.8 million, RMB1,452.0 million (US$213.8 million) and RMB570.6 million (US$84.0 million), respectively. We do not expect to generate product revenue unless and until we obtain marketing approval for and commercialize a drug candidate, and we cannot assure you that we will ever generate significant revenue or profits.

**Key Factors Affecting Our Results of Operations**

Our results of operations, financial condition, and the year-to-year comparability of our financial results have been, and are expected to continue to be, principally affected by the below factors:

***Cost and Expenses Structure***

Our results of operations are significantly affected by our cost structure, which primarily consists of research and development expenses and administrative expenses.

Research and development activities are central to our business model. We believe our ability to successfully develop drug candidates will be the primary factor affecting our long-term competitiveness, as well as our future growth and development. Developing high-quality drug candidates requires a significant investment of resources over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in this area. Since our inception, we have focused our resources on our research and development activities, including conducting pre-clinical studies and clinical trials, and activities related to regulatory filings for our drug candidates. Our research and development expenses primarily include the following:

- costs related to development of our pipeline assets under all stages including discovery, pre-clinical testing or clinical trials;
- patent license fees and other fees under the licensing, collaboration and development agreements with respect to our in-licensed drug candidates; and
- employee salaries and related benefit costs, including share-based compensation expenses, for research and development personnel and key management.

At this time, we are unable to predict when, if ever, we will be able to achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods thereafter. This is due to the numerous risks and uncertainties associated with developing such drug candidates, including the uncertainty of:

- successful enrollment in and completion of clinical trials;
- establishing an appropriate safety profile;

- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- receipt of marketing approvals from applicable regulatory authorities;
- commercializing the drug candidates, if and when approved, whether alone or in collaboration with others;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our drug candidates;
- continued acceptable safety profiles of the products following approval; and
- retention of key research and development personnel.

Any change in the outcome of any of these variables with respect to the development of any of our drug candidates would significantly change the costs, timing and viability associated with the development of that drug candidate. We expect research and development costs to continue to increase for the foreseeable future as we expand our operations and our development programs progress, including as we continue to support and advance the clinical trials of our drug candidates.

Our administrative expenses consist primarily of employee salaries and related benefit costs. Other administrative expenses include professional fees for consulting and auditing as well as other direct and allocated expenses for rental expenses for our facilities, travel costs and other supplies used in administrative activities. We expect our administrative expenses to increase in the future to support our pipeline assets and research and development efforts, and the commercialization of our drug candidates once approval is obtained. We also anticipate that our administrative expenses will increase as we operate as a public company.

***Revenue from Out-Licensing Agreements***

We continue to seek out-licensing opportunities for our de-prioritized assets to streamline our pipeline. In 2017, 2018 and 2019, our revenue consisted primarily of payments from granting licenses to use and otherwise exploit certain of our intellectual properties linked to our de-prioritized assets. See “Business—Licensing and Collaboration Arrangements” for more information on the existing out-licensing arrangements. In addition, after validating clinical safety and preliminary efficacy of a drug candidate in our Global Portfolio in clinical trials in the United States, we may elect to out-license the global rights (excluding Greater China) of such drug candidate, while retaining the Greater China rights for further development and commercialization. But we may also choose to retain these rights for the United States or other countries or regions as we may deem fit. Before the commercialization of one or more of our drug candidates, we expect that the majority of our revenue will continue to be generated from out-licensing our intellectual properties.

***Funding for Our Operations***

During the periods presented, we funded our operations primarily from financing through the issuance and sale of preferred shares and convertible promissory notes in private placement transactions. Going forward, in the event of successful commercialization of one or more of our drug candidates, we expect to fund our operations in part with revenue generated from sales of our commercialized drug products. However, with the continuing expansion of our business and our product pipeline, we may require further funding through public or private offerings, debt financing, collaboration, and licensing arrangements or other sources. Any fluctuation in our ability to fund our operations will impact our cash flow plan and our results of operations.

***Our Ability to Commercialize Our Drug Candidates***

Our business and results of operations depend on our ability to commercialize our drug candidates, once and if those candidates are approved for marketing by the respective health authority. Currently, our pipeline consists of more than ten drug candidates ranging in development status from pre-clinical to late-stage clinical programs. Although we currently do not have any product approved for commercial sale and have not generated any revenue from product sales, we expect to generate revenue from sales of a drug candidate after we complete the clinical development, obtain regulatory approval, and successfully commercialize such drug candidate. Our late-stage investigational drugs at or potentially near pivotal trials are felzartamab, eftansomatropin, olamkicept and enoblituzumab. See "Business—Our Drug Pipeline" for more information on the development status of our various drug candidates.

***The Effect of Our Acquisition of I-Mab Tianjin***

We acquired a controlling interest in I-Mab Tianjin on July 15, 2017 and the remaining interest in I-Mab Tianjin in May 2018. Since our acquisition of the controlling interest in I-Mab Tianjin on July 15, 2017, I-Mab Tianjin has been consolidated into our results of operations. Shortly after we acquired the controlling interest in I-Mab Tianjin, we integrated the operations of I-Mab Tianjin into our operations.

I-Mab Tianjin did not generate any external revenue from July 15, 2017 to September 30, 2020. In connection with our acquisition of I-Mab Tianjin, we identified RMB148.8 million of intangible assets and RMB162.6 million of goodwill of I-Mab Tianjin. Goodwill is not amortized, but impairment of goodwill assessment is performed on an least an annual basis on December 31 or whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. No impairment was identified as of December 31, 2017, 2018 and 2019 and September 30, 2020. Impairment charges could substantially affect our results of operations in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the future. See "Risk Factors—Risks Related to Our Industry, Business and Operations—Change in business prospects of acquisitions may result in impairment to our goodwill, which could negatively affect our reported results of operations."

**Impact of the COVID-19 Outbreak on Our Business**

Since its outbreak, the impact of the ongoing global coronavirus- 19 (COVID-19) pandemic to our business has been limited. To date, although COVID-19 has caused some delays in the initiation of the ongoing trials of certain clinical-stage drug candidates in early 2020, the COVID-19 pandemic has not had a material impact on our ongoing clinical activities, in particular, clinical activities related to our late-stage drug candidates, such as felzartamab, eftansomatropin and olamkicept. See "Our Business—Our Drug Candidates" for our clinical development plans for our drug candidates. So far, the outbreak of COVID- 19 has not caused any early termination of our clinical trials or necessitated removal of any enrolled patients. We have employed various measures to mitigate impacts of the COVID- 19 outbreak on our currently ongoing trials in Greater China and the United States. We worked closely with our CROs to monitor the situation and manage the process of our clinical trials. We maintained contact with our patients to ensure that they remain on the trials and that any information they need will be readily available. In addition, we believe the COVID- 19 outbreak has not significantly impacted our ability to carry out our obligations under existing contracts or disrupted any supply chains that we rely upon.

So far, we have not had any suspected or confirmed COVID-19 cases on our premises or among our employees. To prevent any spread of COVID-19 in our offices and research facilities, we have adopted a thorough disease prevention scheme to protect our employees from contracting COVID-19. The measures we have implemented include, among others, regularly sterilizing and ventilating our offices, checking the body temperature of our employees, keeping track of the travel history and health conditions of employees and their immediate family members, providing face masks to employees attending the office, minimizing in-person meetings to the extent possible and encouraging employees to wear masks when needed. Our ongoing clinical trials and CROs have resumed full and normal operations and the COVID- 19 outbreak had not resulted in a major disruption to our operations.

Taking into account our past and prospective cash burn rate, including but not limited to future clinical development and administrative expenses, lease payment, capital expenditure and current financial position, our ability to control the speed and breadth of our clinical development and business development activities and our expansion in headcount, our current internal resources, we estimate that our financial resources can support our research and development activities and business operations for at least the next 12 months.

Although we believe we have implemented strategies to potentially minimize the impact of the COVID-19 pandemic to our business, we expect that we may experience delays with respect to the initiation and patient enrollment of certain additional trials. The extent to which the COVID- 19 pandemic impacts the timing of these additional trials will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the pandemic, any restrictions on the ability of hospitals and trial sites to conduct trials that are not designed to address the COVID-19 pandemic and the perceived effectiveness of actions taken in China and the United States to contain and treat the disease. We will continue to evaluate the impact of the COVID-19 pandemic to our business.

In addition, there are still uncertainties with regard to the continued development of COVID-19 and its implications, and we will continue to assess the situation and seek to put in place relevant mitigating measures where necessary. The above analyses are made by our management based on currently available information concerning COVID-19. We cannot guarantee that the outbreak of COVID- 19 will not further escalate or have a material adverse effect on our business operations. Please also see “Risk Factors—Risks Related to Our Industry, Business and Operations—Our business, financial condition and results of operations could be adversely affected by the COVID-19 outbreak.” and “Risk Factors—Risks Related to Our Industry, Business and Operations—Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.”

**Key Components of Results of Operations**

***Revenues***

To date, we have not generated any revenue from product sales and do not expect to generate any revenue from product sales for the foreseeable future before the successful commercialization of one or more of our drug candidates.

We generated substantially all of our revenues for the years ended December 31, 2017, 2018 and 2019 from granting licenses to use and otherwise exploit certain of our intellectual properties in connection with our de-prioritized assets.

***Research and Development Expenses***

Research and development expenses primarily consist of: (i) payroll and other related expenses of research and development personnel, (ii) fees associated with the exclusive development rights of our in-licensed drug candidates, (iii) fees for services provided by contract research organizations, investigators and clinical trial sites that conduct our clinical studies, and (iv) expenses relating to the development of our drug candidates, including raw materials and supplies, product testing, depreciation, and facility related expenses.

