石藥集團有限公司
CSPC PHARMACEUTICAL GROUP LIMITED
(Stock Code : 1093)

2021
Annual Report

Contents

Corporate Information

Board of Directors

Executive Directors:

CAI Dongchen *(Chairman and CEO)*
ZHANG Cuilong *(Vice-Chairman and Rotating CEO)*
WANG Zhenguo
PAN Weidong
WANG Huaiyu
LI Chunlei
WANG Qingxi
CHAK Kin Man
JIANG Hao

Independent Non-executive Directors:

WANG Bo
CHEN Chuan
WANG Hongguang
AU Chun Kwok Alan
LAW Cheuk Kin Stephen

Audit Committee

AU Chun Kwok Alan *(Chairman)*
WANG Bo
CHEN Chuan

Nomination Committee

CAI Dongchen *(Chairman)*
WANG Bo
CHEN Chuan

Remuneration Committee

AU Chun Kwok Alan *(Chairman)*
WANG Bo
CHEN Chuan

Company Secretary

LO Tai On

Registered Office

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Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

Share Registrar

Tricor Secretaries Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Stock Exchange

The Stock Exchange of Hong Kong Limited

Stock Code

1093

Website

www.cspc.com.hk

Financial Highlights

	2021	2020	Change
(in RMB'000, unless otherwise stated)			
Revenue by business units:			
Finished drugs	**22,681,444**	20,404,678	11.2%
Bulk products	**3,819,209**	3,231,911	18.2%
Functional food and others	**1,366,217**	1,305,615	4.6%
Total revenue	**27,866,870**	24,942,204	11.7%
Underlying profit attributable to shareholders *(Note 1)*	**5,400,168**	4,347,883	24.2%
Fair value changes on financial assets measured at FVTPL	**167,652**	506,375	
Gain on disposal of a joint venture	**24,273**	–	
Gain on deemed disposal of partial interest in an associate	**13,092**	37,192	
Gain on disposal of subsidiaries	**–**	287,243	
Loss on deemed disposal of a subsidiary	**–**	(19,038)	
Profit attributable to shareholders	**5,605,185**	5,159,655	8.6%
Basic earnings per share *(RMB cents)*	**46.89**	43.16	8.6%
Final dividend per share *(HK cents)*	**10.00**	9.00	11.1%
Full-year dividend per share *(HK cents)*	**18.00**	12.75 *(Note 2)*	41.2%

Note 1: *Underlying profit attributable to shareholders, a non-HKFRS measure, represents profit before taking into account (i) fair value changes on financial assets measured at FVTPL and (ii) certain one-off gains or loss, net of tax.*

Note 2: *The amount includes interim dividend of HK3.75 cents, which represents the amount of 2020 interim dividend after adjustment for the effect of the issue of bonus shares on 29 October 2020 for comparison purpose.*

Chairman's Statement

Results

For the financial year ended 31 December 2021, the revenue of the Group grew by 11.7% to RMB27,867 million. The profit attributable to shareholders increased by 8.6% to RMB5,605 million. Basic earnings per share increased similarly to RMB46.89 cents.

The Group's underlying profit attributable to shareholders, excluding the fair value changes on financial assets measured at fair value through profit or loss and certain one-off gains or loss, amounted to RMB5,400 million, an increase of 24.2% as compared to 2020.

Dividend

The Board of Directors recommended a final dividend of HK10 cents per share for 2021. Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be payable on 22 June 2022 to shareholders whose names appear on the register of members on 7 June 2022. Together with an interim dividend of HK8 cents per share, the full-year dividends for 2021 amounted to HK18 cents per share.

Industry Review

2021 is the first year of the "14th Five-Year Plan". The "14th Five-Year Plan for the Development of Pharmaceutical Industry" issued in January 2022 sets out the specific development goals of the pharmaceutical industry and establishes the development direction of innovation-driven transformation and upgrade of industry chain quality in the next five years. Following several rounds of implementation, centralised medicines procurement has become a normalized and institutionalised purchase system, with its coverage fast expanding. The continuous progress and implementation of medical insurance policies such as annual adjustment of national reimbursement drug list ("NRDL"), "dual-channel" management mechanism of national reimbursement drugs and DRG/DIP payment method reform also have far-reaching impact on the pharmaceutical industry. With the comprehensive deepening of the healthcare reform policies, competition in the industry will intensify, but the pharmaceutical industry will also the move towards the path of innovative research and development and high-quality development, and further enhance market concentration among leading players. Against this backdrop, we will continue to focus on forward-looking policy research, adhere to the path of innovation and fully grasp the opportunities amidst policy changes.

In 2021, the Covid-19 pandemic continued with the virus mutating constantly. The rapid spread of the Omicron variant has brought a new wave of infections and posed a continuous threat to human life and health. With the aim of enhancing protection against Covid-19, the Group has built an end-to-end nucleic acid drug development platform efficiently, and leveraged its existing nanotechnology platform to carry out research on mRNA vaccines against various strains, including Delta and Omicron. The project is currently progressing at full speed.

New environment brings new opportunities. As the country enters a new stage of comprehensive deepening of healthcare reform, the Group will closely link its development direction with the national strategies, uphold the principle of putting life first and adhere to the path of innovation, bringing the Group to new heights.

Business Review

2021 was a year full of challenges and uncertainties. With the dedication of all staff members, the Group continued to deliver satisfactory results. Key products such as Duomeisu, Jinyouli, Keaili and Xuanning maintained satisfactory sales growth. NBP has begun selling at the new national reimbursement negotiated price in March, which has greatly improved its affordability and competitiveness, and benefited more patients. The strong sales volume growth achieved has substantially alleviated the impact of price reduction. Anfulike (amphotericin B cholesteryl sulfate complex for injection), an exclusive product, was included into the NRDL at a reasonable price after negotiation soon after market launch, which will boost sales ramp-up and fill the unmet clinical needs in an inclusive way. In January 2022, Duoenda (mitoxantrone hydrochloride liposome injection), a globally exclusive new formulation drug developed by the Group, has obtained marketing approval for its first indication, representing a breakthrough in China as there have been no innovative nanodrugs launched for years. Duoenda is a broad-spectrum anti-tumor nanodrug with significant improvement in efficacy in the treatment of several major solid tumors based on currently available clinical research data. The Group is actively conducting clinical research for various indications and striving to develop Duoenda into another blockbuster product of the Group. For common generic drugs, the products launched since 2020, which included cardiovascular, diabetes, antiviral and antibiotic products with significant market potential, have made new contribution to the Group's revenue growth.

The Group has achieved a significant improvement in R&D efficiency in 2021, the number of patients enrolled in clinical studies has increased by more than 2 times as compared to 2020. Among the projects under development, over 50 are in clinical stage. Of which 13 have entered pivotal trial, 3 are about to file application for marketing approval and 2 applications for marketing approval have been accepted by CDE. The Group has established innovative R&D platforms which cover small molecules, macromolecules, nano-formulation, antibody-drug conjugates (ADC), mRNA vaccines and siRNA drugs, providing a solid foundation for the Group's innovative research and development. Among them, the nanotechnology platform has established a leading position in the world. It has successfully developed 4 key nano-formulation drugs, and the current R&D pipeline has more than 5 key products with global patents and great commercial potential.

The Group has also achieved fruitful results in its business development initiatives. 6 projects of product license-in, cooperation and acquisition have been completed, involving products in various therapeutic areas. With support from the Group's strong capabilities in clinical development, registration and commercialisation, they will bring new momentum to our future growth. We have also established a license-out cooperation with a U.S. partner for drug candidate NBL-015 (an anti-Claudin 18.2 monoclonal antibody), marking an important milestone for the expansion of the Group's self-developed innovative products into the overseas market.

CSPC attaches great importance to the improvement of our ESG standard and is committed to creating a green, harmonious and sustainable development path, improving corporate governance and actively giving back to society. In the most recent ESG rating of MSCI in 2021, the rating of CSPC was upgraded from BBB to A.

Outlook

In the past year, China's pharmaceutical industry faced unprecedented challenges: pandemic, government policies, macroeconomic and international environment changes have brought new requirements and challenges to the industry. In 2022, we will continue to maintain its resilient and excellent corporate culture, adhere to the strategies of innovation and internationalisation, leverage the advantages of our comprehensive platform with integrated R&D, manufacture and commercialisation capabilities to enhance overall competitiveness and seize the great opportunities amidst the wave of changes. In particular, the Group will continue to focus on the following aspects:

1. **Driven by Innovation**

   We will continue to increase investing in R&D, and step up our efforts in recruiting, training and providing incentives for top talents. Leveraging the Group's first-class R&D team and centres in Beijing, Shanghai and Shijiazhuang in China as well as in the U.S., we are committed to developing innovative products with our own intellectual property rights to differentiate ourselves from competitors in the industry.

   The newly established nucleic acid drug development platform will be a focus of this year. In addition to vaccines against COVID-19 variants, we will also develop siRNA drugs for major chronic genetic diseases (such as gout, NASH and hypercholesterolemia) to fill the unmet clinical needs in the non-oncology field, striving to nurture the next generation of product portfolio with great commercial potential.

2. Strengthening commercialisation capabilities

While the scale of our sales force continuing to expand, we will put efforts to further raise the management capability of the sales force through the introduction of advanced behaviour and performance management tools in the industry. Share-based incentive will be offered to key marketing employees to enhance their work enthusiasm and cohesion.

Leveraging the strong market foundation of the sales force, we will continue to enhance our market access capabilities and ensure rapid market development of the new products, striving to secure a leading market share for the key products.

3. Open to cooperation

Apart from the efforts to ensure the rapid development of our in-house pipeline, we will also focus on raising our business development (BD) capabilities, and building an internationalised BD team and ecosystem. We will actively look for global BD opportunities with the aim of supplementing our product pipeline, expanding therapeutic areas and indications, and introducing cutting-edge technology platforms.

4. Accelerating internationalization

While based in the Chinese market, we will actively explore the international market and deepen international cooperation. Through strengthening of license-in cooperation with overseas partners, we seek to introduce new products, new technologies and high-end talents from the world. We will also seek license-out opportunities for products with global competitiveness in order to increase the proportion of our overseas sales.

The Group will continue to focus on product registration, market development and building the CSPC brand name in the international market in order to enhance the Group's international position in the industry.

Appreciation

I would like to take this opportunity to express my gratitude to all staff members for their dedication and hard work, and to all our shareholders, business partners and customers for their continued support.

CAI Dongchen
Chairman

22 March 2022

Management Discussion and Analysis

Overview

The Group is an innovation-driven pharmaceutical enterprise with integrated R&D, manufacture and sales capabilities. With the corporate mission of "All for Better Medicines, All for a Healthier World", the Group is committed to developing innovative products to fill unmet clinical needs and provide innovative therapies for patients.

The Group has strong commercialisation capabilities. After years of development and enhancement, its sales force currently has approximately 10,000 team members. It is organised into different business units by main product lines, with extensive coverage in tiered-hospitals, rural health centres, community health centres, clinics and other medical institutions of different levels across the country. Over the past years, in order to promote the sale of innovative products, the Group has focused on building up the innovative drug commercialisation capabilities of the sales team with academic promotion as the core strategy, and strengthening its comprehensive capabilities in medical affairs, market access and brand promotion. It has nurtured a number of innovative drug portfolio represented by NBP, Duomeisu, Jinyouli and Keaili, and will continue efforts for the future stream of new drugs. On the foundation of extensive coverage in cities across the country, the sales team is stepping up its efforts in lower-tier market penetration, with continuous endeavour in county-level market to tap its market potential and provide quality drugs to the grass roots. With the continuous deepening of medical reform and rapid development of the internet health industry, the Group has been actively building up its new retail sales team and constructing the OTC channel and internet medicine platform, and actively exploring a chronic disease management model within the internet framework.

