Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years indicated, both in absolute amounts and as percentages of our revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. Our operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,					
	2020		2019		2018	
	$'000	%	$'000	%	$'000	%
Revenues	227,976	100.0	204,890	100.0	214,109	100.0
Cost of revenues	(188,519)	(82.7)	(160,152)	(78.2)	(143,944)	(67.2)
Research and development expenses	(174,776)	(76.7)	(138,190)	(67.4)	(114,161)	(53.3)
Selling expenses	(11,334)	(5.0)	(13,724)	(6.7)	(17,736)	(8.3)
Administrative expenses	(50,015)	(21.9)	(39,210)	(19.1)	(30,909)	(14.4)
Other income	6,934	3.0	5,281	2.6	5,986	2.8
Income tax expense	(4,829)	(2.1)	(3,274)	(1.6)	(3,964)	(1.9)
Equity in earnings of equity investees, net of tax	79,046	34.7	40,700	19.9	19,333	9.0
Net loss	(115,517)	(50.7)	(103,679)	(50.6)	(71,286)	(33.3)
Net loss attributable to our company	(125,730)	(55.2)	(106,024)	(51.7)	(74,805)	(34.9)

Taxation

Cayman Islands

Hutchison China MediTech Limited is incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on profits, income, gains or appreciation earned by individuals or corporations. In addition, our payment of dividends, if any, is not subject to withholding tax in the Cayman Islands. For more information, see Item 10.E. "Taxation—Overview of Tax Implications of Various Other Jurisdictions—Cayman Islands Taxation."

People's Republic of China

Our subsidiaries and joint ventures incorporated in the PRC are governed by the EIT Law and regulations. Under the EIT Law, the standard EIT rate is 25% on taxable profits as reduced by available tax losses. Tax losses may be carried forward to offset any taxable profits for the following five years (ten years for those with HNTE status, with effective from 1 January 2018). Hutchison MediPharma and our non-consolidated joint ventures, Shanghai Hutchison Pharmaceutical and Hutchison Baiyunshan, have been successful in their respective applications to renew their HNTE status for three years from January 1, 2020 to December 31, 2022. Accordingly, these entities are eligible for a preferential EIT rate of 15% for the years ended December 31, 2020, 2021 and 2022. Hutchison MediPharma (Suzhou) Limited, a wholly owned subsidiary of Hutchison MediPharma, was granted the HNTE status for three years from January 1, 2018 to December 31, 2020, and is preparing to apply to renew its status for another three years.

For more information, see Item 10.E. "Taxation—Taxation in the PRC." Please also see Item. 3 "Key Information—Risk Factors—Other Risks and Risks Relating to Doing Business in China—Our business benefits from certain PRC government tax incentives. The expiration of, changes to, or our PRC subsidiaries/joint ventures failing to continuously meet the criteria for these incentives could have a material adverse effect on our operating results by significantly increasing our tax expenses."

Hong Kong

Hutchison China MediTech Limited and certain of its subsidiaries are subject to Hong Kong Profits Tax laws and regulations. Hong Kong has a two-tiered Profits Tax rates regime under which the first HK$2.0 million ($0.3 million) of assessable profits of qualifying corporations will be taxed at 8.25%, with the remaining assessable profits taxed at 16.5%. Hong Kong Profits Tax has been provided for at the relevant rates on the estimated assessable profits less estimated available tax losses, if any, of these entities as applicable.

According to the EIT Law, dividends declared after January 1, 2008 and paid by PRC foreign-invested enterprises to their non-PRC parent companies will be subject to PRC withholding tax at 10% unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is a tax resident and which specifically exempts or reduces such withholding tax, and such tax exemption or reduction is approved by the relevant PRC tax authorities. Pursuant to the Arrangement, if the shareholder of the PRC enterprise is a Hong Kong tax resident and directly holds a 25% or more equity interest in the PRC enterprise and is considered to be the beneficial owner of dividends paid by the PRC enterprise, such withholding tax rate may be lowered to 5%, subject to approvals by the relevant PRC tax authorities. For more information, see Item 10.E. “Taxation—Taxation in the PRC” and “Taxation—Overview of Tax Implications of Various Other Jurisdictions—Hong Kong Taxation.”

