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,					
	2019		2018		2017	
	$'000	%	$'000	%	$'000	%
Revenues	204,890	100.0	214,109	100.0	241,203	100.0
Cost of sales	(160,152)	(78.2)	(143,944)	(67.2)	(175,820)	(72.9)
Research and development expenses	(138,190)	(67.4)	(114,161)	(53.3)	(75,523)	(31.3)
Selling expenses	(13,724)	(6.7)	(17,736)	(8.3)	(19,322)	(8.0)
Administrative expenses	(39,210)	(19.1)	(30,909)	(14.4)	(23,955)	(9.9)
Other income/(expense)	5,281	2.6	5,986	2.8	(119)	(0.0)
Income tax expense	(3,274)	(1.6)	(3,964)	(1.9)	(3,080)	(1.3)
Equity in earnings of equity investees, net of tax	40,700	19.9	19,333	9.0	33,653	13.9
Net loss	(103,679)	(50.6)	(71,286)	(33.3)	(22,963)	(9.5)
Net loss attributable to our company	(106,024)	(51.7)	(74,805)	(34.9)	(26,737)	(11.1)

Segment Operating Profit/(Loss)

Our segment operating profit/(loss) represents net loss before interest expenses and income tax expenses.

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). Our subsidiary, Hutchison MediPharma, was granted Technology Advanced Service Enterprise status from January 1, 2010 to December 31, 2018, and has been successful in its application to renew its HNTE status from January 1, 2017 to December 31, 2019. Our non-consolidated joint ventures, Hutchison Baiyunshan and Shanghai Hutchison Pharmaceuticals, have been successful in their respective applications to renew their HNTE status from January 1, 2017 to December 31, 2019. Accordingly, these entities were subject to a preferential EIT rate of 15% for the years ended December 31, 2017, 2018 and 2019. Hutchison MediPharma (Suzhou) Limited, a wholly owned subsidiary of Hutchison MediPharma, has been successful in its application for the HNTE status in 2018 which will last three years from January 1, 2018 to December 31, 2020.

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. In March 2018, the Hong Kong two-tiered Profits Tax rates regime was signed into law 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, 2019 Compared to Year Ended December 31, 2018

Revenues

Our revenue decreased by 4.3% from $214.1 million for the year ended December 31, 2018 to $204.9 million for the year ended December 31, 2019, resulting from decreased revenue from our Innovation Platform.

Revenue from our Innovation Platform decreased by 57.4% from $37.6 million for the year ended December 31, 2018 to $16.0 million for the year ended December 31, 2019. The decrease was primarily due to the fact that the prior period included the milestone payment of $13.5 million that we received from Eli Lilly following the approval in September 2018 of Elunate in China for the treatment of metastatic colorectal cancer. The decrease was also due to a $7.0 million reduction in service fees from Nutrition Science Partners.

Revenue from our Commercial Platform increased by 7.0% from $176.5 million for the year ended December 31, 2018 to $188.9 million for the year ended December 31, 2019. The increase was primarily due to an increase in revenue from our Prescription Drugs business. Revenue from our Prescription Drugs business increased by 13.2% from $136.4 million for the year ended December 31, 2018 to $154.5 million for year ended December 31, 2019 primarily due to increased sales by our consolidated joint venture Hutchison Sinopharm, despite the depreciation of the renminbi against the U.S. dollar by approximately 5% between the periods (using the weighted average monthly exchange rate for the periods). The increase was also due to the $7.2 million increase in sales and royalties from the commercial sale of Elunate for the year ended December 31, 2019. Such growth was partially offset by a decrease in Seroquel revenues of $21.9 million after the discontinuation of our distribution of Seroquel in May 2019 due to the purported termination by Luye Pharma Hong Kong Ltd. of our Seroquel distribution agreement with them. See Item 4.B. “Business Overview—Our Commercial Platform—Prescription Drug Business—Hutchison Sinopharm” for further details regarding the current status of our Seroquel marketing and distribution rights.

Revenue from our Consumer Health business decreased by 14.1% from $40.1 million for the year ended December 31, 2018 to $34.4 million for the year ended December 31, 2019, which was primarily attributable to decreased sales of consumer products in Hong Kong.