Innovation is the most important strategy and mission throughout the Group's development. The Group has built an internationalised R&D team, eight innovative R&D platforms and five major innovative R&D centres located in China and the US. The Group's nanotechnology platform has developed a number of core delivery technologies encompassing liposomes, albumin-bound nanoparticles, polymeric micelles, and lipid nanoparticles for the delivery of nucleic acid drugs and nucleic acid vaccines, with a pipeline layout occupying a leading position in the international arena. For macromolecule drugs, the focus is on the development of multifunctional proteins and antibody drugs, such as bispecific, trispecific and novel ADC drugs. For small molecule drugs, the focus is on the development of PROTAC, LYTAC and AI-based screening platforms to develop small molecule targeted drugs with multiple functions such as anti-tumour and immune modulation, and small molecule drugs based on epigenetics. With support from the nanotechnology platform, the Group has quickly built up a high-quality end-to-end nucleic acid drug development platform. With mRNA vaccine taking the lead, the Group will continue to develop other vaccine products and small nucleic acid products for chronic diseases.

The Group has also made internationalisation an important development strategy. With internationalisation of talents, R&D, market and business development as its objectives, the Group will continue its efforts in seeking cooperation for both its own products and products from overseas partners in order to broaden the markets and enhance the Group's global position.

Business Review

Research and Development

In line with its innovation-focused development strategy, the Group continued to increase its investment in R&D. R&D expenses for the year 2021 amounted to RMB3,433 million (charged to income statement), representing an increase of 18.8% and accounting for approximately 15.1% of the revenue of the finished drug business. There are currently about 300 projects under development, including over 40 small molecule innovative drugs, over 40 macromolecule innovative drugs and over 30 new-formulation drugs, mainly focusing on the therapeutic areas of oncology, immunology and respiratory, psychiatry and neurology, metabolism, cardio-cerebrovascular systems and anti-infectives. During the year, the number of enrolments for clinical studies exceeded 4,000, increasing by more than 2 times as compared to last year. Currently, more than 50 key drug candidates have entered clinical trial or registration stage, 2 of which have submitted NDA. (See Table 1 for a summary of the clinical pipeline)

The Group has made the following significant R&D progress in 2021 and recently:

- Duoenda (多恩達) (mitoxantrone hydrochloride liposome injection) obtained drug registration approval in China for the treatment of relapsed or refractory peripheral T-cell lymphoma (PTCL). The product is our self-developed oncology nanodrug and it is also the world's first mitoxantrone nanodrug on the market. Clinical studies have indicated that it has a significantly better efficacy than other drugs in treating patients with relapsed or refractory PTCL. As a broad-spectrum anti-tumor nanodrug, current clinical studies have demonstrated that it has a significant improvement in efficacy in the treatment of ovarian cancer, head and neck squamous carcinoma, pancreatic cancer, breast cancer, small cell lung cancer, NKT cell lymphoma, soft tissue sarcoma and other tumors. It is expected to become another blockbuster product of the Group.

- Anfulike (安復利克) (amphotericin B cholesteryl sulfate complex for injection) obtained drug registration approval in China and was successfully included into the NRDL through negotiation. Amphotericin B is one of the most effective drugs with the broadest anti-fungal spectrum for prevention and treatment of invasive fungal infections. The product has obvious clinical advantages in terms of reduced nephrotoxicity which allows increased dosage as compared to same type of products currently available in the domestic market.

- COPIKTRA (克必妥) (duvelisib capsules) obtained drug registration approval in China in March 2022 for the treatment of adult patients with relapsed or refractory follicular lymphoma after at least two prior systemic therapies. The product is the first approved orally available dual PI3K-δ and PI3K-γ inhibitor worldwide, and is also the first approved PI3K selective inhibitor in China.

- Application for marketing approval of desvenlafaxine succinate extended-release tablets in China was submitted (being the first submission of this product type in China).

- SYSA1801 for the treatment of pancreatic cancer and NBL-015 for the treatment of gastric cancer (including cancer of the gastroesophageal junction) was granted orphan drug designation by the FDA; JMT601 (CPO107) for the treatment of adults patients with relapsed or refractory diffuse large B-cell lymphoma was granted fast track designation by the FDA.

- 11 innovative drug candidates obtained clinical trial approval for their first indications and 28 additional indications in China; and 5 innovative drug candidates obtained clinical trial approval in the US. (See table 2)

- 19 products obtained drug registration approval in China; and 2 products obtained ANDA approval in the US. (See Table 3)

- The project "Establishment and Industrialization of Key Technology System for Site-specific PEGylated Recombinant Protein" was granted the 2020 State Scientific and Technological Progress Second Class Award (國家科學技術進步二等獎); the project "Key Technical Research and International Development of Lvamlodipine Maleate" was granted the Science and Technology Second Class Award of China Pharmaceutical Association (中國藥學會科技二等獎); the project "Key Technology and Industrialization Research of Albumin-bound Nanodrug Delivery" has passed the evaluation for the Science and Technology Progress First Class Award of Hebei Province (河北省科技進步一等獎); CSPC was rated excellent with number six in overall ranking and number one in the pharmaceutical industry in the evaluation results of the 2021 National Enterprise Technology Center released by the National Development and Reform Commission.

- 26 international PCT applications and 204 patent applications (140 domestic and 64 overseas) were filled, and 88 patents (64 domestic and 24 overseas) were granted.

Table 1: Summary of clinical pipeline

Pivotal trial stage:

Drug candidate	Type	Target	Indication	Status
Rezetinib mesylate capsules	Chemical drug	EGFR	Non-small cell lung cancer	NDA submitted
Desvenlafaxine succinate extended release tablets	Chemical drug	5-Hydroxytryptamine and norepinephrine reuptake inhibitors	Depression	NDA submitted
Amphotericin B liposome for injection	Nanodrug	Anti-infective, nonspecific drug	Invasive fungal infection	Pivotal trial completed
Irinotecan liposome for injection	Nanodrug	DNA topoisomerase inhibitors	Pancreatic cancer	Pivotal trial completed
Recombinant fully human anti-RANKL monoclonal antibody for injection (JMT103)	Biological drug (monoclonal antibody)	RANKL	Giant cell tumor of bone	Pivotal trial completed
Recombinant fully human anti-PD-1 monoclonal antibody for injection	Biological drug (monoclonal antibody)	PD-1	Cervical cancer	Pivotal trial
Recombinant humanized anti-epidermal growth factor receptor monoclonal antibody for injection (JMT101)	Biological drug (monoclonal antibody)	EGFR	EGFR exon 20 insertion mutation in non-small cell lung cancer	Pivotal trial
Recombinant anti-IgE monoclonal antibody for injection	Biological drug (monoclonal antibody)	IgE	Urticaria	Pivotal trial
KN026 for injection	Biological drug (bispecific antibody)	HER2 bispecific antibody	Gastric Cancer	Pivotal trial
Recombinant humanized anti-HER2 monoclonal antibody-MMAE conjugate for injection (DP303c)	Biological drugs (ADC)	HER2 ADC	Breast cancer	Pivotal trial
SKLB1028 capsules	Chemical drug	FLT3, Abl, Lyn, EGFR	Acute myeloid leukaemia	Pivotal trial
DBPR108 tablets	Chemical drug	DPP-4 inhibitor	Diabetes	Pivotal trial
HA121-28 tablets	Chemical drug	RET, EGFR, VEGFR, FGFR	Non-small cell lung cancer with RET gene fusion	Pivotal trial
Daunorubicin cytarabine liposome for injection	Nanodrug	RNA polymerase inhibitor DNA polymerase inhibitor	Leukemia	Pivotal trial
Paclitaxel nanoparticles for injection (fast dissolving)	Nanodrug	Microtubule inhibitor	Solid tumors	Pivotal trial
Docetaxel for injection (albumin-bound)	Nanodrug	Microtubule Inhibitor	Head and neck squamous cell carcinoma	Pivotal trial
TG103	Biological drug (monoclonal antibody)	GLP1-Fc	Weight loss	Pivotal trial
Butylphthalide soft capsules	Chemical drug		Vascular dementia	Pivotal trial

Early clinical stage:

Drug candidate	Type	Therapeutic Area
Ammuxetine hydrochloride enteric tablets	Chemical drug	Psychiatry
Butylphthalide soft capsules (US)	Chemical drug	Neurology
Butylphthalide soft capsules	Chemical drug	Neurology
Simmitinib hydrochloride tablets, SYHA1801 capsules, SYHA1803 capsules, SYHA1807 capsules, SYHA1811, SYHA1813 oral liquid, SHA1815 tablets, SYHX1903 tablets, SYHX2001 tablets	Chemical drug	Oncology
SYHA1805 tablets, SYHA1402 tablets	Chemical drug	Metabolism
SYHX1901 tablets	Chemical drug	Immunity
M802*, M701 for injection*, Y150 for injection*, Y101D for injection*, JMT601 for injection (China and US)	Biological drug (bispecific antibody)	Oncology
SYSA1801 (China and US)	Biological drug (ADC)	Oncology
ALMB0168 for injection, NBL-015, Pertuzumab for injection	Biological drug (monoclonal antibody)	Oncology
ALMB0166 for injection	Biological drug (monoclonal antibody)	Central nervous system
CM310, CM326, NBL-012 (China and US)	Biological drug (monoclonal antibody)	Immunity
Paclitaxel cationic liposome for injection, sirolimus for injection (albumin-bound), SYHA1908 for injection	Nanodrug	Oncology
Prostaglandin liposome for injection	Nanodrug	Cardiovascular

* *Product developed by Wuhan YZY Biopharma Co. Ltd., an associate of the Group.*

Table 2: Clinical trial approvals

Clinical trial approval for first indication in China:

Drug candidate (indication)	Drug candidate (indication)
Sirolimus for injection (albumin-bound) (solid tumours and hematological tumours)	SYSA1801 (solid tumours)
NBL-012 (chronic inflammatory diseases such as psoriasis, pyogenic sweat glands, inflammatory bowel disease, and other autoimmune diseases)	NBL-015 (advanced solid tumours)
JMT601 (non-Hodgkin's lymphoma)	SYHX1903 (solid tumours and hematological tumours)
Pertuzumab injection (HER2 Positive breast cancer)	SYHA1811 (B-cell lymphoma)
SYHX1901 (systemic lupus erythematosus and rheumatoid arthritis)	SYHA1908 for injection (solid tumours)
SYHX2001 (solid tumours and hematological tumours)	

Clinical trial approval for additional indication in China:

Drug candidate	Drug candidate
SG001 (PD-1) (combined therapy for platinum-resistant relapsed epithelial ovarian cancer)	SG001 (PD-1) (combined therapy for PD-L1 positive platinum-resistant relapsed epithelial ovarian cancer)
JMT101 (non-small cell lung cancer)	SKLB1028 (combined therapy with azacitidine for the treatment of initial AML with FLT3 mutation)
JMT101 (combined therapy for nasopharyngeal cancer)	SKLB1028 (combined therapy with standard treatment "7+3" for the treatment of initial AML with FLT3 mutation)
JMT101 (combined therapy for head and neck squamous cancer)	Irinotecan liposome injection (solid tumours)
JMT101 (combined therapy to patients with stages IIIb-IV non-small cell lung cancer with EGFR mutation)	Irinotecan liposome injection (combined therapy for biliary tract cancer)
JMT101 (combined therapy for first-line treatment of recurrent or metastatic nasopharyngeal cancer)	SG001 (PD-1) (combined therapy for nasopharyngeal cancer)
Mitoxantrone hydrochloride liposome injection (combined treatment of relapsed or refractory multiple myeloma)	SG001 (PD-1) (combined therapy for head and neck squamous cancer)
Mitoxantrone hydrochloride liposome injection (combined treatment of acute myeloid leukemia)	SYHX1903 (CDK9) (solid tumors)
Mitoxantrone hydrochloride liposome injection (treatment of multiple sclerosis)	SYHX1901capsule (Syk-Jak inhibitor) (atopic dermatitis and psoriasis)
Mitoxantrone hydrochloride liposome injection (monotherapy or combined treatment to patients with recurrent ovarian cancer)	Docetaxel for injection (albumin-bound) (combined therapy for head and neck cancer)
Mitoxantrone hydrochloride liposome injection (combined treatment of colorectal cancer)	Docetaxel for injection (albumin-bound) (combined therapy for platinum-resistant relapsed ovarian cancer)
SYHA1402(AR) (diabetic cardiomyopathy)	Duvelisib capsules (combined therapy for advanced malignant solid tumors)
Butylphthalide soft capsules (preventive treatment of peripheral neuropathy caused by chemotherapy)	SYHX2001 (PRMT5) (hematological tumours)
TG103 injection (weight loss)	Prostaglandin liposomes (contrast-induced acute kidney injury)