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenue increased by 11.3% from $204.9 million for the year ended December 31, 2019 to $228.0 million for the year ended December 31, 2020, which was caused by increased revenue from both Oncology/Immunology and Other Ventures operations.

Revenue from Oncology/Immunology increased by 12.8% from $26.8 million for the year ended December 31, 2019 to $30.2 million for the year ended December 31, 2020, primarily due to an increase in revenue related to the sale of Elunate from $10.8 million for the year ended December 31, 2019 (of which $2.7 million was royalty revenue and $8.1 was revenue from sales to Eli Lilly) to $20.0 million for the year ended December 31, 2020 (of which $4.9 million was royalty revenue, $11.3 million was revenue from sales of goods primarily to Eli Lilly and $3.8 million was revenue from promotion and marketing services to Eli Lilly which commenced in October 2020) as a result of the inclusion of Elunate in the 2020 China NRDL. This increase was offset in part by a decrease in revenue related to collaboration research and development services from $15.5 million for the year ended December 31, 2019 to $9.8 million for the year ended December 31, 2020 as there was less clinical activity subject to reimbursement from our collaboration partners.

Revenue from our Other Ventures increased by 11.0% from $178.1 million for the year ended December 31, 2019 to $197.8 million for the year ended December 31, 2020, primarily due to an increase in sales of prescription drug products. Revenue from sales of prescription drugs increased by 14.9% from $143.7 million for the year ended December 31, 2019 to $165.1 million for the year ended December 31, 2020 primarily due to increased sales by our consolidated joint venture Hutchison Sinopharm. This increase was offset in part by a decrease in sales of consumer health products which decreased by 4.9% from $34.4 million for the year ended December 31, 2019 to $32.7 million for the year ended December 31, 2020. This decrease was primarily attributable to decreased sales of infant nutrition products.

Our Other Ventures’ results of operations are affected by seasonality. For more information, see “—Factors Affecting our Results of Operations—Other Ventures—Seasonality.”

Cost of Revenues

Our cost of revenues increased by 17.7% from $160.2 million for the year ended December 31, 2019 to $188.5 million for the year ended December 31, 2020. This increase was primarily due to increased sales by our Other Ventures. Our cost of revenues increased at a higher rate than revenue due to an increased proportion of sales of lower margin products by Hutchison Sinopharm. As a result, cost of revenues as a percentage of our revenues increased from 78.2% to 82.7% across these periods.

Research and Development Expenses

Our research and development expenses incurred by Oncology/Immunology increased by 26.5% from $138.2 million for the year ended December 31, 2019 to $174.8 million for the year ended December 31, 2020, which was primarily attributable to a $18.1 million increase in payments to CROs and other clinical trial related costs and a $18.5 million increase in employee compensation related and other costs. These increased costs were due to a significant expansion of clinical activities in the U.S. and rapid organizational growth to support such expansion. In particular, this increase was attributable to the expansion of the fruquintinib, surufatinib, HMPL-306, epitinib and HMPL-689 development programs. As a result, research and development expenses as a percentage of our revenue increased from 67.4% to 76.7% across these periods.

Selling Expenses

Our selling expenses decreased by 17.4% from $13.7 million for the year ended December 31, 2019 to $11.3 million for the year ended December 31, 2020, primarily due to decreased marketing activities after the COVID-19 outbreak. Selling expenses as a percentage of our revenues from our Other Ventures decreased from 7.7% to 5.6% across these periods.

Administrative Expenses

Our administrative expenses increased by 27.6% from $39.2 million for the year ended December 31, 2019 to $50.0 million for the year ended December 31, 2020. This was primarily due to $7.0 million increase in administrative expenses incurred by Oncology/Immunology, which was mainly related to increased staff cost to support the expansion of our clinical activities. There was also an increase of $3.0 million in administrative expenses incurred by our corporate head office for organizational expansion. Administrative expenses as a percentage of our revenues increased from 19.1% to 21.9% across these periods.

Other Income

We had net other income of $5.3 million for the year ended December 31, 2019, compared to net other income of $6.9 million for the year ended December 31, 2020. The increase was primarily due to foreign currency exchange gains of $3.0 million, offset in part by a decline in interest income of $1.7 million due to lower bank deposit rates.