Our current research and development activities primarily relate to the clinical development of the following investigational drugs:

- Felzartamab, a potential highly differentiated CD38 antibody for multiple myeloma and autoimmune diseases, if approved;
- Efineptakin, the first long-acting recombinant human IL-7 with the potential for cancer treatment-related lymphopenia and cancer immunotherapy, if approved;
- Eftansomatropin, a potential highly differentiated long-acting growth hormone for growth hormone deficiency, if approved;
- Olamkicept, a potential highly differentiated IL-6 blocker for ulcerative colitis and other autoimmune diseases, if approved;
- Enoblituzumab, the most advanced clinical stage humanized B7-H3 antibody as a potential immuno-oncology treatment, if approved;
- Lemzoparlimab, a potential highly differentiated CD47 monoclonal antibody with unique RBC-sparing differentiation, if approved;
- Uliledlimab, a potential highly differentiated CD73 antibody for immuno-oncology, if approved; and
- Plonmarlimab, a GM-CSF monoclonal antibody for rheumatoid arthritis and CAR-T-related therapies, if approved.

We incurred research and development expenses of RMB267.1 million, RMB426.0 million and RMB840.4 million (US$123.8 million) for the years ended December 31, 2017, 2018 and 2019, respectively, representing 91.3%, 86.5% and 56.2% of our total research and development and administrative expenses for the corresponding periods. We incurred research and development expenses of RMB578.4 million and RMB698.5 million (US$102.9 million) for the nine months ended September 30, 2019 and 2020, respectively. We expect our research and development expenses to continue to increase for the foreseeable future, as we continue to expand our operations and to advance our pipeline and our drug candidates toward later stages.

***Administrative Expenses***

Administrative expenses primarily consist of salaries and related benefit costs, including share-based compensation, for employees engaged in managerial and administrative positions or involved in general corporate functions, professional fees for consulting and auditing as well as other direct and allocated expenses for rental expenses for our facilities, travel costs and other supplies used in administrative activities. For the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, our administrative expenses amounted to RMB25.4 million, RMB66.4 million, RMB654.6 million (US$96.4 million) and RMB310.8 million (US$45.8 million), respectively.

***Interest Expense***

Interest expense consist primarily of interest expenses on our (i) short-term bank borrowings and (ii) convertible promissory notes issued to certain investors.

***Interest Income***

Interest income consists primarily of interest income derived from our term deposit and restricted cash pledged as collateral for a working capital loan.

***Other Income (Expenses), Net***

Other income consists primarily of income from the equity transfer of I-Mab Hangzhou and other financial assets.

Other expenses consist primarily of the net loss resulting from the conversion of a portion of our convertible promissory notes and loss on the termination agreement with Everest.

***Fair Value Change of Warrants***

Fair value change of warrants consists primarily of the non-cash items incurred in connection with changes in the fair value of our warrant liabilities that we issued to certain investors.

**Taxation**

***Cayman Islands***

I-Mab, our holding entity, is incorporated in the Cayman Islands. The Cayman Islands currently has no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders. I-Mab did business registration in Hong Kong and had a HK tax file number.

***Hong Kong***

I-Mab Biopharma Hong Kong Limited is incorporated in Hong Kong. Companies registered in Hong Kong are subject to Hong Kong profits tax on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant Hong Kong tax laws. Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, our subsidiary in Hong Kong is subject to profits tax at the rate of 8.25% on assessable profits up to HK$2,000,000; and 16.5% on any part of assessable profits over HK$2,000,000. For the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, I-Mab Biopharma Hong Kong Limited did not make any provisions for Hong Kong profit tax as there were no assessable profits derived from or earnings in Hong Kong for any of the periods presented. Under the Hong Kong tax law, I-Mab Biopharma Hong Kong Limited is exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

***United States***

I-Mab Biopharma US Ltd. is incorporated in Maryland and is subject to U.S. federal corporate income tax at a rate of 21%. It is also subject to state income tax in Maryland at a rate of 8.25%. I-Mab Biopharma US Ltd. has no taxable income for all periods presented and therefore no provision for income taxes is required.

***China***

On March 16, 2007, the National People's Congress of PRC enacted a new Corporate Income Tax Law ("new CIT law") (as amended in 2017 and 2018), under which Foreign Investment Enterprises ("FIEs") and domestic companies would be subject to corporate income tax at a uniform rate of 25%. The new CIT law became effective on January 1, 2008. Under the new CIT law, preferential tax treatments will continue to be granted to entities which conduct businesses in certain encouraged sectors and to entities otherwise classified as "High and New Technology Enterprises."

I-Mab Shanghai has been qualified as a "High and New Technology Enterprise" and enjoys a preferential income tax rate of 15% from 2018 to 2020. Our company's other PRC subsidiaries are subject to the statutory income tax rate of 25%. No provision for income taxes has been accrued because all of our PRC subsidiaries are in cumulative loss positions for all the periods presented.

A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized in the foreseeable future. In making such determination, we evaluate a variety of positive and negative factors including our operating history, accumulated deficit, the existence of taxable temporary differences and reversal periods.

We have incurred net accumulated operating losses for income tax purposes since our inception.

We evaluate each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measure the unrecognized benefits associated with the tax positions. As of December 31, 2017, 2018 and 2019 and September 30, 2020, we did not have any significant unrecognized uncertain tax positions.

**Results of Operations**

The following table sets forth a summary of our consolidated results of operations for the periods indicated. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

| | For the Year Ended December 31, | | | | For the Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | (in thousands, except for share and per share data) | | | | | | |
| **Revenues** | | | | | | | |
| Licensing and collaboration revenue | 11,556 | 53,781 | 30,000 | 4,419 | 30,000 | — | — |
| **Expenses** | | | | | | | |
| Research and development expenses(1) | (267,075) | (426,028) | (840,415) | (123,780) | (578,377) | (698,461) | (102,872) |
| Administrative expenses(1) | (25,436) | (66,391) | (654,553) | (96,405) | (582,732) | (310,775) | (45,772) |
| **Loss from operations** | **(280,955)** | **(438,638)** | **(1,464,968)** | **(215,766)** | **(1,131,109)** | **(1,009,236)** | **(148,644)** |
| Interest income | 858 | 4,597 | 30,570 | 4,502 | 22,828 | 18,658 | 2,748 |
| Interest expense | (5,643) | (11,695) | (2,991) | (441) | (2,466) | (957) | (141) |
| Other income (expenses), net | 1,527 | (16,780) | (20,205) | (2,976) | 1,758 | 420,900 | 61,992 |
| Fair value change of warrants | (14,027) | 61,405 | 5,644 | 832 | 5,609 | — | — |
| **Loss before income tax expense** | **(298,240)** | **(401,111)** | **(1,451,950)** | **(213,849)** | **(1,103,380)** | **(570,635)** | **(84,045)** |
| Income tax expense | — | (1,722) | — | — | — | — | — |
| **Net loss attributable to I-Mab** | **(298,240)** | **(402,833)** | **(1,451,950)** | **(213,849)** | **(1,103,380)** | **(570,635)** | **(84,045)** |
| Deemed dividend to Series C-1 preferred shareholders at extinguishment of Series C-1 Preferred Shares | — | — | (5,283) | (778) | — | — | — |
| Deemed dividend to Series B-1, B-2 and C preferred shareholders at modification of Series B-1, B-2 and C Preferred Shares | — | — | (27,768) | (4,090) | — | — | — |
| **Net loss attributable to ordinary shareholders** | **(298,240)** | **(402,833)** | **(1,485,001)** | **(218,717)** | **(1,103,380)** | **(570,635)** | **(84,045)** |

| | For the Year Ended December 31, | | | | For the Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | (in thousands, except for share and per share data) | | | | | | |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation adjustments, net of nil tax | 5,918 | 53,689 | 10,747 | 1,583 | 66,254 | 15,530 | 2,288 |
| **Total comprehensive loss attributable to I-Mab** | **(292,322)** | **(349,144)** | **(1,441,203)** | **(212,266)** | **(1,037,126)** | **(555,105)** | **(81,757)** |
| **Net loss attributable to ordinary shareholders** | **(298,240)** | **(402,833)** | **(1,485,001)** | **(218,717)** | **(1,103,380)** | **(570,635)** | **(84,045)** |
| **Weighted-average number of ordinary shares used in calculating net loss per shares** | | | | | | | |
| Basic and diluted | 5,742,669 | 6,529,092 | 7,381,230 | 7,381,230 | 7,184,086 | 126,758,926 | 126,758,926 |
| **Net loss per share attributable to ordinary shareholders** | | | | | | | |
| Basic | (51.93) | (61.70) | (201.19) | (29.63) | (153.59) | (4.50) | (0.66) |
| Diluted | (51.93) | (61.70) | (201.19) | (29.63) | (153.59) | (4.50) | (0.66) |
| **Non-GAAP Measure**:(2) | | | | | | | |
| Adjusted Net Loss | (291,201) | (399,313) | (969,798) | (142,836) | (588,187) | (178,059) | (26,225) |

Note:

(1) Share-based compensation expenses were allocated as follows:

| | For the Year Ended December 31, | | | | For the Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | (in thousands) | | | | | | |
| Research and development expenses | 2,112 | 1,056 | 470 | 69 | 467 | 224,619 | 33,083 |
| Administrative expenses | 4,927 | 2,464 | 514,733 | 75,812 | 514,726 | 167,957 | 24,737 |
| **Total** | **7,039** | **3,520** | **515,203** | **75,881** | **515,193** | **392,576** | **57,820** |

(2) See "—Non-GAAP Financial Measure."

**Comparison of Nine Months Ended September 30, 2020 and 2019**

***Revenues***

Our revenues generated from licensing and collaboration decreased from RMB30.0 million for the nine months ended September 30, 2019 to nil the nine months ended September 30, 2020. Our revenues generated for the nine months ended September 30, 2019 consisted of CSPC entity's upfront payment and first milestone payment to us pursuant to our out-licensing arrangement with CSPC entity.