Clinical trial approval in the US:

Drug candidate	Drug candidate
JMT601 (Non-Hodgkin's lymphoma)	NBL-015 (advanced solid tumors with positive Claudin 18.2 expression)
DP303c (HER2 Positive solid tumours)	SYSA1801 (advanced pancreatic cancer)
NBL-012 (chronic inflammatory diseases such as psoriasis, purulent sweat glands, inflammatory bowel disease, and other autoimmune diseases)	

Table 3: Drug registration approval

Drug	Drug
Mitoxantrone hydrochloride liposome for injection	Amphotericin B cholesterol sulfate complex for injection
Duvelisib capsules	Nintedanib esilate soft capsules
Esomeprazole magnesium enteric capsules	Sorafenib tosylate tablets
Entecavir tablets	Agoliptin benzoate tablets
Sitagliptin phosphate tablets	Lacosamide tablets
Linagliptin tablets	Tofacitinib citrate tablets
Pregabalin capsules	Oseltamivir phosphate capsules
Afatinib dimaleate tablets	Parecoxib sodium for injection
Apixaban tablets	Zoledronic acid injection
Lemvatinib mesylate capsules	Carbamazepine extended-release tablets (US)
Paroxetine hydrochloride enteric tablets (US)	

The Group is expected to launch more than 30 innovative and new-formulation drugs, and over 60 generic drugs in the next five years. Of which, mitoxantrone liposomes, docetaxel albumin nanoparticles, sirolimus albumin nanoparticles, cisplatin micelle, and paclitaxel albumin nanoparticles (fast dissolving) developed based on the nanotechnology platform; the ultra-long-acting GLP1-IgD/IgG4 Fc fusion protein in the field of metabolism; the world's new CX43 inhibiting and antagonizing antibody; the new ADC and ISAC based on enzymatic site-specific conjugation; the CD20/CD47 bispecific antibodies based on novel asymmetric structure; as well as the mRNA vaccines which can protect against various Covid-19 variants and small nucleic acid drugs (dosed semi-annually) are all heavyweight products with global patents and great market value. The market launch of these new products will provide strong support to the Group's high-quality growth in the future.

Business Development

While continuing to enhance in-house innovation and R&D capabilities, we are also stepping up our business development efforts and building an internationalised BD ecosystem. The Group has established an internationalised business development team to identify potential opportunities globally and out-license our in-house innovative products. The following are the significant progress made by the Group during the period.

In-Licensing:

- Entered into a collaboration with Beta Pharma (Shanghai) Company Limited to obtain the exclusive product license and commercialization rights of rezetinib mesylate capsules (BPI-7711) (a third generation irreversible EGFR-TKI for the treatment of non-small cell lung cancer) in China.

- Entered into a collaboration with Keymed Bioscience (Chengdu) Co., Ltd. ("Chengdu Keymed") to obtain the exclusive product license and commercialization rights of CM310 (an anti-IL-4Rα recombinant humanized monoclonal antibody) for moderate to severe asthma and chronic obstructive pulmonary disease (COPD) in China.

- Entered into a collaboration with Jiangsu Alphamab Oncology Co., Ltd. to obtain the exclusive product license and commercialization rights of KN026 (a HER2-targeted bispecific antibody) for breast cancer and gastric cancer in China.

- Entered into a strategic alliance agreement with Chengdu Keymed to cooperate on the clinical development and commercialization of a variety of nervous system disease products.

- Entered into a collaboration with Chengdu Keymed to obtain the exclusive product license and commercialization of CM326 (an anti-TSPL recombinant humanized monoclonal antibody) for moderate to severe asthma and chronic obstructive pulmonary disease (COPD) and other respiratory system diseases in China.

Out-Licensing:

- Entered into a strategic partnership and license agreement with Flame Biosciences, Inc., a U.S. innovative pharmaceutical company, to out-license the exclusive rights outside of Greater China of the Group's drug candidate NBL-015 (an anti-Claudin 18.2 monoclonal antibody) and two new bispecific antibodies to be developed based on the Group's NovaTE bispecific antibody technology platform.

Equity Acquisition:

- Acquired 51% equity interest in Guangzhou Recomgen Biotech Co., Ltd. ("Recomgen Biotech") in February 2022. Mingfule (銘復樂) (recombinant human TNK tissue-type plasminogen activator for injection), a marketed product of Recomgen Biotech, is a third-generation specific thrombolytic drug with intellectual property rights for the treatment of thrombolysis in patients with acute myocardial infarction within 6 hours of onset. The product is currently undergoing Phase III trial (TRACE II) for the indication of thrombolysis in cerebral infarction, with a huge potential market.

Finished Drug Business

In 2021, the finished drug business maintained stable growth. The Group continued to adopt strategies such as professional academic promotion, hospital development, lower-tier market penetration, expansion of clinical indications and expansion of professional sales force to drive the rapid growth of key finished drug products, and further improve the market coverage to reach different levels of medical institutions in cities, counties, towns and communities. During the year, the market development of new products was carried out in an orderly manner and a number of newly launched generic drugs were selected at national centralised procurement with rapid sales ramp-up, which has brought in new sales contribution and a more balanced product mix.

The finished drug business recorded revenue of RMB22,681 million (including licence fee income of RMB49 million) for the year, an increase of 11.2% compared to last year. Sales of products by major therapeutic areas are as follows:

Therapeutic Area	2021 Sales *(RMB' million)*	Change
Nervous system disease products	7,544	+1.8%
Oncology products	7,711	+22.5%
Anti-infective products	2,949	+8.9%
Cardiovascular disease products	2,765	+17.2%
Respiratory disease products	402	-18.0%
Digestion and metabolism disease products	497	+1.0%
Others	764	+18.2%

Nervous System Disease Products

Major products include NBP (恩必普) (butylphthalide soft capsules and butylphthalide and sodium chloride injection), Shuanling (舒安靈) (pentoxifylline extended-release tablets and pentoxifylline injection), Enxi (恩悉) (pramipexole dihydrochloride tablets) and Oulaining (歐來寧) (oxiracetam capsules and oxiracetam for injection).

NBP is a Class 1 new chemical drug in China and a patent-protected exclusive product mainly used for the treatment of acute ischemic stroke. It is recommended in the guidelines of various professional organisations such as the Chinese Medical Association and the Chinese Stroke Association for the treatment of acute ischemic stroke, and is also listed in more than twenty domestic authoritative clinical guidelines and expert consensuses. The new NRDL negotiated price implemented in March 2021 has significantly improved product accessibility and resulted in rapid sales volume growth. In respect of the development of new therapeutic areas, there are currently more than 180 research projects in progress. In particular, the overall progress of the clinical trials for the treatment of vascular dementia is smooth with patient enrolment under way, and the enrolment for four of the six 13th Five-Year Plan studies have completed with results expected to come out in 2022. The development of new indications and new markets will bring new growth opportunities for butylphthalide. In 2021, sales of NBP remained at the same level as last year.

Shuanling is mainly used for the treatment of cerebrovascular diseases, peripheral vascular disease, and diabetes complications. In 2021, Shuanling was included in the Expert Consensus on the Management of Post-stroke Cognitive Impairment (2021) and the Guidelines for the Prevention and Treatment of Type 2 Diabetes in China 2020, and 11 clinical studies in collaboration with domestic experts have been initiated, further validating its therapeutic value. In 2021, Shuanling achieved a sales growth of 213.3%.

Enxi is the first product of the Group for the treatment of Pakinson's disease. It was launched in April 2020 and won at the national centralised procurement at a reasonable price in February 2021. In 2021, Enxi achieved a sales growth of 172.0%.

Oncology products

Major products include Duomeisu (多美素) (doxorubicin hydrochloride liposome injection), Jinyouli (津優力) (PEG-rhGCSF injection), Keaili (克艾力) (paclitaxel for injection (albumin-bound) and Duoenda (多恩達) (mitoxantrone hydrochloride liposome injection).

Duomeisu is a product developed by the National Key Laboratory for New Pharmaceutical Preparations and Excipients of the Group and supported by the Major New Drug Development project in China. It is recommended by the U.S. National Comprehensive Cancer Network (NCCN) Guidelines and the Chinese Society of Clinical Oncology (CSCO) for the first-line treatment of lymphoma, ovarian cancer, relapsed or metastatic breast cancer, soft tissue sarcoma and AIDS-related Kaposi's sarcoma. In May 2021, Duomeisu passed the consistency evaluation, further enhancing the brand's advantages and providing a strong foundation for the expansion of its market share. In 2021, Duomeisu achieved a sales growth of 24.0%.

Jinyouli is the first long-acting white blood cell booster drug developed in China. It is used to prevent and treat incidence of infection and pyrexia due to low neutrophil count in patients receiving chemotherapy, thus ensuring the administration of standardised dosage of chemotherapy. Jinyouli is well supported by clinical evidence, earning unanimous recommendations in domestic and foreign guidelines. The Group is further expanding its use into areas including gastrointestinal tumours, head and neck cancer, childhood acute lymphoblastic leukemia, as well as expanding its coverage in core hospitals in cities and in county-level markets. In 2021, Jinyouli achieved a sales growth of 13.1%.

Keaili is the first-to-market generic of new generation paclitaxel chemotherapy drug in China with the consistency evaluation passed. The drug has the distinctive features of convenience, high efficacy and safety. It has been unanimously recommended by domestic and foreign guidelines and expert consensus for breast cancer, lung cancer, gastric cancer and gynaecological tumours. Following the procurement price reduction of 70% in 2020 and inclusion into the NRDL in 2021, the financial burden of patients has been greatly reduced and accessibility of the drug significantly enhanced, leading to substantial growth of the product. The Group will continue to capitalise on the policies to accelerate hospital access and market penetration in order to increase market share, and further expand into new areas such as gastric cancer, esophageal cancer, head and neck cancer, pancreatic cancer and melanoma while consolidating core areas in breast cancer, lung cancer and gynaecological tumours. In 2021, Keaili achieved a sales growth of 27.5%.

Duoenda, a new and upgraded mitoxantrone liposome product, is a new class 2 drug developed by the Group with patents in several countries. By encapsulating in liposome, the pharmacokinetics and tissue distribution of mitoxantrone in vivo were altered, therefore reducing cardiotoxicity and other non-haematological toxicity, and effectively reducing common adverse reactions of liposomes such as infusion-related reactions, hand-foot syndrome and skin mucosal toxicity; allowing for higher dose, achieving higher anti-tumor activity and longer-lasting relief for diseases; achieving precision in tumor targeting; prolonging the intracorporeal circulation of the drug and improving the resistance of NK/T-cell lymphoma therapies to conventional anthracycline drugs, offering a new option for the treatment of relapsed/refractory peripheral T-cell lymphoma (PTCL). Mitoxantrone has a broad spectrum of anti-tumor activity with major indications including malignant lymphoma, breast cancer and acute leukaemia, and has also shown efficacy in lung cancer, ovarian cancer, melanoma and multiple myeloma. The Group is also actively exploring the clinical development of Duoenda in haematological tumors such as leukaemia and multiple myeloma, as well as solid tumours such as head and neck tumours and ovarian cancer. Duoenda was granted drug registration approval in January 2022 for the treatment of relapsed or refractory peripheral T-cell lymphoma and was launched to market in February.

With the launch of Duoenda, the Group's oncology division has established a dedicated line of haematology to market PI3K inhibitor, dasatinib, bortezomib and other new products in an effort to benefit more patients with haematological tumours.