Income Tax Expense

Our income tax expense increased from $3.3 million for the year ended December 31, 2019 to $4.8 million for the year ended December 31, 2020 primarily due to the accrual of withholding tax on the undistributed earnings in relation to the gain on return of land by Hutchison Baiyunshan.

Equity in Earnings of Equity Investees

Our equity in earnings of equity investees, net of tax, increased by 94.2% from $40.7 million for the year ended December 31, 2019 to $79.0 million for the year ended December 31, 2020. This change was primarily due to the one-time gain on return of land recorded by Hutchison Baiyunshan of which our attributable portion recorded to equity in earnings of equity investees was $36.0 million for the year ended December 31, 2020.

Shanghai Hutchison Pharmaceuticals

The following table shows a summary of the results of operations of Shanghai Hutchison Pharmaceuticals for the years indicated. The consolidated financial statements of Shanghai Hutchison Pharmaceuticals are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2020		2019	
	($'000)	%	($'000)	%
Revenue	276,354	100.0	272,082	100.0
Cost of sales	(72,163)	(26.1)	(77,313)	(28.4)
Selling expenses	(111,892)	(40.5)	(110,591)	(40.6)
Administrative expenses	(17,907)	(6.5)	(14,761)	(5.4)
Taxation charge	(10,833)	(3.9)	(11,015)	(4.0)
Profit for the year	67,020	24.3	61,301	22.5
Equity in earnings of equity investee attributable to our company	33,502	12.1	30,654	11.3

Shanghai Hutchison Pharmaceuticals' revenue increased by 1.6% from $272.1 million for the year ended December 31, 2019 to $276.4 million for the year ended December 31, 2020, primarily due to an increase in sales of She Xiang Bao Xin pills, a vasodilator used in the treatment of heart conditions. Sales of She Xiang Bao Xin pills increased by 4.4% from $239.5 million for the year ended December 31, 2019 to $250.0 million for the year ended December 31, 2020. Additionally, revenue from Shanghai Hutchison Pharmaceutical's distribution business decreased from $11.1 million for the year ended December 31, 2019 to $5.4 million for the year ended December 31, 2020, primarily due to lower provision of services after the discontinuation of our distribution of Seroquel.

Cost of sales decreased by 6.7% from $77.3 million for the year ended December 31, 2019 to $72.2 million for the year ended December 31, 2020, primarily due to the discontinuation of our distribution of Seroquel. Additionally, our revenue increased at a higher rate than cost of sales due to an increased proportion of sales of higher margin She Xiang Bao Xin pills.

Selling expenses increased by 1.2% from $110.6 million for the year ended December 31, 2019 to $111.9 million for the year ended December 31, 2020, in line with the increase in revenues.

Administrative expenses increased by 21.3% from $14.8 million for the year ended December 31, 2019 to $17.9 million for the year ended December 31, 2020, primarily due to an increase in research and development expenses for new products.

Taxation charge decreased by 1.7% from $11.0 million for the year ended December 31, 2019 to $10.8 million for the year ended December 31, 2020, primarily due to more tax concessions received in the year ended December 31, 2020.

As a result of the foregoing, profit increased by 9.3% from $61.3 million for the year ended December 31, 2019 to $67.0 million for the year ended December 31, 2020. Our equity in earnings of equity investees contributed by this joint venture was $30.7 million and $33.5 million for the years ended December 31, 2019 and 2020, respectively.

Hutchison Baiyunshan

The following table shows a summary of the results of operations of Hutchison Baiyunshan for the years indicated. The consolidated financial statements of Hutchison Baiyunshan are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2020		2019	
	($'000)	%	($'000)	%
Revenue	232,368	100.0	215,403	100.0
Cost of sales	(115,564)	(49.7)	(100,279)	(46.6)
Selling expenses	(74,066)	(31.9)	(74,013)	(34.4)
Administrative expenses	(25,664)	(11.0)	(23,817)	(11.1)
Gain on return of land	84,667	36.4	—	—
Taxation charge	(16,494)	(7.1)	(3,634)	(1.7)
Profit attributable to equity holders of Hutchison Baiyunshan	91,276	39.3	19,792	9.2
Equity in earnings of equity investee attributable to our company	45,641	19.6	9,899	4.6

Hutchison Baiyunshan's revenue increased by 7.9% from $215.4 million for the year ended December 31, 2019 to $232.4 million for the year ended December 31, 2020, primarily due to an increase in sales of Banlangen, an anti-viral product, after the COVID-19 outbreak.