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

Cost of Sales

Our cost of sales increased by 11.3% from $143.9 million for the year ended December 31, 2018 to $160.2 million for the year ended December 31, 2019. This increase was primarily due to higher costs of goods of $23.0 million due to increased sales by our Commercial Platform businesses, offset in part by a decrease in costs of services of $6.7 million due to the aforementioned discontinuation of our distribution of Seroquel. Our cost of sales increased at a higher rate than revenue from our Commercial Platform due to a decreased proportion of sales of higher margin products and services including Seroquel in 2019 compared to 2018. As a result, cost of sales as a percentage of our revenue from our Commercial Platform increased from 81.6% to 84.8% across these periods.

Research and Development Expenses

Our research and development expenses increased by 21.0% from $114.2 million for the year ended December 31, 2018 to $138.2 million for the year ended December 31, 2019, which was primarily attributable to a $14.1 million increase in payments to CROs and other clinical trial related costs and a $10.9 million increase in employee compensation related costs. These increased costs incurred by our Innovation Platform were due to a significant expansion of clinical activities and rapid organizational growth to support such expansion. In particular, this increase was attributable to the expansion of the savolitinib, fruquintinib, surufatinib, HMPL-523 and HMPL-689 development programs. As a result, research and development expenses as a percentage of our revenue increased from 53.3% to 67.4% across these periods.

Selling Expenses

Our selling expenses decreased by 22.6% from $17.7 million for the year ended December 31, 2018 to $13.7 million for the year ended December 31, 2019. This decrease was primarily due to the aforementioned discontinuation of our distribution of Seroquel. Selling expenses as a percentage of our revenue from our Commercial Platform decreased from 10.1% to 7.3% across these periods.

Administrative Expenses

Our administrative expenses increased by 26.9% from $30.9 million for the year ended December 31, 2018 to $39.2 million for the year ended December 31, 2019. This was primarily due to a $5.0 million increase in administrative expenses incurred by our corporate head office for the organizational expansion and increased professional fees associated with equity capital market transactions. There was also an increase of $2.5 million in administrative expenses incurred by our Innovation Platform, which was mainly for increased staff costs to support the expansion of our clinical activities. Administrative expenses as a percentage of our revenue increased from 14.4% to 19.1% across these periods.

Other Income

We had net other income of $6.0 million for the year ended December 31, 2018, compared to net other income of $5.3 million for the year ended December 31, 2019. The decrease was primarily due to a decline in interest income of $1.0 million from lower amounts of cash, cash equivalents and short-term investments.

Income Tax Expense

Our income tax expense decreased by 17.4% from $4.0 million for the year ended December 31, 2018 to $3.3 million for the year ended December 31, 2019 primarily due to a lower level of taxable income generated by our Commercial Platform subsidiaries.

Equity in Earnings of Equity Investees

Our equity in earnings of equity investees, net of tax, increased by 110.5% from $19.3 million for the year ended December 31, 2018 to $40.7 million for the year ended December 31, 2019. This change was primarily due to the fact that Nutrition Science Partners had no operating activity in 2019 and the prior period included the full impairment provision of Nutrition Science Partners’ intangible assets of which our attributable portion was $15.0 million.

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,			
	2019		2018	
	($'000)	%	($'000)	%
Revenue	272,082	100.0	275,649	100.0
Cost of sales	(77,313)	(28.4)	(82,710)	(30.0)
Selling expenses	(110,591)	(40.6)	(111,984)	(40.6)
Administrative expenses	(14,761)	(5.4)	(14,522)	(5.3)
Taxation charge	(11,015)	(4.0)	(9,371)	(3.4)
Profit for the year	61,301	22.5	59,767	21.7
Equity in earnings of equity investee attributable to our company	30,654	11.3	29,884	10.8

Shanghai Hutchison Pharmaceuticals' revenue decreased by 1.3% from $275.7 million for the year ended December 31, 2018 to $272.1 million for the year ended December 31, 2019, which was primarily due to the depreciation of the renminbi against the U.S. dollar by approximately 4% between the periods (using the weighted average monthly exchange rate for the periods). Additionally, distribution business sales and service revenue decreased by 52.0% from $23.1 million for the year ended December 31, 2018 to $11.1 million for the year ended December 31, 2019, primarily due to the lower provision of services from the aforementioned discontinuation of our distribution of Seroquel. The decrease was offset by 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 2.7% from $233.1 million for the year ended December 31, 2018 to $239.5 million for the year ended December 31, 2019, primarily due to continued geographical expansion of sales coverage.