Anti-infective products

Major products include Anfulike (安復利克) (amphotericin B cholesteryl sulfate complex for injection), Shuluoke (舒羅克) (meropenem for injection), Nuomoling (諾莫靈) (amoxicillin capsules), Xianqu/Shiyao (先曲／石藥) (ceftriaxone sodium for injection), Xianwu (先伍) (cefazolin sodium for injection), Zhongnuo Lixin (中諾立新) (cefuroxime sodium for injection), Xinweihong (新維宏) (azithromycin tablets) and Weihong (維宏) (azithromycin dispersible tablets/capsules/enteric tablets).

Anfulike was granted drug registration approval with priority review in March 2021. It is recommended jointly by the State Ministry of Industry and Health Care Commission as a "clinically urgent, market-deficient" product. Anfulike is indicated for the treatment of patients with invasive fungal infections, patients with renal impairment or drug toxicity precludes the use of effective dose of amphotericin B, or patients who have failed in prior amphotericin B deoxycholate treatment. With the modification of the lipid structure, Aufulike has altered the metabolism and distribution characteristics of amphotericin B, reducing the incidence of nephrotoxicity and hypokalaemia and providing a safe and effective medication option for patients with invasive fungal disease. Anfulike was included into the NRDL through negotiation in December 2021, improving the drug accessibility and further expanding the patient population who can benefit from this drug.

Sales of the anti-infective drugs have been driven by the winning of several products in the fifth batch of national centralised procurement, involving products such as ceftriaxone sodium for injection, cefazolin sodium for injection and azithromycin for injection.

Cardiovascular disease products

Major products include Xuanning (玄寧) (maleate levamlodipine tablets and dispersible tablets), Encun (恩存) (clopidogrel bisulfate tablets), Daxinning (達新寧) (dronedarone hydrochloride tablets), Abikang (阿比康) (aspirin enteric tablets) and Meiluolin (美洛林) (ticagrelor tablets).

Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina, and is a product in the NRDL and essential drug list. It is listed in the Guidelines for the Prevention and Treatment of Hypertension in China, Guidelines for the Rational Use of Drugs in Hypertension and other authoritative guidelines in China, and is the first Chinese innovative drug granted full approval by the FDA. The Group reorganised the sales team of Xuanning during 2021 and adopted an integrated sales model of direct, cooperative and retail sales to strengthen the application of Xuanning at different levels of medical institutions in China, boosting sales growth. In 2021, Xuanning achieved a sales growth of 17.5%.

Encun is the only domestic clopidogrel bisulfate tablets with approval by FDA. It is a preferred drug for treating coronary heart disease and secondary prevention for stroke with high quality and reasonable price. Encun is also recommended by the 2020 edition of the Guidelines for Comprehensive Management Practice of Primary Cardiovascular Disease. After winning at the nationwide extended tender of the centralised procurement in September 2019, Encun achieved rapid sales volume ramp-up in the winning provinces. In 2021, Encun achieved a sales growth of 18.0%.

Daxinning is the first-to-market dronedarone hydrochloride tablets in China, mainly used for the treatment of sinus arrhythmia patients with a medical history of paroxysmal or persistent atrial fibrillation. With the ongoing aging population in China, the population of patients with atrial fibrillation is gradually increasing. Previously, the choice of drugs available in the field of atrial fibrillation was somewhat limited, and the launch of Daxinning has opened up a new option for patients. Since launch in October 2019, the Group has established a dedicated sales team and adopted the professional academic-based promotion model. More than 50,000 patients with atrial fibrillation have used the drug so far with satisfactory sales achieved. In early 2022, the product has completed the integration with the sales team of Xuanning.

Respiratory disease products

Major products include Qixiao (琦效) (arbidol hydrochloride tablets), Zhongnuo Like (中諾立克) (ambroxol hydrochloride oral solution), Zhongnuoping (中諾平) (ambroxol hydrochloride extendedrelease tablets), Qixin (琦昕) (Oseltamivir phosphate capsules) and Nuoyian（諾一安）(montelukast sodium tablets/chewable tablets).

Qixiao, a broad-spectrum antiviral drug, is mainly used for the treatment of viral infections represented by influenza. It has also been included in the Expert Consensus on the Emergency Care of Acute Respiratory Viral Infections in Adults and the Expert Consensus on the Integrated Chinese and Western Medicine Prevention and Treatment of Influenza in Children in 2021, providing strong evidence to support its promotion as an emergency and paediatric medicine.

Qixin was approved in August 2021 as a drug for the prevention and treatment of influenza. Qixin is a product listed on both the NRDL and the national essential drug list, and has also passed the consistency evaluation. This product type has high clinical recognition and patient awareness, and has been included in a number of authoritative guidelines. The Group will actively respond to the national policy and cooperate with the procurement efforts to promote Qixin, in order to benefit more patients and reduce their economic burden, and bring in new business growth to the antiviral portfolio.

Digestion and metabolism disease products

Major products include Linmeixin (林美欣) (glimepiride dispersible tablets), Shuanglexin (雙樂欣) (metformin hydrochloride tablets/extended-release tablets) and Xinweiping (欣維平) (acarbose tablets) (approved during the year).

Products in other therapeutic areas

Major products include Gubang (固邦) (alendronate sodium tablets/enteric tablets), Xianpai (先派) (omeprazole injections) and Qimaite (奇邁特) (tramadol hydrochloride tablets).

Bulk Product Business

Vitamin C

Sales amounted to RMB2,149 million in 2021, representing an increase of 15.6%. During the year, sales volume of the Group remained at the top of the industry. Owing to the pandemic and other market conditions, product prices have also increased. The Group has initiated plan to further increase its market share and explore the undeveloped market. It will also continue to optimise its customer structure, expand overseas sales channels, focus on brand building to enhance its overall competitive strength.

Antibiotics and Others

Sales amounted to RMB1,670 million in 2021, representing an increase of 21.7%, which was mainly attributable to the increase in sales volume and prices of certain products. The Group will continue to enhance product chain and product complementarity, accelerate registration in high-end market and steadily improve product quality.

Functional Food and Other Businesses

Sales amounted to RMB1,366 million in 2021, representing an increase of 4.6%. During the year, caffeine products maintained a steady growth, while sales of Guoweikang (vitamin C health supplement product) declined to a certain extent. The Group will maintain stable business growth through technology enhancement, cost control and market development.

Development Strategies

1. ***Strong management strength***

   Amid rapid external changes, the importance of an enterprise's management capability has become more prominent. The Group has established a scientific management system that is on par with international enterprises, and will continue to attain improvement in areas such as risk control, financial management, business model and manufacture through system building, process enhancement and maintenance of an up-to-date information management platform in order to enhance its corporate management standard.

   Under the leadership of our Chairman, Mr. Cai Dongchen, the Group's management team has become more mature, open and proactive in managing the business and has created a robust and sustainable development model with long-term predictability and reliability, progressing to become a management team with competitive advantages in the industry and capability to achieve corporate strategies and execute the Board's decisions.

   We will also focus on building a social ecosystem for the future, creating a harmonious development relationship among the government, the competitors and relevant stakeholders with co-existence of competition and cooperation, so as to achieve sustainable, stable and high-quality development.

2. ***Industry chain advantage***

   Under the backdrop of national pharmaceutical policies such as consistency evaluation of generic drugs and volume-based procurement, the Group's advantages in the "bulk drug + preparation" industry chain have become more prominent.

   With the industry chain of "bulk drug + preparation", the Group has formed a two-pronged development model. The strengthening and expansion of the bulk drug business and finished drug business will drive a steady growth of the Group with reduced risks of upstream dependency and long-term market competitiveness.

3. ***Production capacity advantage***

   Bulk products: Bulk products mainly include vitamin C, caffeine, acarbose, penicillin sodium, cefazolin sodium and meropenem, etc. The production capacity of the above products is among the largest in China.

   Chemical drugs: The Group has approximately 140 production lines for pharmaceutical preparations with nearly 1,000 packaging specifications. Of which, the annual production capacity of approximately 20 billion tablets and 3 billion injectables is the largest in China, with the most comprehensive dosage forms and the largest number of specifications.

   Biological drugs: The Group is actively building antibody drug industrialisation bases in Shijiazhuang, Yantai and Suzhou with total volume of the culture tanks for biological drugs reaching 40,000 litres. This capacity is for the industrialised production of the Group's biological drugs including monoclonal antibody drugs, bispecific antibody drugs and antibody-drug conjugates, with sufficient capacity reserved for the production requirements of products to be approved.

4. ***Product pipeline advantage***

The Group has been continuously enriching and enhancing its product pipeline and improving its commercialization capability of new products to help boost its business. Since 2021, major products such as NBP, Duomeisu, Jinyouli and Keaili have been able to maintain steady growth, while new products such as Anfulike, Duoenda and Mingfule in the areas of anti-infectives, anti-tumor and cardiovascular have been introduced, continuously injecting new growth momentum.

In addition, the Group is also fully exploring the potential of common generic drugs. While continuing to adjust the product mix, the Group is further leveraging its advantages in the integrated bulk and preparation model to reduce production and operating costs continuously, and is also making the most of the national volume-based procurement policy to achieve significant growth in sales of traditional products.

5. ***Research and development advantage***

Comprehensive R&D system and professional internationalised R&D team: Five domestic and overseas R&D centres have been established with a large team of local and foreign high-level talents engaged in the development of innovative macromolecule drugs, innovative small molecule drugs, nanodrugs and nucleic acid drugs. We have a sound R&D system and a complete R&D chain with highly professional teams engaged in areas from drug discovery to clinical development, production transformation as well as intellectual property protection.

Strong track record and resources in research and development: The Group is one of the first pharmaceutical companies in China to invest in the R&D of innovative drugs, with the commercial launch of class 1 new chemical drug NBP, class 1 new biological drug Jinyouli and innovative nanodrug Duoenda. The Group has a number of national-level technology platforms, including the “National Innovative Enterprise” and the “National Key Laboratory for New Pharmaceutical Preparations and Excipients”. It has also accumulated a lot of international experience, with more than 10 drugs conducting clinical studies overseas and 10 orphan drug designations or fast track designations granted.

Leading technology platforms in China with resource integration advantage: The Group has established a leading nanotechnology platform, an ADC platform, a bispecific antibody screening platform and a nucleic acid drug development platform in China. Leveraging its advantages in resource integration, the Group has rapidly developed complex drug delivery systems for mRNA vaccines and siRNA drugs, forming a strong technology and industrialisation strength.

Future development direction:

(i) Rapidly advance the drugs under development to pivotal clinical trial stage to achieve realization of results, and strive to have more than 30 innovative drugs commercially launched within five years.

(ii) Focus on cutting-edge technology, combine independent innovation and licensing-in, and attain differentiated competition. Currently, drug research and development has entered the era of nucleic acid drugs. The Group will make use of its existing nanodrug platform to break through the bottleneck in nucleic acid drug technology and establish a leading position in nano-delivery technology and nucleic acid drugs. At the same time, we will also target emerging technologies such as gene therapy and cell therapy, and develop cutting-edge technologies such as in vivo reprogramming of immune cells. The Group will further integrate internal resources to develop new-formulation drugs such as inhaled antibodies.

(iii) Strengthen the overseas R&D team, select projects with competitive edge for overseas development, promote overseas collaboration or licensing, and gradually enhance the international influence of the Group.

6. Sales channels

The Group currently has a sales force of around 10,000 people. Through its own academic-based promotion, the Group's sales network in China has covered more than 30,000 end-user institutions in 30 provinces, autonomous regions and municipalities, including first-tier end-users (tiered-hospitals), second-tier end-users (retail pharmacies) and third-tier end-users (primary health-care institutions). At the same time, it is actively developing e-commerce channels.

7. Internationalisation

The Group will continue to step up its efforts in internationalisation in the areas of research and development, business development and commercialisation. Through the export of generic and innovative drugs, the Group will strive to rapidly expand its overseas sales, accumulate experience in the international market.