Cost of sales increased by 15.2% from $100.3 million for the year ended December 31, 2019 to $115.6 million for the year ended December 31, 2020, primarily due to an increase in raw material costs for Banlangen.

Selling expenses remained stable at $74.0 million and $74.1 million for the years ended December 31, 2019 and 2020, respectively.

Administrative expenses increased by 7.8% from $23.8 million for the year ended December 31, 2019 to $25.7 million for the year ended December 31, 2020, primarily due to an increase in general overhead costs incurred.

Taxation charge increased by 354% from $3.6 million for the year ended December 31, 2019 to $16.5 million for the year ended December 31, 2020, primarily due to a tax of $12.7 million on a one-time gain on return of land for the year ended December 31, 2020.

As a result of the foregoing and the one-time gain on return of land of $84.7 million related to land compensation received from the Guangzhou government, profit attributable to equity holders of Hutchison Baiyunshan increased by 361% from $19.8 million for the year ended December 31, 2019 to $91.3 million for the year ended December 31, 2020. Our equity in earnings of equity investees contributed by this joint venture was $9.9 million and $45.6 million for the years ended December 31, 2019 and 2020, respectively.

Nutrition Science Partners

Nutrition Science Partners became our consolidated subsidiary subsequent to December 9, 2019. The following table shows a summary of the results of operations of Nutrition Science Partners for the period indicated during which it was a non-consolidated joint venture. The consolidated financial statements of Nutrition Science Partners are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Period Ended December 9, 2019	
	($'000)	%
Revenue	—	—
Profit for the period	199	100.0
Equity in earnings of equity investee attributable to our company	100	50.0

Nutrition Science Partners had no revenues and a profit of $0.2 million for the period ended December 9, 2019. Our equity in earnings of equity investees contributed by this joint venture was income of $0.1 million for the period ended December 9, 2019.

For more information on the financial results of our non-consolidated joint ventures, see "—Key Components of Results of Operations— Equity in Earnings of Equity Investees."

Net Loss

As a result of the foregoing, our net loss increased from $103.7 million for the year ended December 31, 2019 to $115.5 million for the year ended December 31, 2020. Net loss attributable to our company increased from $106.0 million for the year ended December 31, 2019 to $125.7 million for the year ended December 31, 2020.

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

For a discussion of our results of operations for the year ended December 31, 2019 compared with the year ended December 31, 2018, see "Item 5. Operating and Financial Review and Prospects — A. Operating Results — Year Ended December 31, 2019 Compared to Year Ended December 31, 2018" of our annual report on Form 20-F for the fiscal year ended December 31, 2019, filed with the SEC on March 3, 2020.

B. Liquidity and Capital Resources.

To date, we have taken a multi-source approach to fund our operations, including through cash flows generated and dividend payments from our Other Ventures, service and milestone and upfront payments from our Oncology/Immunology collaboration partners, and bank borrowings. Since our founding, we have received various financial support from CK Hutchison in the form of undertakings for bank borrowings, as well as investments from other third parties, proceeds from our listings on the AIM market of the London Stock Exchange in 2006 and the Nasdaq Global Select Market in 2016 and our follow-on offerings in 2017 and 2020.

Our Oncology/Immunology operations have historically not generated significant profits or have operated at a net loss, as creating potential global first-in-class or best-in-class drug candidates requires a significant investment of resources over a prolonged period of time. As a result, we anticipate that we may need additional financing for our Oncology/Immunology operations in future periods. See Item 3.D. "Risk Factors—Risks Relating to Our Oncology/Immunology Operations and Development of Our Drug Candidates—Historically, our in house research and development division, known as our Oncology/Immunology operations, has not generated significant profits or has operated at a net loss. Our future profitability is dependent on the successful commercialization of our drug candidates."