Cost of sales decreased by 6.5% from $82.7 million for the year ended December 31, 2018 to $77.3 million for the year ended December 31, 2019, primarily due to decreased cost of goods sold as a result of decreased distribution business sales and service revenue.

Selling expenses during these periods decreased by 1.2% from $112.0 million for the year ended December 31, 2018 to $110.6 million for the year ended December 31, 2019 in line with the decrease in sales.

Administrative expenses increased by 1.6% from $14.5 million for the year ended December 31, 2018 to $14.8 million for the year ended December 31, 2019 due to an increase in general overhead costs incurred.

Taxation charge increased by 17.5% from $9.3 million for the year ended December 31, 2018 to $11.0 million for the year ended December 31, 2019. This was primarily due to the recognition of $0.7 million deferred tax assets on temporary differences in the year ended December 31, 2018, arising from advertising and promotion expenditures incurred prior to 2018.

As a result of the foregoing, profit increased by 2.6% from $59.8 million for the year ended December 31, 2018 to $61.3 million for the year ended December 31, 2019. Our equity in earnings of equity investees contributed by this joint venture was $29.9 million and $30.7 million for the years ended December 31, 2018 and 2019, 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,			
	2019		2018	
	($'000)	%	($'000)	%
Revenue	215,403	100.0	215,838	100.0
Cost of sales	(100,279)	(46.6)	(102,701)	(47.6)
Selling expenses	(74,013)	(34.4)	(70,501)	(32.7)
Administrative expenses	(23,817)	(11.1)	(25,997)	(12.0)
Taxation charge	(3,634)	(1.7)	(4,227)	(2.0)
Profit attributable to equity holders of Hutchison Baiyunshan	19,792	9.2	16,860	7.8
Equity in earnings of equity investee attributable to our company	9,899	4.6	8,430	3.9

Hutchison Baiyunshan's revenue decreased slightly from $215.8 million for the year ended December 31, 2018 to $215.4 million for the year ended December 31, 2019 due to a decrease in sales of Fu Fang Dan Shen due to heightened competitive activity, offset by the increase of sales of Hutchison Baiyunshan's other products.

Cost of sales decreased by 2.4% from $102.7 million for the year ended December 31, 2018 to $100.3 million for the year ended December 31, 2019 due to the decrease in sales.

Selling expenses increased by 5.0% from $70.5 million for the year ended December 31, 2018 to $74.0 million for the year ended December 31, 2019 due to Hutchison Baiyunshan managing more marketing activities directly for its distributors in order to promote broader awareness and consistent messaging for Hutchison Baiyunshan's products.

Administrative expenses decreased by 8.4% from $26.0 million for the year ended December 31, 2018 to $23.8 million for the year ended December 31, 2019 due to a decrease in general overhead costs incurred.

Taxation charge decreased by 14.0% from $4.2 million for the year ended December 31, 2018 to $3.6 million for the year ended December 31, 2019. This decline is primarily due to the reversal of deferred tax assets previously recognized of $0.7 million for the year ended December 31, 2018 based on the likelihood of such asset being utilized in the near future.

As a result of the foregoing, profit attributable to equity holders of Hutchison Baiyunshan increased by 17.4% from $16.9 million for the year ended December 31, 2018 to $19.8 million for the year ended December 31, 2019. Our equity in earnings of equity investees contributed by this joint venture was $8.4 million and $9.9 million for the years ended December 31, 2018 and 2019, respectively.