In the area of business development, the Group will strengthen the capability of its internationalised team. It will also actively look for global cooperation opportunities with the aim of supplementing its product lines, expanding therapeutic areas and indications, and introducing cutting-edge technology platforms.

8. Team building

The Group has formulated a five-year human resources plan according to its future strategies and business objectives. Efforts will be focused on the acceleration of talent pool build-up, enhancement of talent quality, upgrade of corporate culture, improvement of human resources management process and enhancement of remuneration and incentives in order to build a highly competitive team of talent, ensuring the achievement of its strategic objectives.

Financial Review

Financial Results

Revenue and Gross Profit Margin

The Group's revenue for the year amounted to RMB27,867 million, an increase of 11.7% as compared to RMB24,942 million in 2020, which was mainly due to growth of both the finished drug business and bulk product business. Gross profit margin slightly increased 0.9 percentage point, which was the result of product mix change of the finished drug business and higher selling prices of the bulk products.

Operating Expenses

Selling and distribution expenses for the year amounted to RMB10,443 million, an increase of 11.4% as compared to RMB9,378 million in 2020. The increase was primarily attributable to (i) expansion of sales force of finished drugs; and (ii) increased efforts in marketing and academic promotion for key and newly launched finished drug products.

Administrative expenses for the year amounted to RMB1,010 million, an increase of 6.8% as compared to RMB946 million in 2020. The increase was primarily attributable to the expanded scale of operation.

R&D expenses for the year amounted to RMB3,433 million, an increase of 18.8% as compared to RMB2,890 million in 2020. The increase was primarily attributable to the increased spending on ongoing and newly initiated clinical trials.

Other Income

Other income for the year amounted to RMB411 million, which mainly comprised interest income on bank balances of RMB183 million and government grant income of RMB96 million.

Other gains or losses

Other gains or losses for the year amounted to net gain of RMB243 million, which mainly comprised fair value changes on financial assets measured at FVTPL of RMB205 million and fair value changes on structured bank deposits of RMB82 million. The decrease as compared to 2020 was primarily due to the lower amount of fair value changes on financial assets measured at FVTPL reported in 2021.

Liquidity and Financial Position

The Group's operating activities generated a cash inflow of RMB4,637 million (2020: RMB6,740 million) for the year. Turnover days of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) were 40 days as compared to 33 days last year. Turnover days of inventories (ratio of balance of inventories to cost of sales) increased by 25 days from 109 days to 134 days. The higher inventory days as compared to last year was mainly due to the need to carry a higher level of inventory to enhance the stability of inventory supply to customers. Current ratio was 2.8, slightly higher than 2.5 a year ago. Capital expenditure for the year amounted to RMB1,557 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As at 31 December 2021, the aggregate balance of the Group's bank balances and cash amounted to RMB9,684 million (2020: RMB7,726 million). The Group had no external borrowing (2020: RMB99 million) and a nil gearing ratio (ratio of net borrowing to total equity) (2020: nil).

The Group's sales are denominated in Renminbi (for domestic sales in China) and in US dollars (for export sales). The Group manages its foreign exchange risks by closely monitoring its foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Pledge of Assets

None of the Group's assets were charged to any third parties as of 31 December 2021.

Contingent Liabilities

The Group did not have any material contingent liabilities as of 31 December 2021.

Dividend Policy

It is the present intention of the Board to provide shareholders with regular dividends with a normal target payout ratio of not less than 30 per cent of the Group's core profit on a full year basis. The actual amount of dividend will depend on a number of factors including but not limited to financial results, financial position and funding needs of the Group.

Employees

The Group employed a total of 24,746 employees as of 31 December 2021. The majority of them are employed in mainland China. The Group continues to offer competitive remuneration packages, discretionary share options, share awards and bonuses to eligible staff, based on the performance of the Group and the individual employee.

Corporate Governance Report

Corporate Governance Practices

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standard of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2021 except the deviation from code provision A.2.1 as set out under "Chairman and Chief Executive Officer".

From 1 January 2022, certain amendments to the Corporate Governance Code (the "Revised CG Code") came into effect and the requirements under the Revised CG Code will apply to all listed issuers for financial year commencing on or after 1 January 2022. The Board will continue to review and enhance the corporate governance practice of the Company to ensure compliance with the Revised CG Code and align with the latest developments.

Board of Directors

As at the date of this report, the Board comprises nine executive directors and five independent non-executive directors. Two of the independent non-executive directors have the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 42 to 45 of this annual report.

Following the resignation of Mr. Chan Siu Keung, Leonard as an independent non-executive director on 1 January 2021, the Company did not comply with the following rules of the Listing Rules: i) rule 3.10A requiring independent non-executive directors representing at least one-third of the Board; ii) rule 3.10(2) requiring at least one of the independent directors to have appropriate professional qualifications or accounting or related financial management expertise; and iii) rule 3.21 requiring at least one of the members of the audit committee to have appropriate professional qualifications or accounting or related financial management expertise and the audit committee to be chaired by an independent non-executive director; and iv) rule 3.25 requiring the remuneration committee to be chaired by an independent non-executive director. With the appointment of Mr. Au Chun Kwok Alan as an independent non-executive director, the chairman of the audit committee and remuneration committee of the Company on 27 January 2021, the above-mentioned rules of the Listing Rules have been complied with by the Company.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the Company's subsidiaries are responsible for the day-to-day management and operation of the respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2021.

Attendance record of directors in 2021:

Directors	AGM	EGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings	**1**	**1**	**4**	**4**	**4**	**3**
Executive Directors:						
Cai Dongchen	1/1	1/1	4/4			3/3
Zhang Cuilong	0/1	0/1	4/4			
Wang Zhenguo	0/1	0/1	4/4			
Pan Weidong	0/1	0/1	4/4			
Wang Huaiyu	0/1	0/1	4/4			
Li Chunlei	0/1	0/1	4/4			
Wang Qingxi	0/1	0/1	4/4			
Chak Kin Man	1/1	1/1	4/4			
Jiang Hao	0/1	0/1	4/4			
Independent Non-Executive Directors:						
Wang Bo[1]	0/1	0/1	4/4	4/4	4/4	1/1
Chen Chuan[2]	0/1	0/1	4/4	4/4	4/4	3/3
Wang Hongguang[3]	1/1	0/1	4/4			
Au Chun Kwok Alan[4]	1/1	1/1	4/4	4/4	2/2	
Law Cheuk Kin Stephen[5]	1/1		4/4			
Yu Jinming[6]		0/1				

1 Mr. Wang Bo was appointed as a member of the Nomination Committee on 27 January 2021.
2 Mr. Chen Chuan was appointed as a member of the Audit Committee, Remuneration Committee and Nomination Committee on 1 January 2021.
3 Mr. Wang Hongguang was appointed as an independent non-executive director on 27 January 2021.
4 Mr. Au Chun Kwok Alan was appointed as an independent non-executive director and the chairman of the Audit Committee and Remuneration Committee on 27 January 2021.
5 Mr. Law Cheuk Kin Stephen was appointed as an independent non-executive director on 8 March 2021.
6 Mr. Yu Jinming resigned as an independent non-executive director on 8 March 2021.

The Company has received an annual confirmation of independence from each of the independent non-executive directors as of the date of this report. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

There is no financial, business, family or other material/relevant relationship between Board members.

Chairman and Chief Executive Officer

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

Non-Executive Directors

Each of the independent non-executive directors has entered into a service contract with the Company for a term of three years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

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

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

Remuneration Committee

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. The committee comprises three members, namely Mr. Au Chun Kwok Alan (Chairman), Mr. Wang Bo and Mr. Chen Chuan.

The remuneration of directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

Four meeting were held in 2021 to consider and make recommendations to the Board on the remuneration of directors of the Company based on the above criteria and approve the terms of service contract of three newly appointed independent non-executive directors.

The Group's business is under the direct responsibility of the executive directors who are the senior management of the Company. Details of the amount of directors' emoluments for the year ended 31 December 2021 are set out in note 9 to the financial statements.

Nomination Committee

The Nomination Committee of the Company is responsible for formulating and implementing the policy for nominating potential candidates to the Board and assessing the independence of independent non-executive directors. In discharging its duties, the committee regularly reviews the structure, size and composition of the Board so as to ensure it is aligned with the business objectives of the Group. The committee comprises three members, namely Mr. Cai Dongchen (Chairman), Mr. Wang Bo and Mr. Chen Chuan.

Three meetings were held in 2021 to review the structure, size and composition of the Board, assess the independence of independent non-executive directors and make recommendation to the Board on the re-appointment of directors and appointment of new directors. The Company has adopted a nomination policy which sets out the selection criteria (including but not limited to work experience, cultural and education background, reputation, professional experience, length of service, gender and age of the candidate) and nomination process of directors.

Audit Committee

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Group. The committee comprises three members, namely Mr. Au Chun Kwok Alan (Chairman), Mr. Wang Bo and Mr. Chen Chuan.

Four meetings were held in 2021. At the meetings, the committee discussed and reviewed the following matters:

- the 2020 annual results, annual report and results announcement;
- the external auditor's report to the Audit Committee in respect of the 2020 annual audit;
- the quarterly results for the three months ended 31 March 2021 and results announcement;
- the 2021 interim results, interim report and results announcement;
- the external auditor's report to the Audit Committee in respect of the 2021 interim review;
- the quarterly results for the nine months ended 30 September 2021 and results announcement;
- the performance of the external auditor and its remuneration;
- connected transactions during the year ended 31 December 2020; and
- the systems of risk management and internal controls and the effectiveness of the internal audit function.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2021.

Training for Directors

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

Details of the participation in continuous professional development by the existing directors during the year are summarized in the table below.

	Attending training course/ seminar/forum/conference	Reading regulatory update or materials relevant to the Company or its business
Executive Directors:		
Cai Dongchen	✓	✓
Zhang Cuilong	✓	✓
Wang Zhenguo	✓	✓
Pan Weidong	✓	✓
Wang Huaiyu	✓	✓
Li Chunlei	✓	✓
Wang Qingxi	✓	✓
Chak Kin Man	✓	✓
Jiang Hao	✓	✓
Independent Non-Executive Directors:		
Wang Bo	✓	✓
Chen Chuan	✓	✓
Wang Hongguang	✓	✓
Au Chun Kwok Alan	✓	✓
Law Cheuk Kin Stephen	✓	✓

Risk Management and Internal Controls

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

Effective risk management is the key to sustainable business success. As a major pharmaceutical group based in mainland China, we face a diverse range of risks and uncertainties that could have a materially adverse impact on the business or results of operations. Our approach to risk management is therefore an ongoing process of identification, evaluation and management of the principal risks affecting the business.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented - principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group - regular meetings with each business unit to ensure principal risks are properly managed, and new or changing risks are identified;

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control systems - review of the annual review report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

Internal Control System

The internal control system of the Group is designed to facilitate effective and efficient operations, ensure the maintenance of proper accounting records, ensure compliance with applicable laws and regulations, identify and manage potential risks and safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

During 2021, the Group's internal audit function (undertaken by the Internal Audit Department, and Supervision and Security Department) has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering all material financial, operational and compliance controls, and risk management. In addition, the review has considered the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The review report was submitted to the Audit Committee and the Board for their review.

Apart from review of the annual review report submitted by the internal audit function, the Audit Committee also had regular meetings with the external auditor and reviewed the reports provided by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations given by the external auditor to remedy the control issues identified or to further improve the internal control system.

The Board formed its own view on the effectiveness of the systems based on the review of the annual review report and the recommendation of the Audit Committee.

In respect of the year ended 31 December 2021, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

Dissemination of Inside Information

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties as set out below:

- develop and review the Company's policies and practices on corporate governance and make recommendations;
- review and monitor the training and continuous professional development of directors and senior management;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

The Board has performed the above duties during the year.

External Auditor's Remuneration

During the year, the external auditor of the Company charged approximately RMB4,067,000 for audit services and RMB5,874,000 for non-audit services. The non-audit services consisted of review of half-yearly financial statements and continuing connected transactions, and acting as reporting accountant for a proposed issue of RMB shares.