As of December 31, 2020, we had cash and cash equivalents and short-term investments of $435.2 million and unutilized bank facilities of $69.4 million. Substantially all of our bank deposits are at major financial institutions, which we believe are of high credit quality. As of December 31, 2020, we had $26.9 million in bank loans, all of which was related to a term loan from HSBC. The total weighted average cost of bank borrowings for the year ended December 31, 2020 was 1.89% per annum. For additional information, see "—Loan Facilities."

Certain of our subsidiaries and non-consolidated joint ventures, including those registered as wholly foreign-owned enterprises in China, are required to set aside at least 10.0% of their after-tax profits to their general reserves until such reserves reach 50.0% of their registered capital. There is no fixed percentage of after-tax profit required to be set aside for the general reserves for our PRC joint ventures. Profit appropriated to the reserve funds for our subsidiaries and non-consolidated joint ventures incorporated in the PRC was approximately $15,000, $51,000 and $44,000 for the years ended December 31, 2018, 2019 and 2020, respectively. In addition, as a result of PRC regulations restricting dividend distributions from such reserve funds and from a company's registered capital, our PRC subsidiaries are restricted in their ability to transfer a certain amount of their net assets to us as cash dividends, loans or advances. This restricted portion amounted to $0.2 million as of December 31, 2020. Although we do not currently require any such dividends, loans or advances from our PRC subsidiaries to fund our operations, should we require additional sources of liquidity in the future, such restrictions may have a material adverse effect on our liquidity and capital resources. For more information, see Item 4.B. "Business Overview—Regulation—PRC Regulation of Foreign Currency Exchange, Offshore Investment and State-Owned Assets—Regulation on Investment in Foreign invested Enterprises—Regulation on Dividend Distribution."

In addition, our non-consolidated joint ventures held an aggregate of $89.1 million in cash and cash equivalents and no bank borrowings as of December 31, 2020. These cash and cash equivalents are only accessible by us through dividend payments from these joint ventures. The level of dividends declared by these joint ventures is subject to agreement each year between us and our joint venture partners based on the profitability and working capital needs of the joint ventures. As a result, we cannot guarantee that these joint ventures will continue to pay dividends to us in the future at the same rate we have enjoyed in the past, or at all, which may have a material adverse effect on our liquidity and capital resources. For more information, see Item 3.D. "Risk Factors—Risks Relating to Other Ventures and Sales of Our Commercial-stage Drug Candidates—As a significant portion of the operations of our Other Ventures is conducted through joint ventures, we are largely dependent on the success of our joint ventures and our receipt of dividends or other payments from our joint ventures for cash to fund our operations."

We believe that our current levels of cash and cash equivalents, short-term investments, along with cash flows from operations, dividend payments and unutilized bank borrowings, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may require additional financing in order to fund all of the clinical development efforts that we plan to undertake to accelerate the development of our clinical-stage drug candidates. For more information, see Item 3.D. "Risk Factors—Risks Relating to Our Financial Position and Need for Capital."

	Year Ended December 31,		
	2020	2019 ($'000)	2018
Cash Flow Data:			
Net cash used in operating activities	(62,066)	(80,912)	(32,847)
Net cash (used in)/generated from investing activities	(125,441)	119,028	43,752
Net cash generated from/(used in) financing activities	296,434	(1,493)	(8,231)
Net increase in cash and cash equivalents	108,927	36,623	2,674
Effect of exchange rate changes	5,546	(1,502)	(1,903)
Cash and cash equivalents at beginning of the year	121,157	86,036	85,265
Cash and cash equivalents at end of the year	235,630	121,157	86,036

Net Cash used in Operating Activities

Net cash used in operating activities was $80.9 million for the year ended December 31, 2019, compared to net cash used in operating activities of $62.1 million for the year ended December 31, 2020. The net change of $18.8 million was primarily attributable to an increase in dividends received from Shanghai Hutchison Pharmaceuticals and Hutchison Baiyunshan of $58.6 million from $28.1 million for the year ended December 31, 2019 to $86.7 million for the year ended December 31, 2020. The net change was partially offset by higher net losses, primarily due to an increase in research and development expenses of $36.6 million from $138.2 million for the year ended December 31, 2019 to $174.8 million for the year ended December 31, 2020.