Nutrition Science Partners

The following table shows a summary of the results of operations of Nutrition Science Partners for the period/year indicated. 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,		Year Ended December 31,	
	2019		2018	
	($'000)	%	($'000)	%
Revenue	—	—	—	—
Profit/(loss) for the period/year	199	100.0	(38,198)	100.0
Equity in earnings of equity investee attributable to our company	100	50.0	(19,099)	50.0

Nutrition Science Partners had a loss of $38.2 million for the year ended December 31, 2018, compared to profit of $0.2 million for the period ended December 9, 2019. Nutrition Science Partners had no revenue during these years. The change was primarily due to the fact that Nutrition Science Partners had no operating activity in 2019 and the prior period included the full impairment provision of Nutrition Science Partners' intangible assets of which our attributable portion was $15.0 million. Our equity in earnings of equity investees contributed by this joint venture was a loss of $19.1 million for the year ended December 31, 2018, compared to 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 $71.3 million for the year ended December 31, 2018 to $103.7 million for the year ended December 31, 2019. Net loss attributable to our company increased from $74.8 million for the year ended December 31, 2018 to $106.0 million for the year ended December 31, 2019.

Segment Operating Loss

Our segment operating loss increased from $66.3 million for the year ended December 31, 2018 to $99.4 million for the year ended December 31, 2019 which was primarily due to an increase in the operating loss of our Innovation Platform from $104.6 million for the year ended December 31, 2018 to $133.3 million for the year ended December 31, 2019. The increase in the operating loss of our Innovation Platform across these periods was primarily due to a significant expansion of our clinical activities and an increase in the number of staff and other organizational growth to support such expansion.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

Our revenue decreased by 11.2% from $241.2 million for the year ended December 31, 2017 to $214.1 million for the year ended December 31, 2018, resulting from decreased revenue from our Commercial Platform.

Revenue from our Commercial Platform decreased by 14.0% from $205.2 million for the year ended December 31, 2017 to $176.5 million for the year ended December 31, 2018, primarily due to a decrease in revenue from our Prescription Drugs business. Revenue from our Prescription Drugs business decreased by 18.0% from $166.4 million for the year ended December 31, 2017 to $136.4 million for year ended December 31, 2018, primarily due to the implementation of the two-invoice system in China since October 2017. As a result, we started recording the service fees we earn from the distribution of certain third-party drugs instead of recording the gross sales of such products as we had done previously. The impact was offset by the $3.6 million increase in sales and royalties revenue of Elunate following its commercial launch at the end of 2018. Revenue from our Consumer Health business increased by 3.3% from $38.8 million for the year ended December 31, 2017 to $40.1 million for the year ended December 31, 2018, which was primarily attributable to increased sales of the Zhi Ling Tong infant nutrition and other health supplement products.

Revenue from our Innovation Platform increased by 4.6% from $36.0 million for the year ended December 31, 2017 to $37.6 million for the year ended December 31, 2018. The increase was attributable to a higher level of milestone payments that we received from our collaboration partners, including the milestone payment of $13.5 million that we received from Eli Lilly following the approval in September 2018 of fruquintinib for drug registration in China for the treatment of metastatic colorectal cancer patients.

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

Cost of Sales

Our costs of sales decreased by 18.1% from $175.8 million for the year ended December 31, 2017 to $143.9 million for the year ended December 31, 2018. This decrease was in line with the decrease in our Commercial Platform revenue across these periods. Costs of sales as a percentage of our revenue from our Commercial Platform decreased from 85.7% to 81.6% across these periods due to the change to recording more services fees and to selling fewer lower margin third-party drugs.

Research and Development Expenses

Our research and development expenses increased by 51.2% from $75.5 million for the year ended December 31, 2017 to $114.2 million for the year ended December 31, 2018, which was primarily attributable to a $28.4 million increase in payments to CROs and other clinical trial related costs and a $10.5 million increase in employee compensation related costs. These increased costs incurred by our Innovation Platform were due to a significant expansion of clinical activities and rapid organizational growth to support such expansion. In particular, this increase was attributable to the expansion of the surufatinib, HMPL-523 and fruquintinib development programs. As a result, research and development expenses as a percentage of our revenue increased from 31.3% to 53.3% across these periods.

Selling Expenses

Our selling expenses decreased by 8.2% from $19.3 million for the year ended December 31, 2017 to $17.7 million for the year ended December 31, 2018. This decrease was primarily driven by a $3.0 million decrease in selling expenses under our Prescription Drugs business as the implementation of the two-invoice system caused us to start recording the costs associated with the service fees we earn from the distribution of certain third-party drugs as costs of sales instead of selling expenses as we had done previously. Selling expenses as a percentage of our revenue from our Commercial Platform increased slightly from 9.4% to 10.1% across these periods primarily due to the decrease in our Commercial Platform revenue.