***Research and Development Expenses***

The following table sets forth a breakdown of the major components of our research and development expenses in absolute amounts and as a percentage of our total research and development expenses for the periods indicated:

| | For the Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2019 | | 2020 | | |
| | RMB | % | RMB | US$ | % |
| | (in thousands, except percentages) | | | | |
| CRO service fees | 316,594 | 54.7 | 330,266 | 48,643 | 47.3 |
| In-licensed patent right fees | 160,351 | 27.7 | 15,376 | 2,265 | 2.2 |
| Employee benefit expenses | 72,132 | 12.5 | 315,455 | 46,461 | 45.2 |
| Material costs for drug candidates | 1,269 | 0.2 | 11,197 | 1,649 | 1.6 |
| Other expenses | 28,031 | 4.8 | 26,167 | 3,854 | 3.7 |
| Total | 578,377 | 100.0 | 698,461 | 102,872 | 100.0 |

Our research and development expenses increased by 20.8% from RMB578.4 million for the nine months ended September 30, 2019 to RMB698.5 million (US$102.9 million) for the nine months ended September 30, 2020, primarily attributable to (i) an increase in the CRO service fees from RMB316.6 million for the nine months ended September 30, 2019 to RMB330.3 million (US$48.6 million) for the nine months ended September 30, 2020, as we advanced some of our existing investigational drugs into more advanced clinical development stages; and (ii) an increase in employee benefit expenses of employees involved in research and development from RMB72.1 million for the nine months ended September 30, 2019 to RMB315.5 million (US$46.5 million) for the nine months ended September 30, 2020, mainly due to an increase in share-based compensation by RMB224.6 million (US$33.1 million).

In the nine months ended September 30, 2020, 78.8% and 21.2% of our total research and development expenses were attributable to clinical programs and preclinical programs, respectively. In the nine months ended September 30, 2019, 90.3% and 9.7% of our total research and development expenses were attributable to clinical programs and preclinical programs, respectively. For the nine months ended September 30, 2020, felzartamab represented approximately 51.2% of our external research and development expenses, which primarily included payments to CROs and CMOs. No other programs represented a significant amount of research and development expenses in the nine months ended September 30, 2020 and 2019. Though we manage our external research and development expenses by program, we do not allocate our internal research and development expenses by program because our employees and internal resources may be engaged in projects for multiple programs at any time.

***Administrative Expenses***

Our administrative expenses decreased from RMB582.7 million for the nine months ended September 30, 2019 to RMB310.8 million (US$45.8 million) for the nine months ended September 30, 2020, primarily attributable to the decrease in employee benefit expenses by RMB310.6 million (US$45.7 million) due to decrease of share-based compensation expenses.

***Interest Income***

We recorded RMB22.8 million of interest income for the nine months ended September 30, 2019 and RMB18.7 million (US$2.7 million) of interest income for the nine months ended September 30, 2020. The change was primarily attributable to the interest income derived from bank deposits.

***Interest Expense***

We recorded RMB2.5 million of interest expense for the nine months ended September 30, 2019 and RMB1.0 million (US$0.1 million) of interest expense for the nine months ended September 30, 2020. The change was primarily attributable to the interest expense related to our short-term borrowings, which were borrowed in June 2019 and repaid in June 2020.

***Other Income (Expenses), Net***

We recorded RMB1.8 million of other income for the nine months ended September 30, 2019 and RMB420.9 million (US$62.0 million) of other income for the nine months ended September 30, 2020. The increase was primarily attributable to the RMB420.9 million gain recognized as a result of transfer of equity of I-Mab Hangzhou from I-Mab Hong Kong to a group of domestic investors. The equity transfer realized the fair value appreciation in the pipeline assets as well as the employment of a team of designated management and workforce.

***Fair Value Change of Warrants***

We recorded a loss from change in the fair value of warrant liability of RMB5.6 million for the nine months ended September 30, 2019 and nil for the nine months ended September 30, 2020. The change was primarily attributable to the fact that the holders of Series B Warrants have unconditionally and irrevocably waived and cancelled the Tranche II of Series B Warrants in July 2019.

**Comparison of Year Ended December 31, 2019 and 2018**

***Revenues***

Our revenues generated from licensing and collaboration decreased by 44.2% from RMB53.8 million for the year ended December 31, 2018 to RMB30.0 million (US$4.4 million) for the year ended December 31, 2019. Our revenues generated for the year ended December 31, 2018 consisted of both HDYM's milestone payment and ABL Bio's upfront payment to us pursuant to our out-licensing arrangements with them, respectively. Our revenues generated for the year ended December 31, 2019 solely consisted of CSPC entity's upfront and milestone payments to us pursuant to our out-licensing arrangement with CSPC entity.

***Research and Development Expenses***

The following table sets forth a breakdown of the major components of our research and development expenses in absolute amounts and as a percentage of our total research and development expenses for the periods indicated:

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 | | 2019 | | |
| | RMB | % | RMB | US$ | % |
| | (in thousands, except percentages) | | | | |
| CRO service fees | 212,278 | 49.8 | 521,920 | 76,871 | 62.1 |
| In-licensed patent right fees | 108,794 | 25.5 | 166,844 | 24,573 | 19.9 |
| Employment benefit expenses | 56,630 | 13.3 | 106,313 | 15,658 | 12.7 |
| Material costs for drug candidates | 19,652 | 4.6 | 6,117 | 901 | 0.7 |
| Other expenses | 28,674 | 6.8 | 39,221 | 5,777 | 4.6 |
| **Total** | 426,028 | 100.0 | 840,415 | 123,780 | 100.0 |

Our research and development expenses increased by 97.3% from RMB426.0 million for the year ended December 31, 2018 to RMB840.4 million (US$123.8 million) for the year ended December 31, 2019, primarily attributable to (i) an increase in the CRO service fees from RMB212.3 million for the year ended December 31, 2018 to RMB521.9 million (US$76.9 million) for the year ended December 31, 2019, as we initiated a few more research and development programs and advanced some of our existing investigational drugs into more advanced clinical development stages; (ii) an increase in in-licensed patent right fees from RMB108.8 million for the year ended December 31, 2018 to RMB166.8 million (US$24.6 million) for the year ended December 31, 2019, mainly due to upfront fees paid to MacroGenics; and (iii) an increase in employee benefit expenses of employees involved in research and development from RMB56.6 million for the year ended December 31, 2018 to RMB106.3 million (US$15.7 million) for the year ended December 31, 2019, due to an increase in the headcount.

In 2019, 87.3% and 12.7% of our total research and development expenses were attributable to clinical programs and preclinical programs, respectively. In 2018, 72.3% and 27.7% of our total research and development expenses were attributable to clinical programs and preclinical programs, respectively. In 2019, felzartamab represented approximately 41.4% of our external research and development expenses, which primarily included licensing fees and payments to CROs and CMOs. In 2018, efineptakin and felzartamab represented approximately 25.0% and 9.9% of our external research and development expenses, which primarily included licensing fees and payments to CROs and CMOs. No other programs represented a significant amount of research and development expenses in 2019 and 2018. Though we manage our external research and development expenses by program, we do not allocate our internal research and development expenses by program because our employees and internal resources may be engaged in projects for multiple programs at any time.

***Administrative Expenses***

Our administrative expenses increased from RMB66.4 million for the year ended December 31, 2018 to RMB654.6 million (US$96.4 million) for the year ended December 31, 2019, primarily attributable to (i) RMB365.3 million (US$53.8 million) in connection with stock options granted to a director of our company under the 2018 Plan which were immediately vested, (ii) RMB148.3 million (US$21.8 million) in connection with repurchase of share awards held by a director of our company, (iii) the increase in employee benefit expenses by RMB7.9 million (US$1.2 million) due to headcount increase, and (iv) the increase in third-party professional expenses by RMB41.4 million (US$6.1 million).

***Interest Income***

We recorded RMB4.6 million of interest income for the year ended December 31, 2018 and RMB30.6 million (US$4.5 million) of interest income for the year ended December 31, 2019. The change was primarily attributable to the interest income derived from bank deposits.

***Interest Expense***

We recorded RMB11.7 million of interest expense for the year ended December 31, 2018 and RMB3.0 million (US$0.4 million) of interest expense for the year ended December 31, 2019. The change was primarily attributable to the interest expense related to our convertible promissory notes, which were converted in June and July 2018.

***Other Income (Expenses), Net***

We recorded RMB16.8 million of other expenses for the year ended December 31, 2018 and RMB20.2 million (US$3.0 million) of other income for the year ended December 31, 2019. The change was primarily attributable to the conversion of our convertible promissory notes and onshore convertible loans and loss on the termination agreement with Everest in 2019.

***Fair Value Change of Warrants***

We recorded a gain from change in the fair value of warrant liability of RMB61.4 million for the year ended December 31, 2018 and RMB5.6 million (US$0.8 million) for the year ended December 31, 2019. The change was primarily attributable to the change in fair value of warrants due to the increase in the valuation of our company.

**Comparison of Year Ended December 31, 2018 and 2017**

***Revenues***

Our revenues generated from licensing and collaboration increased by 365.4% from RMB11.6 million for the year ended December 31, 2017 to RMB53.8 million for the year ended December 31, 2018. Our revenues generated for the year ended December 31, 2017 consisted solely of HDYM's milestone payment to us pursuant to our out-licensing arrangement with it. Our revenues generated for the year ended December 31, 2018 consisted of both HDYM's milestone payment and ABL Bio's upfront payment to us pursuant to our out-licensing arrangements with them, respectively.

***Research and Development Expenses***

The following table sets forth a breakdown of the major components of our research and development expenses in absolute amounts and as a percentage of our total research and development expenses for the periods indicated:

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2018 | |
| | RMB | % | RMB | % |
| | (in thousands, except percentages) | | | |
| CRO service fees | 83,047 | 31.1 | 212,278 | 49.8 |
| In-licensed patent right fees | 134,846 | 50.5 | 108,794 | 25.5 |
| Employment benefit expenses | 26,799 | 10.0 | 56,630 | 13.3 |
| Material costs for drug candidates | 10,393 | 3.9 | 19,652 | 4.6 |
| Other expenses | 11,990 | 4.5 | 28,674 | 6.8 |
| **Total** | 267,075 | 100.0 | 426,028 | 100.0 |

Our research and development expenses increased by 59.5% from RMB267.1 million for the year ended December 31, 2017 to RMB426.0 million for the year ended December 31, 2018, primarily attributable to (i) an increase in the CRO service fees from RMB83.0 million in 2017 to RMB212.3 million in 2018, as we initiated a few more research and development programs and advanced some of our existing investigational drugs into more advanced clinical development stages; and (ii) an increase in employee benefit expenses of employees involved in research and development from RMB26.8 million in 2017 to RMB56.6 million in 2018, due to an increase in the headcount.