Net cash used in operating activities was $32.8 million for the year ended December 31, 2018, compared to net cash used in operating activities of $80.9 million for the year ended December 31, 2019. The net change of $48.1 million was primarily attributable to the increase in net loss of $32.4 million from $71.3 million for the year ended December 31, 2018, which included our company's $15.0 million share of Nutrition Science Partner's non-cash impairment provision, to $103.7 million for the year ended December 31, 2019. Additionally, the net change was also a result of a decrease in dividends received from equity investees of $7.1 million from $35.2 million for the year ended December 31, 2018 to $28.1 million for the year ended December 31, 2019. The net change was partially offset by the effects of changes in working capital. In particular, there was a $26.0 million increase in other payables, accruals and advance receipts for the year ended December 31, 2019, as compared to a $16.3 million increase for the year ended December 31, 2018.

Net Cash (used in)/generated from Investing Activities

Net cash generated from investing activities was $119.0 million for the year ended December 31, 2019, compared to net cash used in investing activities of $125.4 million for the year ended December 31, 2020. The net change of $244.4 million was primarily attributable to a net withdrawal of deposits in short-term investments of $118.9 million for the year ended December 31, 2019 compared to a net deposit in short-term investments of $103.5 million for the year ended December 31, 2020. The net change was also attributable to a purchase of leasehold land of $11.6 million in Shanghai.

Net cash generated from investing activities was $43.8 million for the year ended December 31, 2018, compared to net cash generated from investing activities of $119.0 million for the year ended December 31, 2019. The net change of $75.2 million was primarily attributable to net withdrawal of deposits in short-term investments of $58.1 million for the year ended December 31, 2018 compared to the net withdrawal of deposits in short-term investments of $118.9 million for the year ended December 31, 2019. The net change was also attributable to the acquisition of 50% shareholding of Nutrition Science Partners held by our joint venture partner, which resulted in a net cash inflow of $8.7 million.

Net Cash generated from/(used in) Financing Activities

Net cash used in financing activities was $1.5 million for the year ended December 31, 2019, compared to net cash generated from financing activities of $296.4 million for the year ended December 31, 2020. The net change of $297.9 million was primarily attributable to net proceeds of $310.0 million from our follow-on offering in the United States in January 2020 and private placements in July 2020 and November 2020.

Net cash used in financing activities was $8.2 million for the year ended December 31, 2018, compared to net cash used in financing activities of $1.5 million for the year ended December 31, 2019. The net change of $6.7 million was primarily attributable to purchases of ADSs by our company for the settlement of certain equity awards totaling $0.3 million for the year ended December 31, 2019 as compared to $5.5 million for the year ended December 31, 2018, as well as the repayment of a $1.6 million loan to a non-controlling shareholder of a subsidiary in the year ended December 31, 2018.

Loan Facilities

In November 2018, our subsidiary Hutchison China MediTech (HK) Limited, or HCM HK, renewed a three-year revolving loan facility with HSBC. The facility amount of this loan is HK$234.0 million ($30.0 million) with an interest rate at the Hong Kong Inter-bank Offered Rate, or HIBOR, plus 0.85% per annum. This credit facility is guaranteed by us and includes certain financial covenant requirements. No amount was drawn from this loan facility as of December 31, 2020.

In August 2018, HCM HK entered into a credit facility agreement with each of Bank of America, N.A. and Deutsche Bank AG for the provision of unsecured credit facilities in the aggregate amount of HK$507.0 million ($65.0 million). The credit facility with Bank of America, N.A. is a HK$351.0 million ($45.0 million) revolving loan facility, with a term of 24 months and an interest rate at HIBOR plus 1.35% per annum. The credit facility with Deutsche Bank AG is a HK$156.0 million ($20.0 million) revolving loan facility with a term of 24 months and an interest rate at HIBOR plus 1.35% per annum. Each of these credit facilities expired in August 2020.