Administrative Expenses

Our administrative expenses increased by 29.0% from $24.0 million for the year ended December 31, 2017 to $30.9 million for the year ended December 31, 2018. This increase was primarily due to a $3.0 million increase in administrative expenses incurred by our Innovation Platform, which mainly related to the increased staff cost to support the rapid expansion of our clinical activities and increased office expenses as we started to rent a new research and development facility in Shanghai in early 2018. Administrative expenses as a percentage of our revenue increased from 9.9% to 14.4% across these periods.

Other Income/Expenses

We had other expenses of $0.1 million for the year ended December 31, 2017, compared to other income of $6.0 million for the year ended December 31, 2018, primarily due to a higher level of interest income earned from the proceeds received from our follow-on offering in October 2017, which increased from $1.2 million for the year ended December 31, 2017 to $6.0 million for the year ended December 31, 2018. In addition, the increase in other income also resulted from the receipt of a new government grant by Hutchison Sinopharm as well as higher payments to us by the depositary bank which administers our ADS program in the year ended December 31, 2018 due to a higher number of our ADSs issued and eligible for compensation under the program.

Our interest expense decreased from $1.5 million for the year ended December 31, 2017 to $1.0 million for the year ended December 31, 2018, primarily due to a decrease in the guarantee fee payments on bank loans from $0.3 million in the year ended December 31, 2017 to nil in the year ended December 31, 2018.

Income Tax Expense

Our income tax expense increased by 28.7% from $3.1 million for the year ended December 31, 2017 to $4.0 million for the year ended December 31, 2018 primarily due to a higher level of taxable income from our Commercial Platform.

Equity in Earnings of Equity Investees

Our equity in earnings of equity investees, net of tax, decreased by 42.6% from $33.7 million for the year ended December 31, 2017 to $19.3 million for the year ended December 31, 2018. This decrease was primarily due to an increase in net loss at Nutrition Science Partners, our Innovation Platform's non-consolidated joint venture.

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,			
	2018		2017	
	($'000)	%	($'000)	%
Revenue	275,649	100.0	244,557	100.0
Cost of sales	(82,710)	(30.0)	(68,592)	(28.0)
Selling expenses	(111,984)	(40.6)	(104,504)	(42.7)
Administrative expenses	(14,522)	(5.3)	(13,257)	(5.4)
Taxation charge	(9,371)	(3.4)	(10,874)	(4.4)
Profit for the year	59,767	21.7	55,623	22.7
Equity in earnings of equity investee attributable to our company	29,884	10.8	27,812	11.4

Shanghai Hutchison Pharmaceuticals' revenue increased by 12.7% from $244.6 million for the year ended December 31, 2017 to $275.7 million for the year ended December 31, 2018, which was primarily due to increased sales of She Xiang Bao Xin pills, a vasodilator used in the treatment of heart conditions. Sales of She Xiang Bao Xin pills grew by 11.4% from $209.2 million for the year ended December 31, 2017 to $233.1 million for the year ended December 31, 2018, primarily due to continued price increases and geographical expansion of sales coverage. Additionally, distribution business sales and service revenue increased by 27.6% from $18.1 million for the year ended December 31, 2017 to $23.1 million for the year ended December 31, 2018, primarily due to the higher provision of services from increased sales of Seroquel.

Cost of sales increased by 20.6% from $68.6 million for the year ended December 31, 2017 to $82.7 million for the year ended December 31, 2018, primarily due to increased cost of goods sold as a result of increased sales of She Xiang Bao Xin pills and distribution business sales and service revenue.

Selling expenses during these periods increased by 7.2% from $104.5 million for the year ended December 31, 2017 to $112.0 million for the year ended December 31, 2018 as a result of increased spending on marketing and promotional activities to support the increase in sales.

Administrative expenses increased by 9.5% from $13.3 million for the year ended December 31, 2017 to $14.5 million for the year ended December 31, 2018 due to an increase in general overhead costs incurred.

Taxation charge decreased by 13.8% from $10.9 million for the year ended December 31, 2017 to $9.3 million for the year ended December 31, 2018, which was due to lower taxable profit primarily resulting from an increase of tax deductible research and development expenses of $0.4 million as well as the recognition of $0.7 million deferred tax assets on temporary differences arising from advertising and promotion expenditures incurred prior to 2018.