Financial Reporting

The Directors' responsibilities for the financial statements are set out on page 54 and the responsibilities of the external auditor are set out on page 55 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Company Secretary

Mr. Lo Tai On (appointed as the Company Secretary on 1 January 2021) is a member of The Hong Kong Institute of Certified Public Accountants. He is also a director of Fair Wind Secretarial Services Limited, a company rendering secretarial services, and is not a full-time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lo is Mr. Chak Kin Man, an executive director of the Company. During 2021, Mr. Lo has confirmed that he has taken no less than 15 hours of relevant professional training.

Communications with Shareholders

The objective of communications with shareholders is to provide them with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner. The Company uses a range of communication tools to ensure its shareholders and investors are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

The Company also actively attends different forms of investors' communication activities, including meetings with investors, telephone conferences, activities organized by sell side institutions and non-deal roadshows, with the aim to enhance corporate transparency so that investors can have a better understanding of the business model and latest development strategy of the Group. During 2021, management of the Company has attended around 200 one-on-one or group meetings. In addition, an Investor Day focused on R&D platform and product pipeline was held in Shanghai in November 2021 with more than 500 participants.

In addition, the Company maintains a website at www.cspc.com.hk as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other key information are available for public access.

In order to enable shareholders and investors to exercise their rights in an informed manner and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders and investors may at any time send their enquiries and concerns to the Company via the Company's website. Shareholders may also make enquiries with the Board at the general meetings of the Company.

General Meeting on Requisition by Shareholders

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5 per cent of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting.

The request —

(a) must state the general nature of the business to be dealt with at the meeting;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(c) may consist of several documents in like form;

(d) may be sent in hard copy form or electronic form; and

(e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

Putting Forward Proposal at Annual General Meeting ("AGM")

Pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) can make a request to circulate a resolution for an AGM if they represent —

(a) at least 2.5 per cent of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or

(b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request —

(a) may be sent in hard copy form or electronic form;

(b) must identify the resolution of which notice is to be given;

(c) must be authenticated by the person or persons making it; and

(d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

Procedures for Shareholders to Propose a Person for Election as a Director

The procedures for shareholders to propose a person for election as a director have been uploaded to the Company's website.

2021 General Meetings

At the extraordinary general meeting held in March 2021 and the annual general meeting held in May 2021, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee, Remuneration Committee and Nomination Committee have attended both meetings to ensure effective communication with shareholders.

Constitutional Documents

There was no change in the Company's constitutional documents during the year.

Directors' Report

The board of directors of the Company (the "Board") is pleased to present this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 44, 18 and 19 to the consolidated financial statements, respectively.

Business Review

Overview

The Group is principally engaged in the research and development, manufacture and sales of medicines and pharmaceutical related products primarily in the People's Republic of China (the "PRC" or "China").

The finished drug products of the Group are primarily sold in China. The existing product portfolio consists of drugs in various therapeutic areas. The primary end-user customers of our finished drug products include hospitals, health-care centres, clinics and pharmacy stores. We generate revenue mainly by selling our finished drug products to distributors which in turn sell our products to the end-user customers.

The other products of the Group include vitamin C, antibiotics and glucose products in bulk powder form and functional food products. Apart from the market in China, a significant part of the products is sold in overseas markets, including U.S., Germany, Japan and India. We generate revenue mainly by selling the products to pharmaceutical companies, food and beverages manufacturers and distributors.

The Group has a strong research and development team which focuses on the development of innovative drugs. It is our strategy to continue to invest in research and development in order to maintain a sustainable growth of our business.

The Group's major production facilities and research and development centres are located in Shijiazhuang, Shanghai, Beijing and Yantai in the PRC.

Principal risks and uncertainties

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

(i) Drug approval process

The actual timing of market launch of our products under development could vary significantly from our estimates due to a number of factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties of the outcome. Any delay or failure in the process could adversely affect the timing of market launch of our products. The Group is committed to investing in research and development of new drugs in order to ensure a rich product pipeline.

(ii) Results of drug tenders and centralised procurements

Our sales and profitability depend on our ability to win in drug tenders and centralised procurements for our products at a desirable price in China. We may fail to win due to various factors, including uncompetitive bidding price. If our products fail to win or the new prices are significantly cut, the market share, sales and profitability of the products concerned could be adversely impacted. We have a team of staff handling drug tenders and centralised procurements of our products. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

(iii) Compliance with certain PRC environmental and safety regulations

We are subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to discharge of waste, disposal of hazardous substances, noise pollution and safety of our workers. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our production facilities and obligations to take corrective measures. In addition, we may need to incur additional costs and capital expenditure in order to comply with any new or amended standard. We have established specific department to inspect and monitor the environmental performance of the Group. The department will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

(iv) Exclusion of products from drug reimbursement list

Under the PRC medical insurance scheme, patients can obtain reimbursement of all or a portion of the cost of drugs listed in the National Reimbursement Drug List (the "NRDL"). The NRDL is reviewed and updated from time to time. There is no assurance that our products will be or continue to be listed in the NRDL. The entry into and the removal from the NRDL are beyond our control. The removal of any of our products from the NRDL may have an adverse impact on the sales of the products concerned. In addition, product prices may have to be cut in order to be listed in the NRDL.

(v) *Illegal practice of employees or third-party distributors*

The Group prohibits our employees and third-party distributors from engaging in corruption practices to influence the procurement decision of hospitals. However, we may not be able to effectively ensure that every employee or third-party distributor complies at all times with our policies. If such illegal practices or improper conduct occur, this may harm our reputation or expose us to regulatory investigations and potential punishment. The employee handbook and sales contracts entered into with third-party distributors contain specific rules to prohibit illegal practices in order to prevent misconduct from occurring.

(vi) *Side effects of products*

Our products may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical studies, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by our customers. In addition, our products may be perceived to cause severe side effects if products of other companies containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects. If our products cause or perceived to cause severe side effects, our sales and profitability could be adversely affected. We have adopted a product recall procedure to ensure that our products could be quickly recalled in case of safety or quality concerns.

(vii) *Product liability*

Claims for product liability and product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated, or if we are alleged to have engaged in practices such as insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. Product liability claims may attract negative publicity which may adversely affect our reputation and business. We are committed to maintaining a high technical and quality standard to ensure that the products meet the requirements in all aspects.

Key Relationships

(i) *Employees*

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option scheme and share award scheme to recognize and reward the contribution of the employees for the Group's operations and future development.

(ii) Suppliers

We have developed long-standing relationships with a number of suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Distributors

We sell our finished drug products mainly to distributors which will sell the products to end-user customers. We work closely with the distributors to ensure that we share the view for upholding our brand value and customer services.

(iv) Hospitals

We are committed to offer a broad and diverse range of good-quality products to hospitals. We also stay connected and maintain a close relationship with the hospitals by maintaining a database and have ongoing communications with them through various channels such as visits, marketing materials and meetings.

Environmental policies

We are subject to certain PRC laws, rules and regulations concerning environmental protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste and noise pollution during our manufacturing processes.

The Group attaches importance to comply with the relevant environmental laws and regulations. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to remedy the environmental issues identified and improve the environmental performance of the Group.

Compliance with laws and regulations

The Group's operations are mainly carried out by the Company's subsidiaries established in the mainland China and U.S. while the Company itself is incorporated in Hong Kong with its shares listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China, U.S. and Hong Kong. During the year ended 31 December 2021 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China, U.S. and Hong Kong that have a significant impact on the Group.

Recent Developments

Details of important events affecting the Group since 31 December 2021 are set out in the notes to the consolidated financial statements.

Further discussion and analysis of the business and operation of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections and the consolidated financial statements of this Annual Report.

Results and Appropriations

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on page 57 and 58, respectively.

The Board of Directors recommends a final dividend of HK10 cents per share for 2021. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 22 June 2022 to shareholders whose names appear on the register of members of the Company on 7 June 2022. An interim dividend of HK8 cents per share for 2021 has been paid on 8 October 2021.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2021 amounted to approximately RMB2,321,086,000 (2020: RMB2,092,244,000).

Major Customers and Suppliers

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

Donations

During the year, the Group made charitable donations amounting to approximately RMB49,184,000 (2020: RMB47,605,000).

Fixed Assets

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately RMB1,557,247,000 (2020: RMB1,023,904,000). Details of the movements in fixed assets of the Group during the year are set out in note 13 to the consolidated financial statements.

Share Capital

Details of the movements in the share capital of the Company are set out in note 35 to the consolidated financial statements.

Five-Year Financial Summary

A summary of the Group's results, assets and liabilities for the last five financial years is set out on pages 175 to 176 of this annual report.

Equity-Linked Agreements

Save for the long-term incentive program of the Group, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

Permitted Indemnity Provision

The Articles of Association of the Company provides that every director shall be indemnified out of the assets and profit of the Company against all liability incurred by him as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance policy against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cai Dongchen *(Chairman and CEO)*
Zhang Cuilong *(Vice-Chairman and Rotating CEO)*
Wang Zhenguo
Pan Weidong
Wang Huaiyu
Li Chunlei
Wang Qingxi
Chak Kin Man
Jiang Hao

Independent non-executive directors:

Wang Bo
Chen Chuan
Wang Hongguang *(appointed on 27 January 2021)*
Au Chun Kwok Alan *(appointed on 27 January 2021)*
Law Cheuk Kin Stephen *(appointed on 8 March 2021)*
Yu Jinming *(resigned on 8 March 2021)*
Lo Yuk Lam *(resigned on 27 January 2021)*

In accordance with Article 101 of the Company's Articles of Association, Messrs Wang Zhenguo, Wang Huaiyu, Chak Kin Man, Wang Bo and Chen Chuan shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Prof. Lo Yuk Lam resigned as an independent non-executive director due to retirement. Mr. Yu Jinming resigned as an independent non-executive director due to the pursuit of his other work commitments.

None of the above directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive directors are independent.

The list of directors of the Company's subsidiaries (other than those listed as directors of the Company) is kept at the registered office of the Company and available for inspection by shareholders of the Company during office hours.

Biographical Details of Directors and Senior Management

CAI Dongchen

Mr. Cai, aged 68, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai is also the chairman of the Nomination Committee of the Company and a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

Mr. Cai is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Cai is also a director of True Ally Holdings Limited and Massive Giant Group Limited, both are substantial shareholders of the Company within the meaning of Part XV of the SFO.

ZHANG Cuilong

Mr. Zhang, aged 53, Vice-Chairman and Rotating Chief Executive Officer of the Company, was appointed as an executive director of the Company in 2018. Mr. Zhang is also a director of certain subsidiaries of the Group. Mr. Zhang holds a bachelor's degree in pharmacology from Hebei Medical College (now known as Hebei Medical University) and has extensive technical, marketing and management experience in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang, aged 52, was appointed as an executive director of the Company in 2012. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical, marketing and management experience in the pharmaceutical industry.

PAN Weidong

Mr. Pan, aged 52, was appointed as an executive director of the Company in 2006. Mr. Pan is also a director of certain subsidiaries of the Group. Mr. Pan holds an EMBA degree from Tsinghua University and has extensive finance, accounting and investment experience in the pharmaceutical industry.

Mr. Pan is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

WANG Huaiyu

Mr. Wang, aged 58, was appointed as an executive director of the Company in 2010. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LI Chunlei

Dr. Li, aged 45, was appointed as an executive director of the Company in 2017. Dr. Li is currently the Chief Scientist of the Group in charge of research and development. Dr. Li is also the general manager of a subsidiary of the Company, deputy director of the Novel Pharmaceutical Preparations and Excipients State Key Laboratory and director of the Hebei Pharmaceutical Engineering Technology Centre. Dr. Li holds a bachelor's degree in engineering (biological pharmaceutics) from Jilin University and Shenyang Pharmaceutical University, a master's degree in science (microbial and biochemical pharmaceutics) from Jilin University and a doctorate in science (pharmaceutical science) from Shenyang Pharmaceutical University.