In February 2017, HCM HK entered into a credit facility agreement with each of Bank of America, N.A. and Deutsche Bank AG for the provision of unsecured credit facilities in the aggregate amount of HK$546.0 million ($70.0 million). The credit facility with Bank of America, N.A. included (i) a HK$156.0 million ($20.0 million) term loan facility and (ii) a HK$195.0 million ($25.0 million) revolving loan facility, both with a term of 18 months and an interest rate at HIBOR plus 1.25% per annum. The term loan was drawn from this credit facility in March 2017 and repaid and terminated in May 2018. The credit facility with Deutsche Bank AG included (i) a HK$78.0 million ($10.0 million) term loan facility and (ii) a HK$117.0 million ($15.0 million) revolving loan facility, both with a term of 18 months and an interest rate at HIBOR plus 1.25% per annum. The term loan was drawn from this credit facility in August 2017 and repaid and terminated in May 2018. Both revolving loan facilities were terminated in August 2018.

In November 2017, our subsidiary Hutchison China MediTech Finance Holdings Limited entered into facility agreements with Scotiabank (Hong Kong) Limited for the provision of unsecured credit facilities in the aggregate amount of HK$400.0 million ($51.3 million). The credit facilities included (i) a HK$210.0 million ($26.9 million) 3-year term loan facility and (ii) a HK$190.0 million ($24.4 million) 18-month revolving loan facility. The term loan bore interest at HIBOR plus 1.50% per annum. The revolving loan facility bore interest at HIBOR plus 1.25% per annum. These credit facilities were guaranteed by us and included certain financial covenant requirements. The term loan was drawn in May 2018 and was fully repaid in June 2019. The revolving loan facility expired in May 2019.

In May 2019, HCM HK entered into additional credit facility arrangements with HSBC for the provision of unsecured credit facilities in the aggregate amount of HK$400.0 million ($51.3 million). The 3-year credit facilities include (i) a HK$210.0 million ($26.9 million) term loan facility and (ii) a HK$190.0 million ($24.4 million) revolving loan facility, both with an interest rate at HIBOR plus 0.85% per annum. These credit facilities are guaranteed by us and include certain financial covenant requirements. In October 2019, we drew down HK$210.0 million ($26.9 million) from the term loan facility and as of December 31, 2020, no amount was drawn from the revolving loan facility.

In August 2020, HCM HK entered into a 24-month revolving credit facility with Deutsche Bank AG in the amount of HK$117.0 million ($15.0 million) with an interest rate of HIBOR plus 4.5% per annum. This revolving facility is guaranteed by us and includes certain financial covenant requirements. As of December 31, 2020, no amount was drawn from the revolving loan facility.

Our non-consolidated joint ventures Shanghai Hutchison Pharmaceuticals and Hutchison Baiyunshan had no bank borrowings outstanding as of December 31, 2020.

Capital Expenditures

We had capital expenditures of $6.4 million, $8.6 million and $19.6 million, for the years ended December 31, 2018, 2019 and 2020, respectively. Our capital expenditures during these periods were primarily used for the purchases of property, plant and equipment to expand the Hutchison MediPharma research facilities and the manufacturing facility in Suzhou, China, and acquiring leasehold land for a new large-scale manufacturing facility for innovative drugs in Shanghai, China. Our capital expenditures have been primarily funded by cash flows from operations and proceeds from our initial public and follow-on offerings in the United States and other equity offerings.

As of December 31, 2020, we had commitments for capital expenditures of approximately $5.1 million, primarily for the construction of the new manufacturing facility in Shanghai. We expect to fund these capital expenditures through cash flows from operations, bank borrowings and existing cash resources.

Our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals had capital expenditures of $5.2 million, $4.6 million and $2.4 million for the years ended December 31, 2018, 2019 and 2020, respectively. These capital expenditures were primarily related to the improvements of the production facilities in Shanghai. These capital expenditures were primarily funded through cash flows from operations of Shanghai Hutchison Pharmaceuticals.

Our non-consolidated joint venture Hutchison Baiyunshan had capital expenditures of $5.4 million, $3.4 million and $2.3 million for the years ended December 31, 2018, 2019 and 2020, respectively. These capital expenditures were primarily related to the construction and improvements of the production facilities in Guangzhou and Bozhou. These capital expenditures were primarily funded through cash flows from operations of Hutchison Baiyunshan.