As a result of the foregoing, profit increased by 7.5% from $55.6 million for the year ended December 31, 2017 to $59.8 million for the year ended December 31, 2018. Our equity in earnings of equity investees contributed by this joint venture was $27.8 million and $29.9 million for the years ended December 31, 2017 and 2018, 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,			
	2018		2017	
	($'000)	%	($'000)	%
Revenue	215,838	100.0	227,422	100.0
Cost of sales	(102,701)	(47.6)	(135,964)	(59.8)
Selling expenses	(70,501)	(32.7)	(45,262)	(19.9)
Administrative expenses	(25,997)	(12.0)	(24,541)	(10.8)
Taxation charge	(4,227)	(2.0)	(3,629)	(1.6)
Profit attributable to equity holders of Hutchison Baiyunshan	16,860	7.8	20,776	9.1
Equity in earnings of equity investee attributable to our company	8,430	3.9	10,388	4.6

Hutchison Baiyunshan's revenue decreased by 5.1% from $227.4 million for the year ended December 31, 2017 to $215.8 million for the year ended December 31, 2018 due to the divestment of one of its subsidiaries in September 2017, which was partially offset by a moderate to severe flu season and the elimination of manufacturing capacity constraints which increased sales of certain of its drug products in 2018.

Cost of sales decreased by 24.5% from $136.0 million for the year ended December 31, 2017 to $102.7 million for the year ended December 31, 2018, primarily due to the divestment of one of its subsidiaries in September 2017.

Selling expenses during these periods increased by 55.8% from $45.3 million for the year ended December 31, 2017 to $70.5 million for the year ended December 31, 2018 due to Hutchison Baiyunshan directly managing more marketing activities for its distributors in order to promote broader awareness and consistent messaging for Hutchison Baiyunshan's products.

Administrative expenses increased by 5.9% from $24.5 million for the year ended December 31, 2017 to $26.0 million for the year ended December 31, 2018 due to an increase in general overhead costs incurred.

Taxation charge increased by 16.5% from $3.6 million for the year ended December 31, 2017 to $4.2 million for the year ended December 31, 2018 which includes reductions to deferred tax assets of $0.7 million for the year ended December 31, 2018 based on the likelihood of such asset being utilized in the near future.

As a result of the foregoing, profit attributable to equity holders of Hutchison Baiyunshan decreased by 18.8% from $20.8 million for the year ended December 31, 2017 to $16.9 million for the year ended December 31, 2018. Our equity in earnings of equity investees contributed by this joint venture was $10.4 million and $8.4 million for the years ended December 31, 2017 and 2018, respectively.

Nutrition Science Partners

The following table shows a summary of the results of operations of Nutrition Science Partners for the years indicated. 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.

	Year Ended December 31,			
	2018		2017	
	($'000)	%	($'000)	%
Revenue	—	—	—	—
Loss for the year	(38,198)	100.0	(9,210)	100.0
Equity in earnings of equity investee attributable to our company	(19,099)	50.0	(4,605)	50.0

Nutrition Science Partners had losses of $9.2 million and $38.2 million for the years ended December 31, 2017 and 2018, respectively. Nutrition Science Partners had no revenue during these years. The increase in net loss across these periods was primarily attributable the full impairment provision recorded for its $30.0 million intangible asset related to in-progress research and development projects. Our equity in earnings of equity investees contributed by this joint venture were losses of $4.6 million and $19.1 million for the years ended December 31, 2017 and 2018, respectively.

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 $23.0 million for the year ended December 31, 2017 to $71.3 million for the year ended December 31, 2018. Net loss attributable to our company increased from $26.7 million for the year ended December 31, 2017 to $74.8 million for the year ended December 31, 2018.

Segment Operating Loss

Our segment operating loss increased from $18.4 million for the year ended December 31, 2017 to $66.3 million for the year ended December 31, 2018, as a result of a significant increase in the operating loss of our Innovation Platform from $52.0 million for the year ended December 31, 2017 to $104.6 million for the year ended December 31, 2018, partially offset by a slight increase in operating profit of our Commercial Platform from $45.1 million for the year ended December 31, 2017 to $49.0 million for the year ended December 31, 2018. The increase in the operating loss of our Innovation Platform across these periods was primarily due to a significant expansion of our clinical activities and an increase in the number of staff and other organizational growth to support such expansion.