WANG Qingxi

Dr. Wang, aged 56, was appointed as an executive director of the Company in 2018. Dr. Wang is also a director of certain subsidiaries of the Group. Prior to joining the Group, Dr. Wang worked at Merck & Co., Inc. in the U.S. for 20 years where he held senior positions including director of pharmaceutical R&D and director of business development and operation. Dr. Wang holds a bachelor's degree in science (chemistry) and a master's degree in science (chemistry) from Nankai University in China, a master's degree in science (polymer science) and a doctorate in chemistry from University of Connecticut in the U.S. and a MBA degree from Temple University in the U.S..

CHAK Kin Man

Mr. Chak, aged 56, was appointed as an executive director of the Company in 2005. Mr. Chak is also a director of certain subsidiaries of the Group. Mr. Chak is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chak holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relations.

Mr. Chak is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

JIANG Hao

Dr. Jiang, aged 38, was appointed as an executive director of the Company on 24 November 2020. Prior to joining the Group in August 2020, Dr. Jiang has worked at Fastenal Company as general manager (north and central China) in the U.S., Tianjin Kesun Technology Company (marketing and sales centre of Baidu in Tianjin) as general manager and 3H Health Investment Management Ltd. as assistant to chairman and chief operation officer. Dr. Jiang holds a bachelor's degree in management from Hebei University of Technology, a master's degree in management, economics and industrial engineering from Politecnico di Milano and a doctorate in management (technology economics and management) from Hebei University of Technology.

WANG Bo

Mr. Wang, aged 61, was appointed as an independent non-executive director of the Company in 2012. He is also a member of the Audit Committee, Nomination Committee (appointed on 27 January 2021) and Remuneration Committee of the Company. Mr. Wang is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd.. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. Mr. Wang is currently the distinguished researcher of the Research Center of National Drug Policy & Ecosystem.

Mr. Wang is also an independent director of Jiuzhitang Co., Ltd. (listed on Shenzhen Stock Exchange) and Youcare Pharmaceutical Group Co., Ltd, (listed on Shanghai Stock Exchange).

CHEN Chuan

Mr. Chen, aged 58, was appointed as an independent non-executive director of the Company in 2016. He was appointed as a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company on 1 January 2021. Mr. Chen holds a bachelor's degree in Medicine from Norman Bethune University of Medical Science and a Master's degree in Science from Albert Einstein College of Medicine at Yeshiva University.

Mr. Chen is also a director of Shanghai Benemae Pharmaceutical Corporation (quoted on the National Equities Exchange and Quotations System), an independent director of Guangxi Liuzhou Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange) and an independent director of Shanghai Kehua Bio-Engineering Co.,Ltd. (listed on Shanghai Stock Exchange).

WANG Hongguang

Prof. Wang, aged 59, was appointed as an independent non-executive director of the Company on 27 January 2021. Prof. Wang is a director and professor of International Center for Bioeconomy, Institute of Multidisciplinary Biomedical Research of Tsinghua University (National Institute of Biological Sciences, Beijing), executive director and adjunct professor of Peking University's China Center for Strategic Studies, adjunct professor of Tianjin University and China Pharmaceutical University. Prof. Wang has previously served as a director of Center of Biotechnology Development of China of the Ministry of Science and Technology. Prof. Wang has long been engaged in the research on technology and economic strategy, and has conducted in-depth research on domestic and foreign biotechnology development and industry policies. Prof. Wang was the founder of "Disparity Economics" and has published 21 books including "Bio-economic of China" and more than 110 theses. Prof. Wang holds a bachelor's degree in agriculture from Gansu Agricultural University, a master's degree in agri-culture and a doctorate in agriculture from China Agricultural University.

Prof. Wang is also an independent director of Beijing Tiantan Biological Products Corporation Limited (listed on Shanghai Stock Exchange).

AU Chun Kwok Alan

Mr. Au, aged 49, was appointed as an independent non-executive director of the Company, the chairman of the Audit Committee and Remuneration Committee of the Company on 27 January 2021. Mr. Au is the founder and managing director of GT Healthcare Group, a private equity platform focusing on cross border healthcare investments. Prior to that, Mr. Au served as the head of the Asia Healthcare Investment Banking of Deutsche Bank Group, advising healthcare IPO and M&A in the region, an executive director at JAFCO Asia Investment Group, responsible for healthcare investments in China, and an investment director of Morningside Group in charge of healthcare investments in Asia. Mr. Au received a bachelor's degree in psychology from Chinese University of Hong Kong and a master's degree in management from Columbia Business School in New York. Mr. Au is a certified public accountant (CPA) in the U.S. and a chartered financial analyst (CFA), and an associate member of the Hong Kong Institute of Financial Analysts and member of the American Institute of Certified Public Accountants.

Mr. Au is also an independent director of Cellular BioMedicine Group (listed on Nasdaq) and I-Mab Biopharma Co., Ltd. (listed on Nasdaq), and a panel member for biotechnology of the Innovation and Technology Fund of the Hong Kong SAR Government.

Law Cheuk Kin Stephen

Mr. Law, aged 59, was appointed as an independent non-executive director of the Company on 8 March 2021. Mr. Law is currently the Managing Director of ANS Capital Limited. He previously served as the Finance Director and a member of the Executive Directorate of MTR Corporation Limited, CFO of Guoco Group Limited, Hong Kong and Managing Director of TPG Growth Capital (Asia) Limited, and held various senior positions in the Morningside Group and Wheelock Group. He is also a member of the board of directors of SOW (Asia) Foundation, a council member of Hong Kong Business Accountants Association and the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Besides, Mr. Law has been appointed by the Ministry of Finance of the People's Republic of China as an expert consultant to provide advice on finance and management accounting. Mr. Law holds a Bachelor's degree in Science (Civil Engineering) from the University of Birmingham, the United Kingdom and received a Master's degree in Business Administration from the University of Hull, the United Kingdom.

Mr. Law is also an independent non-executive director of China Everbright Limited, Somerley Capital Holdings Limited, China Galaxy Securities Co., Ltd., Bank of Guizhou Co., Ltd. and Keymed Biosciences Inc., all of which are listed on the Stock Exchange of Hong Kong Limited. Mr. Law has resigned from the board of Bank of Guizhou Co., Ltd in November 2021, and his resignation will become effective upon the China Banking and Insurance Regulatory Commission Guizhou Office's approval of the incoming independent non-executive directors.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Details of the connected transactions and continuing connected transactions of the Group during the year are set out in the section headed "Connected Transactions and Continuing Connected Transactions".

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2021, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions

Name of director	Capacity	Number of issued ordinary shares held		Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	221,132,960		
	Interest of controlled corporation	2,604,708,710	*(Note)*	
		2,825,841,670		23.65%
Chak Kin Man	Beneficial owner	7,680		0.00006%

Note: Mr. Cai Dongchen is deemed to be interested in 2,604,708,710 shares, comprising (i) 410,744,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥))("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2021.

Arrangements to Purchase Shares or Debentures

Other than the long-term incentive program of the Group, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the year.

Substantial Shareholders

As at 31 December 2021, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held		Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	221,132,960		
	Interest in controlled corporation	2,604,708,710	*(Note)*	
		2,825,841,670		23.65%
True Ally Holdings Limited	Beneficial owner	948,249,600		
	Interest in controlled corporation	1,656,459,110	*(Note)*	
		2,604,708,710		21.80%
Massive Giant Group Limited	Beneficial owner	1,218,834,470		10.20%
Common Success International Limited	Beneficial owner	728,796,313		6.10%
UBS Group AG	Interest in controlled corporation	836,194,776		7.00%

Note: Mr. Cai Dongchen is deemed to be interested in 2,604,708,710 shares, comprising (i) 410,744,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Zhongyihe and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2021.

Connected Transactions and Continuing Connected Transactions

Connected Transactions

On 30 April 2021, CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd. ("CSPC Zhongnuo") entered into an Equity Transfer Agreement with CSPC Holdings Company Limited ("CHL") to sell 49.5% equity interest in CSPC Zhongcheng Pharmaceutical Logistics Co., Ltd ("Zhongcheng Logistics") at a consideration of RMB34,650,000. Upon completion of the disposal, the Group ceased to have any interest in Zhongcheng Logistics.

On 22 December 2021, CSPC NBP Pharmaceutical Co. Ltd., CSPC Zhongnuo, CSPC Ouyi Pharmaceutical Co. Ltd., and CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd. entered into lease agreements with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 1 January 2022. The value of the right-of-use assets under the renewed lease agreements will be recognised by the Group in its consolidated statement of financial position in accordance with the HKFRS 16 applicable to the Group was approximately RMB143,060,000.

Continuing Connected Transactions

During the year ended 31 December 2021, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Name of company	Nature of transactions	Transaction amount *RMB'000*
CHL and its subsidiaries (the "CHL Group")	Sales of pharmaceutical products (note a)	509,631
	Purchase of pharmaceutical products (note b)	55,560
	Rental expense (note c)	3,313
	Purchase of steam (note d)	20,486
	Purchase of steam (note e)	20,321

Notes:

(a) On 1 November 2018, the Company entered into a master sales agreement with CHL for the sale of pharmaceutical products to the CHL Group for a terms of three years commencing on 1 November 2018. The agreement was renewed on 22 November 2021 for a period of three years commencing from 1 November 2021. Details of the transactions are set out in the announcement of the Company dated 22 November 2021.

(b) On 30 April 2021, the Company entered into a master purchase agreement with CHL for the purchase of medicines, raw materials, equipment, low-cost consumables and other products from the CHL Group for the period from 1 May 2021 to 31 December 2021. The agreement was renewed on 22 December 2021 for a period of three years commencing from 1 January 2022. Details of the transactions are set out in the announcement of the Company dated on 30 April 2021 and 22 December 2021.

(c) On 20 July 2002, CSPC Zhongnuo entered into a lease agreement with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The rental was revised to RMB3,312,800 per annum upon review on 1 August 2020.

(d) On 18 December 2020, CSPC Innovation Pharmaceutical Co. Ltd. ("CSPC XNW") entered into a steam supply agreement with Hebei Hongyuan Heat & Electricity Co. Ltd. ("Hongyuan") for the purchase of steam from Hongyuan for a term of one year commencing on 1 January 2021. On 21 October 2021, CSPC XNW entered into a supplemental agreement with Hongyuan to revise the annual cap. Details of the transactions are set out in the announcement of the Company dated 21 October 2021.

(e) On 12 July 2019, Hebei Shengxue Glucose Limited Liability Company entered into a steam supply agreement with Hongyuan for the purchase of steam from Hongyuan for a term of three years commencing on 13 June 2019. On 30 September 2021, CSPC XNW entered into a supplemental agreement with Hongyuan to revise the annual cap. Details of the transactions are set out in the announcement of the Company dated 30 September 2021.

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in CHL through a series of corporations. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. In addition, each of Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Li Chunlei and Dr. Jiang Hao, all being directors of the Company, is also indirectly interested in CHL.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to carry out assurance procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Related Party Transactions

Significant related party transactions which were undertaken in the normal course of business are set out in note 42 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) under the Listing Rules but are not disclosed in the section headed "Connected Transactions and Continuing Connected Transactions", they are exempt from reporting, annual review and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

Interests in Competitor

CHL holds certain equity interest in CSPC Jiangxi Jinfurong Pharmaceutical Co., Ltd, a company principally engaged in the manufacture and sales of traditional Chinese medicines in the PRC and which may compete with the Group in certain aspects of its business.

Each of Mr. Cai Dongchen, Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Li Chunlei and Dr. Jiang Hao, all being directors of the Company, has an indirect interest in CHL.

Long-Term Incentive Program

Particulars of the Company's share option scheme and share award scheme are set out in note 36 to the consolidated financial statements.

Emolument Policy

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

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

During the year, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares	Highest price per share paid	Lowest price per share paid	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
November 2021	3,100,000	8.10	8.02	25,005
December 2021	35,396,000	8.60	8.03	291,450
	38,496,000			316,455

23,790,000 and 14,706,000 of the above shares were cancelled upon delivery of the share certificates in December 2021 and January 2022, respectively.