In 2018, 72.3% and 27.7% of our total research and development expenses were attributable to clinical programs and pre-clinical programs, respectively. In 2017, 77.5% and 22.5% of our total research and development expenses were attributable to clinical programs and pre-clinical programs, respectively. In 2018, TJ107 and TJ202 represented approximately 25.0% and 9.9% of our external research and development expenses, which primarily included licensing fees and payments to CROs and CMOs. In 2017, TJ202 represented approximately 59.1% of our external research and development expenses, which primarily included licensing fees and payments to CROs and CMOs. No other programs represented a significant amount of research and development expenses in 2018 and 2017. Though we manage our external research and development expenses by program we do not allocate our internal research and development expenses by program because our employees and internal resources may be engaged in projects for multiple programs at any time.

***Administrative Expenses***

Our administrative expenses increased from RMB25.4 million for the year ended December 31, 2017 to RMB66.4 million for the year ended December 31, 2018, primarily attributable to (i) the increase in employee benefit expenses due to headcount increase, and (ii) the increase in third-party professional expenses.

***Interest Income***

We recorded RMB0.9 million of interest income for the year ended December 31, 2017 and RMB4.6 million of interest income for the year ended December 31, 2018. The change was primarily attributable to the interest income derived from our bank deposits.

***Interest Expense***

We recorded RMB5.6 million of interest expense for the year ended December 31, 2017 and RMB11.7 million of interest expense for the year ended December 31, 2018. The change was primarily attributable to (i) the interest expense accrued on the one-year bank borrowing facilities we entered into in the third quarter of 2017 and 2018, respectively; and (ii) the interest expense related to our convertible promissory notes, which were converted in June and July 2018.

***Other Income (Expenses), Net***

We recorded RMB1.5 million of other income for the year ended December 31, 2017 and RMB16.8 million of other expenses for the year ended December 31, 2018. The change was primarily attributable to the net loss resulting from the conversion of a portion of our convertible promissory notes, partially offset by an increase in the income from the other financial assets.

***Fair Value Change of Warrants***

We recorded a loss from change in the fair value of warrant liability of RMB14.0 million for the year ended December 31, 2017, and a gain from change in the fair value of warrant liability of RMB61.4 million for the year ended December 31, 2018. The change was primarily attributable to (i) the change in fair value of warrants due to the increase in the valuation of our company, and (ii) the modification in 2018 that added certain forfeiture conditions to the warrants, which increased the possibility of forfeiture of the warrants and therefore resulted in a reduction in our warrant liabilities.

**Non-GAAP Financial Measure**

To supplement our consolidated financial statements, which are presented in accordance with GAAP, we also use adjusted net loss as an additional financial measure, which is not required by, or presented in accordance with, GAAP. We believe adjusted net loss facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items which our management considers non-indicative of our operating performance.

We believe adjusted net loss provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net loss may not be comparable to similarly titled measures presented by other companies. The use of adjusted net loss has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under GAAP.

We define adjusted net loss as net loss for the year/period, excluding share-based compensation expenses. We exclude share-based compensation expenses because they are not expected to result in future cash payments that are recurring in nature and they are not indicative of our core operating results and business outlook.

The following table reconciles our adjusted net loss for the periods presented to the most directly comparable financial measure calculated and presented in accordance with GAAP, which is net loss for the year/period:

| | For the Year Ended December 31, | | | | For the Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | | | | (in thousands) | | | |
| **Reconciliation of net loss to adjusted net loss:** | | | | | | | |
| Net loss for the year/period | (298,240) | (402,833) | (1,451,950) | (213,849) | (1,103,380) | (570,635) | (84,045) |
| Add back: | | | | | | | |
| Share-based compensation expenses | 7,039 | 3,520 | 515,203 | 75,881 | 515,193 | 392,576 | 57,820 |
| Adjusted net loss for the year/period | (291,201) | (399,313) | (936,747) | (137,968) | (588,187) | (178,059) | (26,225) |

**Liquidity and Capital Resources**

Since inception, we have incurred net losses and negative cash flows from our operations. Substantially all of our losses have resulted from funding our research and development programs and administrative costs associated with our operations. We incurred net losses of RMB298.2 million, RMB402.8 million, RMB1,452.0 million (US$213.8 million) and RMB570.6 million (US$84.0 million) for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, respectively. Our primary use of cash is to fund our research and development activities. We used RMB252.2 million, RMB280.7 million, RMB868.0 million (US$127.8 million) and RMB582.6 million (US$85.8 million) in cash for our operating activities for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, respectively. Historically, we have financed our operations principally through proceeds from the issuance and sale of preferred shares and convertible promissory notes in private placement transactions, and we also received total net proceeds of approximately US$105.3 million from our initial public offering. For more information of our financing, see “Description of Share Capital—History of Securities Issuances.” As of September 30, 2020, we had cash, cash equivalents and restricted cash of RMB2,960 million (US$436.0 million). Our cash, cash equivalents and restricted cash consist primarily of cash in bank and on hand. In September 2020, we entered into definitive subscription agreements with a consortium of institutional investors (the “Investors”) to raise approximately US$418 million through a private placement. The private placement consists of (i) the sale to the Investors of approximately US$418 million of our 29,133,502 ordinary shares (equivalent to 12,666,740 ADSs) at a purchase price equivalent to US$33 per ADS, representing a 2.9% premium to the 30-day volume weighted average price; and (ii) warrants (the “Warrants”) to subscribe for an aggregate of 5,341,267 ordinary shares (equivalent to 2,322,290 ADSs) at an exercise price equivalent to US$45 per ADS, representing a 40.3% premium to the 30-day volume weighted average price, which may further increase the proceeds of approximately US$104.5 million if the Warrants are fully exercised. The Warrants will remain exercisable at the election of the Investors within 12 months after the closing of the private placement.

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

| | For the Year Ended December 31, | | | | For the Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ (in thousands) | RMB | RMB | US$ |
| Net cash used in operating activities | (252,157) | (280,705) | (867,982) | (127,840) | (651,993) | (582,631) | (85,812) |
| Net cash (used in) generated from investing activities | (157,665) | 9,500 | 212,462 | 31,292 | 135,128 | (256,381) | (37,760) |
| Net cash (used in) generated from financing activities | 758,585 | 1,479,669 | 152,709 | 22,493 | 39,413 | 2,595,692 | 382,304 |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash | (132) | 59,754 | 15,163 | 2,233 | 77,581 | 10,054 | 1,480 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 348,631 | 1,268,218 | (487,648) | (71,822) | (399,871) | 1,766,734 | 260,212 |
| Cash, cash equivalents and restricted cash, beginning of the year/period | 64,082 | 412,713 | 1,680,931 | 247,574 | 1,680,931 | 1,193,283 | 175,751 |
| Cash, cash equivalents and restricted cash, end of the year/period | 412,713 | 1,680,931 | 1,193,283 | 175,752 | 1,281,060 | 2,960,017 | 435,963 |

We do not expect to generate any revenue from product sales unless and until we obtain regulatory approval of and commercialize one of our current or future drug candidates. We anticipate that we will continue to generate losses for the foreseeable future, and we expect the losses to increase as we continue the development of, and seek regulatory approvals for, our drug candidates and begin to commercialize any approved products. We also expect to incur additional costs associated with operating as a public company. In addition, subject to obtaining regulatory approval of any of our drug candidates, we expect to incur significant commercialization expenses for product sales, marketing and manufacturing. Accordingly, we anticipate that we will need substantial additional funding in connection with our continuing operations.

Based on our current operating plan, we believe that our current cash and cash equivalents will be sufficient to meet our current and anticipated working capital requirements and capital expenditures for at least the next 12 months. In that time, we expect that our expenses will increase substantially as we fund new and ongoing research and development activities and working capital needs. We have based our estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of our drug candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures necessary to complete the development and commercialization of our drug candidates.

We may decide to enhance our liquidity position or increase our cash reserve for future operations and investments through additional financing. The issuance and sale of additional equity would result in further dilution to our shareholders and ADS holders, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as an ADS holder. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations, which could potentially dilute your interest. If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams or research programs or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market products or drug candidates that we would otherwise prefer to develop and market ourselves.

As of September 30, 2020, 31% of our cash and cash equivalents were denominated in RMB and held in China. We may make additional capital contributions to our PRC subsidiaries, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, make loans to our PRC subsidiaries, or acquire offshore entities with business operations in China in offshore transactions. However, most of these uses are subject to PRC regulations and approvals. See "Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business". In addition, the COVID-19 outbreaks may materially and adversely affect our ability to raise additional capital in future and our liquidity. See "Risk Factors—Risks Related to Our Business and Our Industry—Our business and results of operations could be adversely affected by public health crisis (including the COVID-19 global pandemic) and natural catastrophes or other disasters outside of our control in the locations in which we, our suppliers, CROs, CMOs and other contractors operate."

We expect that the majority of our future revenues will be denominated in RMB. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

***Operating Activities***

Net cash used in operating activities for the nine months ended September 30, 2020 was RMB582.6 million (US$85.8 million). Our net loss was RMB570.6 million (US$84.0 million) for the same period. The difference between our net loss and our net cash used in operating activities was primarily attributable to certain non-cash expenses, including share-based compensation of RMB392.6 million (US$57.8 million) and depreciation of property, equipment and software of RMB7.7 million (US$1.1 million), and changes in certain working capital items, including an increase in the prepayments and other receivables of RMB3.3 million (US$0.5 million), an increase in the deferred subsidy income of RMB3.7 million (US$0.5 million), an increase in the other non-current liabilities of RMB8.4 million (US$1.2 million), partially offset by an decrease in accruals and other payables of RMB17.6 million (US$2.6 million). The change in share-based compensation was attributable to the grant of stock options to certain directors and employees of our company under the 2017 Plan, 2018 Plan and 2019 Plan.