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 Commercial Platform, service and milestone and upfront payments from our Innovation Platform's 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 Innovation Platform has historically not generated significant profits or has 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 Innovation Platform in future periods. See Item 3.D. "Risk Factors—Risks Relating to Our Innovation Platform and Development of Our Drug Candidates—Historically, our in house research and development division, known as our Innovation Platform, 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, 2019, we had cash and cash equivalents and short-term investments of $217.2 million and unutilized bank facilities of $119.3 million. Substantially all of our bank deposits are at major financial institutions, which we believe are of high credit quality. As of December 31, 2019, we had $26.8 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, 2019 was 3.30% 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 $10,000, $15,000 and $51,000 for the years ended December 31, 2017, 2018 and 2019, 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 $0.3 million as of December 31, 2019. 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 $62.7 million in cash and cash equivalents and no bank borrowings as of December 31, 2019. 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 Our Commercial Platform and Sales of Our Commercial-stage Drug Candidates—As a significant portion of our Commercial Platform business, which consists of our Prescription Drugs and Consumer Health divisions, 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 at our Innovation Platform 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,		
	2019	2018	2017
		($'000)	
Cash Flow Data:			
Net cash used in operating activities	(80,912)	(32,847)	(8,943)
Net cash generated from/(used in) investing activities	119,028	43,752	(260,780)
Net cash (used in)/generated from financing activities	(1,493)	(8,231)	273,196
Net increase in cash and cash equivalents	36,623	2,674	3,473
Effect of exchange rate changes	(1,502)	(1,903)	2,361
Cash and cash equivalents at beginning of the year	86,036	85,265	79,431
Cash and cash equivalents at end of the year	121,157	86,036	85,265

Net Cash used in Operating Activities

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 operating activities was $8.9 million for the year ended December 31, 2017, compared to net cash used in operating activities of $32.8 million for the year ended December 31, 2018. The net change of $23.9 million was primarily attributable to the increase in net loss of $48.3 million from $23.0 million for the year ended December 31, 2017 to $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. See Item 4.B. "Business Overview—Overview of Our Collaborations—Nestlé Health Science" for more details relating to this impairment provision. Additionally, the net change was also a result of a decrease in dividends received from equity investees of $20.4 million from $55.6 million for the year ended December 31, 2017 to $35.2 million for the year ended December 31, 2018, which resulted from the relatively high level of dividends received from our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals in the year ended December 31, 2017 following the one-time land compensation that it received from the Shanghai government. The net change was partially offset by the effects of changes in working capital. In particular, there was a $16.3 million increase in other payables, accruals and advance receipts for the year ended December 31, 2018, as compared to $5.2 million increase for the year ended December 31, 2017, and a $1.3 million increase in accounts payable for the year ended December 31, 2018, as compared to a $11.2 million decrease for the year ended December 31, 2017.

Net Cash generated from/(used in) Investing Activities

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 used in investing activities was $260.8 million for the year ended December 31, 2017, compared to net cash generated from investing activities of $43.8 million for the year ended December 31, 2018. The net change of $304.6 million was primarily attributable to the net deposits into short-term investments of $248.8 million for the year ended December 31, 2017 compared to net withdrawal of deposits in short-term investments of $58.1 million for the year ended December 31, 2018.

Net Cash (used in)/generated from Financing Activities

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.

Net cash generated from financing activities was $273.2 million for the year ended December 31, 2017, compared to net cash used in financing activities of $8.2 million for the year ended December 31, 2018. The net change of $281.4 million was primarily attributable to net proceeds of $292.7 million from the issuance of ordinary shares in the form of ADSs upon our follow-on offering in the Unites States in October 2017, as well as a net repayment of bank borrowings of $16.9 million in the year ended December 31, 2017, as compared to a net repayment of bank borrowings of $3.1 million in the year ended December 31, 2018.