C. Research and Development, Patents and Licenses, etc.

Full details of our research and development activities and expenditures are given in the “Business” and “Operating and Financial Review and Prospects” sections of this annual report above.

D. Trend Information.

Other than as described elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our revenue, income, profitability, liquidity or capital resources, or that would cause our reported financial information not necessarily to be indicative of future operation results or financial condition.

E. Off-balance Sheet Arrangements.

We do not currently or during the periods presented have any material off-balance sheet arrangements as defined under the rules of the SEC.

F. Tabular Disclosure of Contractual Obligations.

The following table sets forth our contractual obligations as of December 31, 2020. Our purchase obligations relate to property, plant and equipment that are contracted for but not yet paid. Our lease obligations primarily comprise future aggregate minimum lease payments in respect of various factories, warehouse, offices and other assets under non-cancellable lease agreements.

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			($’000)		
Bank borrowings	26,923	—	26,923	—	—
Interest on bank borrowings	393	277	116	—	—
Purchase obligations	5,053	5,053	—	—	—
Lease obligations	12,420	3,349	5,481	2,128	1,462
Total	44,789	8,679	32,520	2,128	1,462

Shanghai Hutchison Pharmaceuticals

The following table sets forth the contractual obligations of our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals as of December 31, 2020. Shanghai Hutchison Pharmaceuticals’ purchase obligations comprise capital commitments for property, plant and equipment contracted for but not yet paid. Shanghai Hutchison Pharmaceuticals’ lease obligations primarily comprise future aggregate minimum lease payments in respect of various offices under non-cancellable lease agreements.

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			($’000)		
Purchase obligations	902	902	—	—	—
Lease obligations	154	135	19	—	—
Total	1,056	1,037	19	—	—

Hutchison Baiyunshan

The following table sets forth the contractual obligations of our non-consolidated joint venture Hutchison Baiyunshan as of December 31, 2020. Hutchison Baiyunshan's purchase obligations comprise capital commitments for property, plant and equipment contracted for but not yet paid. Hutchison Baiyunshan's lease obligations primarily comprise future aggregate minimum lease payments in respect of various warehouses under non-cancellable lease agreements.

	Payment Due by Period				
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
			($'000)		
Purchase obligations	1,633	1,633	—	—	—
Lease obligations	905	598	307	—	—
Total	2,538	2,231	307	—	—

Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

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

The value of the renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the renminbi to the U.S. dollar. Under the revised policy, the renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in a more than 20% appreciation of the renminbi against the U.S. dollar in the following three years. Between July 2008 and June 2010, this appreciation halted, and the exchange rate between the renminbi and U.S. dollar remained within a narrow band. In June 2010, the PBOC announced that the PRC government would increase the flexibility of the exchange rate, and thereafter allowed the renminbi to appreciate slowly against the U.S. dollar within the narrow band fixed by the PBOC. At various times since then, the PBOC has significantly devalued the renminbi against the U.S. dollar. If we decide to convert renminbi 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 renminbi would have a negative effect on the U.S. dollar amounts available to us.

Credit Risk

Substantially all of our bank deposits are in major financial institutions, which we believe are of high credit quality. We limit the amount of credit exposure to any single financial institution. We make periodic assessments of the recoverability of trade and other receivables and amounts due from related parties. Our historical experience in collection of receivables falls within the recorded allowances, and we believe that we have made adequate provision for uncollectible receivables.

Interest Rate Risk

We have no significant interest-bearing assets except for bank deposits. Our exposure to changes in interest rates is mainly attributable to our bank borrowings, which bear interest at floating interest rates and expose us to cash flow interest rate risk. We have not used any interest rate swaps to hedge our exposure to interest rate risk. We have performed sensitivity analysis for the effects on our results for the year from changes in interest rates on floating rate borrowings. The sensitivity to interest rates used is based on the market forecasts available at the end of the reporting period and under the economic environments in which we operate, with other variables held constant. According to the analysis, the impact on our net loss of a 1.0% interest rate shift would be a maximum increase/decrease of $0.3 million for the year ended December 31, 2020.