Net cash used in operating activities for the year ended December 31, 2019 was RMB868.0 million (US$127.8 million). Our net loss was RMB1,452.0 million (US$213.9 million) for the same period. The difference between our net loss and our net cash used in operating activities was primarily attributable to certain non-cash expenses, including share-based compensation of RMB366.9 million (US$54.0 million) and loss on the termination agreement with Everest of RMB23.0 million (US$3.4 million), and changes in certain working capital items, including an increase in the research and development funding of RMB53.1 million (US$7.8 million), an increase in the accruals and other payables of RMB188.4 million (US$27.7 million), partially offset by an decrease in advance from customers of RMB14.2 million (US$2.1 million) and an decrease in repayments and other receivables of RMB48.8 million (US$7.2 million). The change in share-based compensation was attributable to the grant of stock options to a director of our company under the 2018 Plan.

Net cash used in operating activities for the year ended December 31, 2018 was RMB280.7 million. Our net loss was RMB402.8 million for the same period. The difference between our net loss and our net cash used in operating activities was primarily attributable to certain non-cash expenses or gains, including fair value gains of warrants of RMB61.4 million, and changes in certain working capital items, including (i) an increase in the research and development funding of RMB178.7 million and (ii) an increase in accruals and other payables of RMB55.6 million, partially offset by an increase in prepayments and other receivables of RMB76.3 million. The accruals and other payables principally consist of accrued external research and development activities related expenses and staff salaries and welfare payables. The change in fair value of warrant liabilities was attributable to the exercise of part of the warrants issued in 2017 and the modification in 2018 that added certain forfeiture conditions to the warrants. Prepayments and other receivables primarily consist of our prepayment to CRO partners and value-added tax recoverable.

Net cash used in operating activities for the year ended December 31, 2017 was RMB252.2 million. Our net loss was RMB298.2 million. The difference between our net loss and our net cash used in operating activities was primarily attributable to certain non-cash expenses or gains, including the fair value loss of warrant liabilities of RMB14.0 million, and changes in certain working capital items, including (i) an increase in contract liabilities of RMB15.8 million and (ii) a decrease in prepayments and other receivables of RMB8.8 million.

***Investing Activities***

Net cash used in investing activities for the nine months ended September 30, 2020 was RMB256.4 million (US$37.8 million). The net cash decrease was primarily attributable to RMB270.9 million (US$39.9 million) of the cash received from proceeds from purchase of short-term investments and RMB257.7 million (US$37.9 million) of the cash injection of I-Mab Hangzhou, an affiliate of us, partially offset by RMB276.9 million (US$40.8 million) of disposal of short-term investments.

Net cash generated from investing activities for the year ended December 31, 2019 was RMB212.5 million (US$31.3 million). The net cash increase was primarily attributable to RMB256.0 million (US$37.7 million) of the cash received from disposal of other financial assets and RMB134.0 million (US$19.7 million) of purchase of short-term investments, partially offset by RMB102.0 million (US$15.0 million) of proceeds from disposal of short-term investments.

Net cash generated from investing activities for the year ended December 31, 2018 was RMB9.5 million. The net cash increase was primarily attributable to RMB40.0 million of the cash received from disposal of other financial assets, partially offset by RMB30.0 million of the cash used in other financial assets.

Net cash used in investing activities for the year ended December 31, 2017 was RMB157.7 million. The net cash decrease was primarily attributable to RMB369.0 million of investments in other financial assets, partially offset by RMB133.0 million of proceeds from disposal of other financial assets and RMB93.3 million of cash acquired from acquisition of I-Mab Tianjin.

***Financing Activities***

Net cash generated from financing activities for the nine months ended September 30, 2020 was RMB2,595.7 million (US$382.3 million), primarily attributable to the proceeds from the initial public offering of our company, net of payment of offering issuance cost of RMB726.3 million (US$107.0 million), the proceeds from private placement of our company, net of payment of issuance cost of RMB1,980.5 million (US$291.7 million), partially offset by the repayment of bank borrowings of RMB50.0 million (US$7.4 million).

Net cash generated from financing activities for the year ended December 31, 2019 was RMB152.7 million (US$22.5 million), primarily attributable to the proceeds from issuance of convertible preferred shares, net of issuance cost of RMB183.5 million (US$27.0 million) and the repayment of bank borrowings of RMB80.0 million (US$11.8 million), partially offset by the proceeds of bank borrowings of RMB50.0 million (US$7.4 million).

Net cash generated from financing activities in the year ended December 31, 2018 was RMB1,479.7 million, primarily attributable to (i) proceeds from issuance of RMB1,306.6 million convertible preferred shares and (ii) receipt of RMB132.3 million resulting from the exercise of warrants by investors.

Net cash generated from financing activities in the year ended December 31, 2017 was RMB758.6 million, primarily attributable to proceeds of our issuance of RMB346.5 million convertible preferred shares, RMB161.2 million redeemable non-controlling interest and RMB99.0 million proceeds from bank borrowings.

***Capital Expenditures***

Our capital expenditures were incurred for purposes of purchasing property, equipment and software. Our capital expenditures were RMB20.3 million, RMB14.4 million, RMB12.2 million (US$1.8 million) and RMB4.8 million (US$0.7 million) in the years ended December 31, 2017, 2018 and 2019 and nine months ended September 30, 2020, respectively.

**Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2019:

| | Total | | Less Than 1 Year | | 1-3 Years | | 3-5 Years | | More Than 5 Years | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB | US$ | RMB | US$ | RMB | US$ | RMB | US$ | RMB | US$ |
| | (in thousands) | | | | | | | | | |
| Operating lease commitments | 15,437 | 2,274 | 7,634 | 1,124 | 7,502 | 1,105 | 120 | 18 | 181 | 27 |

Our operating lease commitments relate to leases for our office premises pursuant to non-cancellable operating lease agreements. Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2019.

**Off-Balance Sheet Commitments and Arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

**Internal Control Over Financial Reporting**

In connection with the audits of our consolidated financial statements included in our annual report on Form 20-F filed with the SEC on April 29, 2020, we and our independent registered public accounting firm identified the following material weaknesses and other control deficiencies in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses that have been identified relate to (i) our lack of sufficient and competent financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting and compliance requirements, to formalize key controls over financial reporting and to prepare consolidated financial statements and related disclosures; and (ii) our lack of sufficient documented financial closing policies and procedures, specifically those related to (a) accounting for licensing and collaboration agreements and (b) period end expenses cut-off and accruals. These material weaknesses, if not timely remedied, may lead to significant misstatements in our consolidated financial statements in the future.

We have implemented and plan to implement a number of measures to address the material weaknesses that have been identified in connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 and the review of the consolidated financial statements as of and for the nine months ended September 30, 2020. We have hired additional qualified financial and accounting staff with working experience of U.S. GAAP and SEC reporting requirements, and plan to continue such hiring efforts. We intend to conduct regular and continuous U.S. GAAP accounting and financial reporting training programs for our financial reporting and accounting personnel. We further intend to establish sufficient and formal financial closing policies and procedures, specifically those related to accounting for licensing and collaboration arrangements and period end cut-off and accruals. We plan to, as work-in-progress, engage an external consulting firm to assist us to assess Sarbanes-Oxley Act compliance requirements and improve our overall internal controls. Furthermore, we plan to prepare more detailed guidance on accounting policies, manuals and closing procedures to improve the quality and accuracy of our period end financing closing process. We will continue to implement these and other measures to remediate our internal control deficiencies. We may incur significant costs in the implementation of such measures. However, the implementation of these measures may not fully address the deficiencies in our internal control over financial reporting, and we cannot assure you that all of these measures will be sufficient to remediate our material weakness in time, or at all.

As a company with less than US$1.07 billion in revenue for our last fiscal year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting.

**Inflation**

To date, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2017, 2018 and 2019 were increases of 1.8%, 1.9% and 4.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

**Holding Company Structure**

We are a holding company with no material operations of its own. We currently conduct our operations primarily through our PRC subsidiaries. As a result, our ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and their subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of their after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at their discretion, and their subsidiaries may allocate a portion of their after-tax profits based on PRC accounting standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

**Quantitative and Qualitative Disclosures about Market Risk**

***Interest and Credit Risk***

We had cash, cash equivalents and restricted cash of RMB412.7 million, RMB1,680.9 million, RMB1,193.3 million (US$175.8 million) and RMB2,960.0 million (US$436.0 million) as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively. Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure.

Our credit risk is primarily attributable to the carrying amounts of cash and cash equivalents. The carrying amounts of cash and cash equivalents represent the maximum amount of loss due to credit risk. We mainly place or invest cash and cash equivalents with state-owned or reputable financial institutions in the PRC, and reputable financial institutions outside of the PRC. We do not believe that our cash and cash equivalents have significant risk of default or illiquidity, and we will continually monitor the credit worthiness of these financial institutions. While we believe our cash and cash equivalents do not contain excessive risk, future investments may be subject to adverse changes in market value.

***Foreign Exchange Risk***

Most of our revenues and expenses are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and RMB because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People’s Bank of China. The RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between RMB and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us.

As of September 30, 2020, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB940 million (US$138.4 million). A 10% depreciation of RMB against U.S. dollar based on the foreign exchange rate on September 30, 2020 would result in a decrease of US$13.8 million in cash and cash equivalents. A 10% appreciation of RMB against U.S. dollar based on the foreign exchange rate on September 30, 2020 would result in an increase of US$13.8 million in cash and cash equivalents.