Loan Facilities

In November 2015, our subsidiary Hutchison China MediTech (HK) Limited, or HCM HK, renewed a three-year revolving loan facility with HSBC with an interest rate at the Hong Kong Inter-bank Offered Rate, or HIBOR, plus 1.25% per annum. Upon maturity in November 2018, HCM HK further renewed this revolving loan facility for a further three years to November 2021. The facility amount of this loan is HK$234.0 million ($30.0 million) with an interest rate at 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, 2019.

In August 2018, HCM HK entered into a credit facility agreement with each of Bank of America, N.A. and Deutsche Bank AG, Hong Kong Branch 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, Hong Kong Branch 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. These credit facilities are guaranteed by us and include certain financial covenant requirements. As of December 31, 2019, no amount was drawn from either of these two revolving loan facilities.

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, 2019, 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, 2019. Nutrition Science Partners had no bank borrowings as of December 9, 2019.

Capital Expenditures

We had capital expenditures of $5.0 million, $6.4 million and $8.6 million for the years ended December 31, 2017, 2018 and 2019, 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, which produces commercial and clinical supplies of our drug candidates. 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.

As of December 31, 2019, we had commitments for capital expenditures of approximately $1.5 million, primarily for purchases of property, plant and equipment to expand the Hutchison MediPharma research facilities and the Suzhou manufacturing facility. We expect to fund these capital expenditures through cash flows from operations and existing cash resources.

Our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals had capital expenditures (net of government subsidies) of $6.2 million, $5.2 million and $4.6 million for the years ended December 31, 2017, 2018 and 2019, respectively. These capital expenditures were primarily related to the improvements of the production facilities in Feng Pu district 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 $7.2 million, $5.4 million and $3.4 million for the years ended December 31, 2017, 2018 and 2019, respectively. These capital expenditures were primarily related to the construction and improvements of the production facilities in Bozhou and an office building in Guangzhou. 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.

Other than some of the operating lease obligations set forth in the table below, we did not have during the periods presented, and we do not currently have, any 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, 2019. 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 and 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)		
Bank borrowings	26,923	—	26,923	—	—
Interest on bank borrowings	2,288	947	1,341	—	—
Purchase obligations	1,502	1,502	—	—	—
Lease obligations	7,962	3,715	2,773	1,474	—
Total	38,670	6,164	31,037	1,474	—

Shanghai Hutchison Pharmaceuticals

The following table sets forth the contractual obligations of our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals as of December 31, 2019. 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	1,116	1,116	—	—	—
Lease obligations	561	460	101	—	—
Total	1,677	1,576	101	—	—

Hutchison Baiyunshan

The following table sets forth the contractual obligations of our non-consolidated joint venture Hutchison Baiyunshan as of December 31, 2019. 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	1,310	1,310	—	—	—
Lease obligations	1,669	671	998	—	—
Total	2,979	1,981	998	—	—

Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

Substantially all of our revenue and expenses are denominated in renminbi, and our 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 $0.2 million for the year ended December 31, 2019.

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the Consumer Price Index in China increased by 1.8%, 1.9% and 4.5% in 2017, 2018 and 2019, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board, or FASB, issued ASU 2016-02, Leases (Topic 842), or ASU 2016-02. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize on the balance sheet a liability to make lease payments (the lease liability) and a right of use asset representing its right to use the underlying asset for the lease term. We elected the short-term lease exception to not recognize right-of-use assets and lease liabilities for leases with a term of 12 months or less and will recognize lease expense for such leases generally on a straight line basis over the lease term. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. We adopted the new standard using the optional transition method (from ASU 2018-11, Leases Targeted Improvements) on January 1, 2019. A gross up to the consolidated balance sheet was recognized on the date of adoption of $5.7 million and $6.4 million in right-of-use assets and lease liabilities respectively, primarily related to our various factories and offices under non-cancellable lease agreements that were accounted as operating leases under ASC 840, Leases (Topic 840) as at December 31, 2019. Additionally, we do not expect a significant impact to the consolidated statements of operations after the adoption of ASC 842 as the pattern of expense recognition should not change materially for such operating leases.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, or ASU 2016-13, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss, or CECL, methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including accounts receivable and other receivables. We do not expect ASU 2016-13 to have a material impact to the consolidated financial statements.

Other amendments that have been issued by the FASB or other standards setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.