**Critical Accounting Policies and Significant Judgments and Estimates**

Our discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for amounts recorded in connection with acquisitions, including initial fair value determinations of assets and liabilities and other intangible assets as well as subsequent fair value measurements. Additionally, estimates are used in determining items such as fair value measurements of wealth management products, impairment of other receivables, contract assets, long-lived assets, intangible assets and goodwill, useful lives of property, equipment and software, recognition of right-of-use assets and lease liabilities, fair value measurements of warrant liabilities, variable consideration in collaboration revenue agreements, determination of the standalone compensation arrangement. We base the estimates on historical experience, known trends and various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

***Revenue Recognition***

We adopted Accounting Standard Codification ("ASC") 606, Revenue from Contracts with Customers (Topic 606) ("ASC 606") for all periods presented. Consistent with the criteria of Topic 606, we recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services.

Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We only apply the five-step model to contracts when it is probable that the entity will collect substantially all the consideration to which it is entitled in exchange for the goods or services it transfers to the customer.

Once a contract is determined to be within the scope of ASC 606 at contract inception, we audit the contract to determine which performance obligations it must deliver and which of these performance obligations are distinct. We recognize as revenue the amount of the transaction price that is allocated to each performance obligation when that performance obligation is satisfied or as it is satisfied.

***Collaboration Revenue***

At contract inception, we analyze its collaboration arrangements to assess whether they are within the scope of ASC 808, Collaborative Arrangements ("ASC 808") to determine whether such arrangements involve joint operating activities performed by parties that are both active participants in the activities and exposed to significant risks and rewards dependent on the commercial success of such activities. For collaboration arrangements within the scope of ASC 808 that contain multiple elements, we first determine if the collaboration is deemed to be within the scope of ASC 808. For any units of account that are reflective of a vendor-customer relationship those units of account are accounted for within the scope of ASC 606. For any units of account that are not accounted for under ASC 606 and therefore accounted for pursuant to ASC 808, an appropriate recognition method is determined and applied consistently.

Our collaborative arrangements may contain more than one unit of account, or performance obligation, including grants of licenses to intellectual property rights, agreement to provide research and development services and other deliverables. The collaborative arrangements do not include a right of return for any deliverable. As part of the accounting for these arrangements, we must develop assumptions that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract. In developing the stand-alone selling price for a performance obligation, we consider competitor pricing for a similar or identical product, market awareness of and perception of the product, expected product life and current market trends. In general, the consideration allocated to each performance obligation is recognized when the respective obligation is satisfied either by delivering a good or providing a service, limited to the consideration that is not constrained.

When the timing of the delivery of product is different from the timing of payments made by the customers, we recognize either a contract asset (performance precedes the contractual due date) or a contract liability (customer payment precedes performance). Our contractual payment terms are typically due in no more than 30 days from invoicing. In limited situations, certain customer contractual payment terms require us to bill in arrears; thus, we satisfy some or all of our performance obligations before we are contractually entitled to bill the customer. In these situations, billing occurs subsequent to revenue recognition, which results in a contract asset. For example, certain of the contractual arrangements do not permit us to bill until the completion of the production of the samples. In other limited situations, certain customer contractual payment terms allow us to bill in advance; thus, we receive customer cash payment before satisfying some or all of its performance obligations. In these situations, billing occurs in advance of revenue recognition, which results in contract liabilities.

***Licenses of Intellectual Property***

Upfront non-refundable payments for licensing our intellectual property are evaluated to determine if the license is distinct from the other performance obligations identified in the arrangement. For licenses determined to be distinct, we recognize revenues from non-refundable, up-front fees allocated to the license at a point in time, when the license is transferred to the licensee and the licensee is able to use and benefit from the license.

***Research and Development Services***

The portion of the transaction price allocated to research and development services performance obligations is deferred and recognized as revenue over time as delivery or performance of such services occurs.

***Milestone Payments***

At the inception of each arrangement that includes development, commercialization, and regulatory milestone payments, we evaluate whether the milestones are considered probable of being reached and to the extent that a significant reversal of cumulative revenue would not occur in future periods, estimates the amount to be included in the transaction price using the most likely amount method. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which we recognize revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, we re-evaluate the probability of achieving such development milestones and any related constraint, and if necessary, adjust our estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

***Royalties***

For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties or milestone payments based on the level of sales relate, we recognize revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

***Research and Development Expenses***

Elements of research and development expenses primarily include: (1) payroll and other related expenses of personnel engaged in research and development activities, (2) in-licensed patent rights fee of exclusive development rights of drugs granted to us, (3) expenses related to pre-clinical testing of our technologies under development and clinical trials such as payments to contract research organizations ("CRO"), investigators and clinical trial sites that conduct our clinical studies, (4) expenses to develop the product candidates, including raw materials and supplies, product testing, depreciation, and facility related expenses, and (5) other research and development expenses. Research and development expenses are charged to expense as incurred when these expenditures relate to our research and development services and have no alternative future uses.

We have acquired rights to develop and commercialize product candidates. Upfront payments that relate to the acquisition of a new drug compound, as well as pre-commercial milestone payments, are immediately expensed as acquired in-process research and development in the period in which they are incurred, provided that the new drug compound did not also include processes or activities that would constitute a "business" as defined under U.S. GAAP, the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, has no established alternative future use. Milestone payments made to third parties subsequent to regulatory approval would be capitalized as intangible assets and amortized over the estimated remaining useful life of the related product. The conditions enabling capitalization of development expenses as an asset have not yet been met and, therefore, all development expenditures are recognized in profit or loss when incurred.

***Share-Based Compensation***

We grant restricted shares and stock options to eligible employees and account for share-based compensation in accordance with ASC 718, Compensation—Stock Compensation.

Employees' share-based compensation awards are measured at the grant date fair value of the awards and recognized as expenses (i) immediately at the grant date if no vesting conditions are required; (ii) for share-based awards granted with only service conditions, using the graded vesting method net of estimated forfeitures over the vesting period; or (iii) for share-based awards granted with service conditions and the occurrence of an initial public offering as performance condition cumulative share-based compensation expenses for the options that have satisfied the service condition should be recorded upon the completion of the initial public offering using the graded vesting method.

A change in any of the terms or conditions of share-based awards is accounted for as a modification of the awards. We calculate incremental compensation expense of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified at the modification date. For vested awards, we recognize incremental compensation cost in the period when the modification occurs. For awards not being fully vested, we recognize the sum of the incremental compensation expense and the remaining unrecognized compensation expense for the original awards over the remaining requisite service period after modification.

Share-based compensation in relation to the restricted shares is measured based on the fair market value of our ordinary shares at the grant date of the award. Prior to the listing, estimation of the fair value of our ordinary shares involves significant assumptions that might not be observable in the market, and a number of complex and subjective variables, including discount rate, and subjective judgments regarding our projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants are made. Share-based compensation in relation to the share options is estimated using the Binominal Option Pricing Model. The determination of the fair value of share options is affected by the share price of our ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple and expected dividend yield. The fair value of these awards was determined with the assistance from an independent valuation firm.

*Restricted ordinary shares*

During the year ended December 31, 2016, we issued 4,019,554 ordinary shares to Mr. Zang Jingwu Zhang, Ms. Qian Lili, Mr. Wang Zhengyi and Mr. Fang Lei (collectively the "Founders"), including the 369,301 shares which represented the equity interests of Third Venture held by the Founders, and we recorded share-based compensation expense of RMB18.7 million for issuance and grant of 3,650,253 ordinary shares to the Founders in June 2016.

In October 2016, the Founders entered into an arrangement with our other investors, and the 87,441 ordinary shares issued to the Founders in June 2016 were cancelled, and out of the remaining 3,932,113 ordinary shares held by the Founders, 70% became restricted and subject to service vesting conditions, that shall vest 20%, 20% and 30% over the next three years, respectively. By October 2019, all the restricted shares were vested.

Deferred share-based compensation was measured for the restricted shares using the estimated fair value of our ordinary shares of US$0.77 at the date of imposition of the restriction in October 2016, and was amortized to the consolidated statements of comprehensive loss by using graded vesting method over the vesting term of 3 years. The following table summarizes our Founders' restricted shares activities for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2019 and 2020:

| | Numbers of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2017 | 1,966,056 | 0.77 |
| Vested | (786,423) | |
| Outstanding at December 31, 2018 and September 30, 2019 | 1,179,633 | 0.77 |
| Vested | (1,179,633) | |
| Outstanding at December 31, 2019 and September 30, 2020 | — | — |

The amounts of share-based compensation expense in relation to the restricted shares recognized in the year ended December 31, 2019 was RMB1,566 thousand, of which RMB1,566 thousand was recognized in the nine months ended September 30, 2019.

No share-based compensation expense was recognized in the nine months ended September 30, 2020. Share-based compensation expenses relating to restricted shares were included in:

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | | 2019 | 2020 | |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | (in thousands) | | | | | | |
| Research and development expenses | 2,112 | 1,056 | 470 | 69 | 467 | — | — |
| Administrative expenses | 4,927 | 2,464 | 1,096 | 162 | 1,089 | — | — |
| | 7,039 | 3,520 | 1,566 | 231 | 1,556 | — | — |

*Second Amended and Restated 2017 Employee Stock Option Plan (the "2017 Plan")*

In October 2017, we adopted the 2017 Plan (as last amended and restated on December 25, 2019). Under the 2017 Plan, a maximum aggregate number of 13,376,865 shares that may be issued pursuant to all awards granted were approved. Stock options granted to an employee under the 2017 Plan will be exercisable upon the completion of a listing and the employee renders service to us in accordance with a stipulated service schedule starting from the employee's date of employment. Employees are generally subject to a three-year service schedule, under which an employee earns an entitlement to vest in 50% of the option grants on the second anniversary of the grant date, a vesting of the remaining fifty percent 50% on the third anniversary of the applicable grant date. The stock options under the 2017 Plan, to the extent then vested, shall become exercisable only upon the earlier of (i) a listing, and (ii) occurrence of a change in control.

On December 25, 2019, the 2017 Plan was approved by our shareholders and board of directors, pursuant to which, in connection with our initial public offering, the maximum aggregate number of shares that may be granted pursuant to all awards under the 2017 Plan shall be adjusted in accordance with a formula pre-approved by the shareholders. In connection with above amendments to the 2017 Plan, each of our founders, namely, Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang, is willing to irrevocably surrender by him or her, for no consideration, of a portion of the unvested options granted to him or her, which, if vested, would entitle him or her to acquire up to 130,000 ordinary shares of our company, par value US$0.0001 per share, at an exercise price of US$1.0, respectively, under the 2017 Plan (in respect of each individual, the "Founder's Surrendered Options"). On December 25, 2019, our board of directors approved that our company accepts all Founder's Surrendered Options from each of the founders, namely, Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang, for no consideration, with effect immediately prior to the completion of the initial public offering and such surrendered options be cancelled with effect immediately prior to the completion of the initial public offering.

Prior to our completion of a listing, all stock options granted to an employee shall be forfeited at the time the employee terminates his employment with us. After we complete a listing, vested options not exercised by an employee shall be exercised until later of: (i) 90 days after the date when the options become exercisable, or (ii) 30 days after the date of cessation of employment or directorship, or such longer period as the board of directors may otherwise determine.

We granted 11,051,230, 1,470,000, 640,000, 640,000 and nil stock options to employees, all with an exercise price of US$1, for the years ended December 31, 2017, 2018 and 2019 and for the nine months ended September 30, 2019 and 2020, respectively. No options are exercisable as of December 31, 2017, 2018 and 2019 and 8,047,548 stock options are exercisable as of September 30, 2020.

The following table sets forth the stock options activities for the periods presented:

| | Number of Shares | Weighted Average Exercise Price US$ | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value US$'000 |
|---|---|---|---|---|
| Outstanding as of December 31, 2017 | 11,761,596 | 0.94 | 9.50 | 24,890 |
| Granted | 1,470,000 | 1.00 | — | — |
| Forfeited | (226,000) | 1.00 | — | — |
| Outstanding as of December 31, 2018 | 13,005,596 | 0.95 | 8.61 | 70,129 |
| Granted | 640,000 | 1.00 | — | — |
| Forfeited | (397,500) | 1.00 | — | — |
| Repurchased | (3,435,215) | 1.00 | — | — |
| Outstanding as of December 31, 2019 | 9,812,881 | 0.93 | 7.76 | 47,671 |
| Exercisable as of December 31, 2019 | — | — | — | — |
| Exercised | (115,888) | — | — | — |
| Forfeited | (336,377) | 1.00 | — | — |
| Surrendered | (332,566) | 1.00 | — | — |
| Outstanding as of September 30, 2020 | 9,028,050 | 0.93 | 7.01 | 175,576 |
| Exercisable as of September 30, 2020 | 8,047,548 | 0.92 | 6.91 | 156,567 |

Note: Other addition represented the modified share options that originally granted to two senior management employees in October 2016 (see "—other share-based compensation").

Stock options granted to the employees were measured at fair value on the dates of grant using the Binomial Option Pricing Model with the following assumptions:

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| Expected volatility | 62.34% | 61.32%—62.13% | 54.64% | 54.64% | N/A |
| Risk-free interest rate (per annum) | 2.32% | 2.81%—3.06% | 2.15% | 2.15% | N/A |
| Exercise multiple | 2.80 | 2.80 | 2.80 | 2.8 | N/A |
| Expected dividend yield | — | — | — | — | N/A |
| Contractual term (in years) | 10 | 10 | 10 | 10 | N/A |

The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the expected term of our options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in US$ for a term consistent with the expected term of our options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price when employees would decide to voluntarily exercise their vested options. As we did not have sufficient information of past employee exercise history, it was estimated by referencing to a widely-accepted academic research publication. Expected dividend yield is zero as we have never declared or paid any cash dividends on its shares, and we do not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the option.

There were no stock options granted to employees under the 2017 Plan for the nine months ended September 30, 2020. On January 17, 2020, we completed our initial public offering. After achieving this performance condition, the options continue to vest based only on service period completed according to the graded vesting schedule. We have begun recognizing share-based compensation expense for the options granted using the graded vesting method with a cumulative catch-up for the service period completed to date during the nine months ended September 30, 2020 and recognized RMB56,019 thousand and RMB69,204 thousand share-based compensation expenses in administrative expenses and research and development expenses, respectively, relating to options vested cumulatively. According to the amendments to the 2017 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under the 2017 Plan was changed to 9,609,084. Each of our founders, namely Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang surrendered 83,142 unvested stock options that were granted to him or her under the 2017 Plan before, totaling 332,566 unvested options, for no consideration, and these stock options were cancelled immediately.

*Second Amended and Restated 2018 Employee Stock Option Plan (the "2018 Plan")*

On February 22, 2019, our company adopted the 2018 Plan, which was subsequently amended and restated on July 22, 2019. Under the amended and restated the 2018 Plan, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards is 14,005,745, and if we successfully list on an internationally recognized securities exchange for a qualified public offering by December 31, 2019, the maximum aggregate number of ordinary shares which may be issued shall be 15,452,620.

On December 25, 2019, the 2018 Plan was approved by the shareholders and board of directors of our company, pursuant to which, in connection with offering, the maximum aggregate number of shares that may be granted pursuant to all awards under the 2018 Plan may be adjusted in accordance with a formula pre-approved by our shareholders. In connection with above amendments to the 2018 Plan, the director of our company, Dr. Jingwu Zhang Zang is willing to irrevocably surrender by him, for no consideration, of the right to acquire a certain amount of ordinary shares of our company, par value US$0.0001 per share, at an exercise price of US$1.0 pursuant to the options granted to him under the 2018 Plan (the "Dr. Zang's Surrendered Options"). On December 25, 2019, the board of directors of our company approved that our company accepts the irrevocable surrender of Dr. Zang's Surrendered Options for no consideration, with effect immediately prior to the completion of the initial public offering and such surrendered options be cancelled with effect immediately prior to the completion of the initial public offering. See "Management—Share Incentive Plans—Second Amended and Restated 2018 Employee Stock Option Plan."

Stock options granted to an employee under the 2018 Plan will be generally exercisable when our company completes a listing and the employee renders service to our company in accordance with a stipulated service schedule starting from the employee's date of employment. The vesting schedule shall generally be a two-year vesting schedule consisting of a cliff vesting of 50% of the stock options on the first anniversary of the applicable vesting commencement date and a vesting of the remaining 50% on the second anniversary of the applicable vesting commencement date. If a listing occurs at any time prior to any stock option granted under the 2018 Plan becoming fully vested, to the extent such stock option has been granted and is outstanding, any such stock option shall vest in full with immediate effect upon the listing. Except as otherwise approved by the Board of Directors, any vested portion of the stock options shall become exercisable upon the earlier of six months after a listing or the occurrence of a change in control; provided, however, that in each case, no stock option of an employee shall become exercisable until the third anniversary of such employee's employment commencement date.

Pursuant to the board of director's approval of the 2018 Plan on February 22, 2019, the 10,893,028 stock options granted to a director of our company under the 2018 Plan were fully vested and exercisable upon the adoption of 2018 Plan. Out of these 10,893,028 stock options, 454,940 stock options were repurchased by our company (see Note 14 (d) to our unaudited interim condensed consolidated financial statements for further details).

The amount of share-based compensation expense in relation to the aforementioned grant of stock options to a director of our company (except for those repurchased by our company as described in Note 14 (d) to our unaudited interim condensed consolidated financial statements) recognized in the year ended December 31, 2019 was RMB365,329 thousand, which were allocated to our administrative expenses.

The following table sets forth the stock options activities under the 2018 Plan for the nine months ended September 30, 2020:

| | Number of Shares | Weighted Average Exercise Price US$ | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2018 | — | — | — | — |
| Granted | 13,991,528 | 1.00 | — | — |
| Repurchased | (454,940) | 1.00 | — | — |
| Outstanding as of December 31, 2019 | 13,536,588 | 1.00 | 9.15 | 64,840 |
| Exercisable as of December 31,2019 | 10,438,088 | 1.00 | 8.86 | 49,998 |
| Surrendered | (2,544,917) | 1.00 | — | — |
| Outstanding as of September 30, 2020 | 10,991,671 | 1.00 | 8.40 | 213,764 |
| Exercisable as of September 30, 2020 | 10,166,671 | 1.00 | 8.40 | 197,720 |

Stock options granted to certain directors and employees of our company were measured at fair value on the dates of grant using the Binomial Option Pricing Model with the following assumptions:

| | Year Ended December 31, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2019 | 2019 | 2020 |
| Expected volatility | N/A | 54.64—56.31% | 54.64—56.31% | N/A |
| Risk-free interest rate (per annum) | N/A | 2.15—2.75% | 2.15—2.75% | N/A |
| Exercise multiple | N/A | 2.80 | 2.80 | N/A |
| Expected dividend yield | N/A | — | — | N/A |
| Contractual term (in years) | N/A | 10 | 10 | N/A |

The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the expected term of our company's options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in US$ for a term consistent with the expected term of our company's options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price when employees would decide to voluntarily exercise their vested options. As our company did not have sufficient information of past employee exercise history, it was estimated by referencing to a widely-accepted academic research publication. Expected dividend yield is zero as our company has never declared or paid any cash dividends on its shares, and our company does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the option.

Except for the aforementioned grant of stock options to a director of our company under the 2018 Plan, since the exercisability is dependent upon the listing, and it is not probable that this performance condition can be achieved until a listing, no share-based compensation expense related to the 2018 Plan was recorded for the year ended December 31, 2019.

On January 17, 2020, our Company completed its IPO. After achieving this performance condition, the options continue to vest based only on service period completed according to the graded vesting schedule. We have begun recognizing share-based compensation expenses for the options granted using the graded vesting method with a cumulative catch-up for the service period completed to date during the nine months ended September 30, 2020 and recognized RMB46,312 thousand and RMB66,496 thousand share-based compensation expense in administrative expenses and research and development expenses, respective, relating to options vested cumulatively. According to the amendments to the 2018 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under the 2018 Plan was changed to 11,005,888. Dr. Jingwu Zhang Zang, a director of our Company, surrendered 2,544,917 unvested options that were granted to him under the 2018 Plan, for no consideration, and these stock options were cancelled immediately.

*Repurchase of share awards held by a director*

On February 22, 2019, the amendment and restated 2017 equity incentive plan was approved by the Board of Directors of our company, pursuant to which only the 3,435,215 stock options held by a director of our company under the 2017 equity incentive plan became fully vested and exercisable on February 22, 2019. As a result of the performance condition being waived, the shares held by a director of our company were accounted for as a Type III modification where a condition that our company expects will not be satisfied is changed to a condition that our company expects will be satisfied.

Additionally, on the same day, our company repurchased such 3,435,215 stock options under the amendment and restated 2017 equity incentive plan that was held by a director of our company along with 454,940 of his stock options under the 2018 equity incentive plan for which the share awards also became fully vested and exercisable, at a total consideration of US$21,902 thousand (equivalent to approximately RMB148,308 thousand) at an average share price of US$5.63 per share.

For the nine months ended September 30, 2019, our company recorded the total payment of US$21,902 thousand (equivalent to approximately RMB148,308 thousand) as share-based compensation costs (included in administrative expenses) in the condensed consolidated statement of comprehensive loss. There was no impact to the overall stockholder's equity balance as the amended shares vested immediately and were repurchased.

*2019 Share Incentive Plan (the "2019 Plan")*

On October 29, 2019, we adopted the 2019 Plan. Under the 2019 Plan, the maximum aggregate number of ordinary shares available for issuance shall initially be 100,000. The options shall vest when our Company completes a listing and the employee renders service to our Company in accordance with a stipulated service schedule starting from the employee's date of employment. Stock options granted to 3 independent directors under the 2019 Plan will be generally exercisable under the following terms: (a) a cliff vesting of 1/3 of the option on the first anniversary of the vesting commencement date (January 17, 2020); (b) a cliff vesting of 1/3 of the option on the second anniversary of the vesting commencement date (January 17, 2020); (c) a vesting of the remaining 1/3 of the option on the third anniversary of the vesting commencement date (January 7, 2020). In the last year of the grantee's service, the options shall vest on a prorated basis to reflect the portion of the year during which the grantee provided services to our Company.

For the nine months ended September 30, 2020, our Company granted 72,000 stock options to three independent directors (all with an exercise price of US$6.09) and recognized RMB741 thousand share-based compensation expenses relating to the options vested. No options were exercisable as of September 30, 2020.

The following table sets forth the stock option activities of the 2019 Plan for the periods presented:

| | Number of Shares | Weighted Average Exercise Price US$ | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value US$ |
|---|---|---|---|---|
| Outstanding as of December 31, 2019 | — | — | — | — |
| Granted | 72,000 | 6.09 | — | — |
| Outstanding as of September 30, 2020 | 72,000 | 6.09 | 9.59 | 1,034 |
| Exercisable as of September 30, 2020 | — | — | — | — |

Stock options granted to certain directors and employees of our company were measured at fair value on the dates of grant using the Binomial Option Pricing Model with the following assumptions:

| | Nine Months Ended September 30, 2020 |
|---|---|
| Expected volatility | 54.88% |
| Risk-free interest rate (per annum) | 0.79% |
| Exercise multiple | 2.8 |
| Expected dividend yield | — |
| Contractual term (in years) | 10 |

The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the expected term of our company's options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in US$ for a term consistent with the expected term of our options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price when employees would decide to voluntarily exercise their vested options. As our Company did not have sufficient information of past employee exercise history, it was estimated by referencing to a widely-accepted academic research publication. Expected dividend yield is zero as our Company has never declared or paid any cash dividends on its shares, and our Company does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the option.

*2020 Share Incentive Plan (the "2020 Plan")*

In July 2020, we adopted the 2020 Plan. Under the 2020 Plan, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards shall be 10,760,513, provided that the maximum number of shares may be issued pursuant to awards in the form of restricted share units under this plan shall not exceed 7,686,081 ordinary shares. From August 2020 through September 2020, we granted 1,068,733 stock options and 4,892,918 restricted share units under the 2020 Plan to employees, respectively.

*Other share-based compensation*

In October 2017, in connection with the adoption of the 2017 Plan, we amended the stock option agreement with the two aforementioned employees, under which the stock options would become exercisable only upon the earlier of (i) a listing, and (ii) occurrence of a change in control that defined in the stock option agreements. As the modification of terms and conditions of share-based compensation were not beneficial to its employees, no further accounting impact was resulting from it.

*Establishment of Biomaster Trust*

Biomaster Trust was established under the trust deed, dated October 23, 2019, between us and TMF Trust (HK) Limited, or TMF Trust, as the trustee of the Biomaster Trust. Through the Biomaster Trust, our company's ordinary shares and other rights and interests under awards granted pursuant to the 2017 Plan and the 2018 Plan may be provided to certain recipients of equity awards. Upon satisfaction of the vesting conditions, TMF Trust will exercise the equity awards and transfer the relevant ordinary shares and other rights and interests under the equity awards to the relevant grant recipients with the consent of the advisory committee of Biomaster Trust. TMF Trust shall not exercise the voting rights attached to such ordinary shares unless otherwise directed by the advisory committee, whose members shall be appointed by our company. Our company has the power to direct the relevant activities of Biomaster Trust and has the ability to use its power over Biomaster Trust to affect its exposure to returns. Therefore, the assets and liabilities of Biomaster Trust are included in our consolidated statements of financial position.

*Surrender of stock options*

On January 17, 2020, our Company completed its IPO. According to the amendments to 2017 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under 2017 Plan was changed to 9,609,084. Each of our founders, namely Zheru Zhang, Lili Qian, Zhengyi Wang and Lei Fang surrendered 83,142 unvested stock options that were granted to him or her under 2017 Plan before, totally 332,566 unvested options, for no consideration, and these stock options were cancelled immediately. According to the amendments to 2018 Plan, the maximum aggregate number of shares which may be granted pursuant to all awards under 2018 Plan was changed to 11,005,888. Dr. Jingwu Zhang Zang, a director of our Company, surrendered 2,544,917 unvested options that were granted to him under 2018 Plan, for no consideration, and these stock options were cancelled immediately. Upon the completion of our initial public offering in January 2020, we recorded RMB91,051 thousand share-based compensation expense related to these surrendered options.

The stock options surrendered by the founders should be accounted for as capital contribution. As the founders did not get the title of the options to be surrendered and the number of share options would not be determined until listing, the capital contribution was not accounted for during the year ended December 31, 2019. For the nine months ended September 30, 2020, our Company has reclassified RMB91,051 thousand from additional paid-in capital—share-based compensation to additional paid-in capital—capital contribution relating to the options surrendered in the condensed consolidated financial statement of comprehensive loss.

*Fair Value of Ordinary Shares*

We are required to estimate the fair value of the ordinary shares on grant dates of share-based compensation awards/share option to our employees and the issuance of financial instruments to investors. Therefore, our board of directors has estimated the fair value of our ordinary shares on various dates, with inputs from management, considering the third-party valuations. The valuations of our ordinary shares were performed using methodologies, approaches and assumptions consistent with the American Institute of Certified Public Accountants Audit and Accounting Practice Aid Series: Valuation of Privately-Held-Company Equity Securities Issued as Compensation, or the AICPA Practice Guide.

In addition, our board of directors considered various objective and subjective factors, along with inputs from management and the independent third-party valuation firm, to determine the fair value of our ordinary shares, including: external market conditions affecting the biopharmaceutical industry, trends within the biopharmaceutical industry, the prices at which we sold convertible preferred shares, the superior rights and preference of the convertible preferred shares or other senior securities relative to our ordinary shares at the time of each grant and the likelihood of achieving a liquidity event such as an initial public offering. The option-pricing method was used to allocate the enterprise's value to preferred shares or other senior securities and ordinary shares, taking into account the guidance prescribed by the AICPA Practice Guide. This method treats ordinary shares and convertible preferred shares or other senior securities as call options on the enterprise's value, with exercise prices based on their respective payoffs upon a liquidity event.

In determining the enterprise's value, we applied the market approach/backsolve method based on pricing from recent transactions in our own securities. The basis for application of this method is our transactions in equity securities with unrelated parties or among unrelated parties themselves. No evidence is observed to indicate these transactions are not arm's-length transactions.

Our board of directors determined the fair value of our share options and the restricted shares as of the dates of grant, taking into consideration the various objective and subjective factors described above, including the conclusion of valuation of our ordinary shares as of dates close to the grant dates of our share options and the restricted shares. We computed the per share estimated fair value for share options based on the binomial option pricing model and the per share estimated fair value for restricted shares based on per share estimated fair value of ordinary shares as of the date of grant.

Once public trading market of the ADSs has been established in connection with the completion of our initial public offering, it is no longer necessary for our board of directors to estimate the fair value of our ordinary shares in connection with our accounting for granted share options and restricted shares.

*Fair Value Measurements*

Our financial assets and liabilities primarily comprise of cash and cash equivalents, restricted cash, short-term investments, other financial assets, contract assets, other receivables, short-term borrowings, accruals and other payables and warrant liabilities. As of December 31, 2017, 2018 and 2019 and September 30, 2020, except for short-term investments, other financial assets and warrants liabilities, the carrying values of these financial assets and liabilities approximated their fair values because of their generally short maturities. We report short-term investments, other financial assets and warrant liabilities at fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of comprehensive loss.

We measure our financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets that the management has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect the management's assumptions about the assumptions that market participants would use in pricing the asset. The management develops these inputs based on the best information available, including the own data.

We measured our short-term investments, other financial assets and warrant liabilities at fair value on a recurring basis. As our short-term investments, other financial assets and warrant liabilities are not traded in an active market with readily observable prices, we use significant unobservable inputs to measure the fair value of short-term investments, other financial assets and warrant liabilities. These instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement.

**Recent Accounting Pronouncements**

A list of recently issued accounting pronouncements that are relevant to us is included in note 2 "Principal Accounting Policies—2.26 Recent Accounting Pronouncements" of our consolidated financial statements included in our annual report on Form 20-F filed with the SEC on April 29, 2020.