The repurchase of shares were made for the benefit of the shareholders with a view to enhancing the earnings per share as well as maximizing shareholders' return.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2021.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
CAI Dongchen
Chairman

Hong Kong, 22 March 2022

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 174, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2021, the Group's net trade receivables amounted to RMB3,309,148,000, representing approximately 10% of total assets of the Group, and RMB186,387,000 of which were past due. As disclosed in note 40 to the consolidated financial statements, the management of the Group estimated the amount of lifetime ECL of trade receivables, other than major customers and credit-impaired balances, based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates were based on historical observed default rates over the expected life of the debtors and were adjusted for forward-looking information. Trade receivables with major customers and credit-impaired balances were assessed for ECL individually. The loss allowance of the credit-impaired trade receivables was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 40 to the consolidated financial statements, the Group's lifetime ECL recognised on trade receivables as at 31 December 2021 amounted to approximately RMB49,459,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer; • Involving our internal valuation specialists to assess the appropriateness of valuation methodology and assumptions adopted; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2021, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2021, including their identification of major customers and credit-impaired balances, the reasonableness of management's grouping of the remaining debtors into different categories in the provision matrix, and the basis of estimated loss rates applied for each individual trade debtor and each category in the provision matrix (with reference to historical default rates and forward-looking information); and • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 22 and 40 to the consolidated financial statements.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Fung Suet Ngan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2022

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	5	**27,866,870**	24,942,204
Cost of sales		**(6,731,776)**	(6,256,882)
Gross profit		**21,135,094**	18,685,322
Other income		**411,223**	264,736
Other gains or losses		**242,675**	376,816
Selling and distribution expenses		**(10,443,422)**	(9,377,620)
Administrative expenses		**(1,009,824)**	(945,713)
Research and development expenses		**(3,432,590)**	(2,889,837)
Other expenses		**(108,204)**	(57,036)
Share of results of associates	18	**(23,894)**	(20,917)
Share of results of joint ventures	19	**46,337**	34,449
Gain on deemed disposal of partial interest in an associate	18	**13,092**	37,192
Gain on disposal of a joint venture		**24,273**	—
Gain on disposal of subsidiaries	37	**—**	314,901
Loss on deemed disposal of a subsidiary	37	**—**	(19,038)
Finance costs	6	**(7,664)**	(12,232)
Profit before tax		**6,847,096**	6,391,023
Income tax expense	8	**(1,158,972)**	(1,162,013)
Profit for the year	7	**5,688,124**	5,229,010
Profit for the year attributable to:			
Owners of the Company		**5,605,185**	5,159,655
Non-controlling interests		**82,939**	69,355
		5,688,124	5,229,010
		RMB cents	RMB cents
Earnings per share			
— Basic	11	**46.89**	43.16
— Diluted	11	**46.89**	43.16

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	2021 *RMB'000*	2020 *RMB'000*
Profit for the year	**5,688,124**	5,229,010
Other comprehensive (expense) income:		
Item that will not be reclassified to profit or loss:		
Fair value (loss) gain on financial assets measured at fair value through other comprehensive income, net of income tax	**(19,723)**	240,898
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**7,800**	(9,340)
Other comprehensive (expense) income for the year, net of income tax	**(11,923)**	231,558
Total comprehensive income for the year	**5,676,201**	5,460,568
Total comprehensive income for the year attributable to:		
Owners of the Company	**5,593,262**	5,391,213
Non-controlling interests	**82,939**	69,355
	5,676,201	5,460,568

Consolidated Statement of Financial Position

At 31 December 2021

	Notes	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	13	**8,529,370**	7,770,442
Right-of-use assets	14	**1,034,549**	1,163,898
Investment property	15	**33,687**	35,406
Goodwill	16	**149,983**	149,983
Other intangible assets	17	**467,854**	508,742
Interests in associates	18	**650,956**	571,640
Interests in joint ventures	19	**292,505**	261,546
Amounts due from joint ventures	42	**253,953**	757,331
Other financial assets	20	**1,979,345**	1,877,024
Deferred tax assets	33	**43,000**	117,471
Deposits, prepayments and other receivables	23	**569,871**	505,356
Bank balances	26	**400,000**	430,000
		14,405,073	14,148,839
Current assets			
Inventories	21	**2,480,369**	1,861,066
Trade receivables	22	**3,309,148**	2,398,859
Deposits, prepayments and other receivables	23	**580,425**	484,289
Bills receivables	24	**3,099,188**	1,989,549
Amounts due from related companies	42	**100,135**	144,260
Amount due from an associate	42	**400**	82,428
Amounts due from joint ventures	42	**39,783**	129,680
Structured bank deposits	25	**1,443,413**	1,535,207
Bank balances and cash	26	**9,283,642**	7,296,029
		20,336,503	15,921,367

	Notes	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Current liabilities			
Trade payables	27	**1,481,359**	1,204,566
Other payables	28	**4,680,829**	3,554,759
Contract liabilities	31	**428,404**	625,699
Bills payables	29	**141,258**	37,000
Contingent consideration payable	40c	**–**	24,346
Amounts due to related companies	42	**58,910**	13,168
Amounts due to joint ventures	42	**136,127**	239,630
Lease liabilities	32	**38,424**	124,835
Tax liabilities		**260,732**	378,839
Borrowing	30	**–**	99,000
		7,226,043	6,301,842
Net current assets		**13,110,460**	9,619,525
Total assets less current liabilities		**27,515,533**	23,768,364
Non-current liabilities			
Other payables	28	**250,198**	253,968
Lease liabilities	32	**55,620**	92,879
Deferred tax liabilities	33	**381,484**	320,444
		687,302	667,291
Net assets		**26,828,231**	23,101,073

	Notes	**As at 31 December 2021** *RMB'000*	As at 31 December 2020 RMB'000
Capital and reserves			
Share capital	35	**10,899,412**	10,899,412
Reserves		**15,087,260**	11,432,876
Equity attributable to owners of the Company		**25,986,672**	22,332,288
Non-controlling interests		**841,559**	768,785
Total equity		**26,828,231**	23,101,073

The consolidated financial statements on pages 57 to 174 were approved and authorised for issue by the Board of Directors on 22 March 2022 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Equity attributable to owners of the Company									Equity attributable to non-controlling interests			
	Share capital RMB'000	Treasury share reserve RMB'000	Share award reserve RMB'000	Other reserves RMB'000 (note a)	Statutory reserve RMB'000 (note b)	Capital contribution reserve RMB'000 (note c)	Translation reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Share-based payment reserve of subsidiary RMB'000	Share of net assets of subsidiaries RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2020	10,899,412	(100,706)	6,721	(3,857,766)	1,789,312	46,794	(26,906)	9,704,862	18,461,723	–	1,056,442	1,056,442	19,518,165
Profit for the year	–	–	–	–	–	–	–	5,159,655	5,159,655	–	69,355	69,355	5,229,010
Other comprehensive income for the year, net of income tax	–	–	–	240,898	–	–	(9,340)	–	231,558	–	–	–	231,558
Total comprehensive income for the year	–	–	–	240,898	–	–	(9,340)	5,159,655	5,391,213	–	69,355	69,355	5,460,568
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(7,729)	(7,729)	(7,729)
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	(1,527,694)	(1,527,694)	–	–	–	(1,527,694)
Transfer to statutory reserves	–	–	–	–	85,930	–	–	(85,930)	–	–	–	–	–
Recognition of equity-settled share-based payment expense	–	–	7,046	–	–	–	–	–	7,046	2,080	–	2,080	9,126
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(2,990)	(2,990)	(2,990)
Disposal of subsidiaries *(note 37)*	–	–	–	–	–	–	–	–	–	–	(1,756)	(1,756)	(1,756)
Deemed disposal of a subsidiary *(note 37)*	–	–	–	–	–	–	–	–	–	–	(346,617)	(346,617)	(346,617)
Disposal of financial assets measured at fair value through other comprehensive income	–	–	–	(70,452)	–	–	–	70,452	–	–	–	–	–
At 31 December 2020	10,899,412	(100,706)	13,767	(3,687,320)	1,875,242	46,794	(36,246)	13,321,345	22,332,288	2,080	766,705	768,785	23,101,073
At 1 January 2021	**10,899,412**	**(100,706)**	**13,767**	**(3,687,320)**	**1,875,242**	**46,794**	**(36,246)**	**13,321,345**	**22,332,288**	**2,080**	**766,705**	**768,785**	**23,101,073**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,605,185**	**5,605,185**	**–**	**82,939**	**82,939**	**5,688,124**
Other comprehensive income for the year, net of income tax	**–**	**–**	**–**	**(19,723)**	**–**	**–**	**7,800**	**–**	**(11,923)**	**–**	**–**	**–**	**(11,923)**
Total comprehensive income for the year	**–**	**–**	**–**	**(19,723)**	**–**	**–**	**7,800**	**5,605,185**	**5,593,262**	**–**	**82,939**	**82,939**	**5,676,201**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,500)**	**(12,500)**	**(12,500)**
Dividends recognised as distribution *(note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,690,763)**	**(1,690,763)**	**–**	**–**	**–**	**(1,690,763)**
Repurchase of ordinary shares *(note 35)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(263,512)**	**(263,512)**	**–**	**–**	**–**	**(263,512)**
Transfer to statutory reserves	**–**	**–**	**–**	**–**	**42,410**	**–**	**–**	**(42,410)**	**–**	**–**	**–**	**–**	**–**
Recognition of equity-settled share-based payment expense	**–**	**–**	**16,242**	**–**	**–**	**–**	**–**	**–**	**16,242**	**1,490**	**–**	**1,490**	**17,732**
Acquisition of additional interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(845)**	**(845)**	**–**	**845**	**845**	**–**
Shares vested under the share award scheme	**–**	**15,106**	**(12,338)**	**–**	**–**	**–**	**–**	**(2,768)**	**–**	**–**	**–**	**–**	**–**
Disposal of financial assets measured at fair value through other comprehensive income	**–**	**–**	**–**	**(343,788)**	**–**	**–**	**–**	**343,788**	**–**	**–**	**–**	**–**	**–**
At 31 December 2021	**10,899,412**	**(85,600)**	**17,671**	**(4,050,831)**	**1,917,652**	**46,794**	**(28,446)**	**17,270,020**	**25,986,672**	**3,570**	**837,989**	**841,559**	**26,828,231**

Notes:

(a) The balance in other reserve mainly included an amount of RMB4,030,633,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of RMB2,631,198,000 and the fair value of the consideration paid by the Company of RMB6,661,831,000 in a reverse acquisition on 29 October 2012.

(b) The statutory reserves were appropriated from profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(c) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 42, which comprise (1) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under Robust Sun Group in 2012; (2) the imputed interest arising on a non-interest bearing loan from CHL in 2012; and (3) deemed capital contribution arising from the acquisition of CSPC Shengxue Glucose Co., Ltd. from CHL in 2016.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**6,847,096**	6,391,023
Adjustments for:			
Amortisation of other intangible assets		**25,361**	15,121
Depreciation of property, plant and equipment		**700,408**	671,254
Depreciation of right-of-use assets		**137,983**	120,713
Depreciation of investment property		**1,719**	1,719
Finance costs		**7,664**	12,232
Government grant income		**(96,252)**	(111,606)
Fair value changes on financial assets at fair value through profit or loss		**(205,040)**	(531,097)
Interest income		**(183,240)**	(102,820)
Imputed interest income on amount due from a joint venture		**(8,983)**	(11,912)
Fair value changes on structured bank deposits		**(81,532)**	(57,705)
Fair value changes on contingent consideration payable		**—**	10,423
Loss on disposal of property, plant and equipment		**10,786**	12,386
Impairment loss on other intangible assets		**50,000**	—
Impairment loss recognised on trade receivables under expected credit loss model		**33,263**	9,693
Impairment loss (reversed) recognised on amounts due from joint ventures under expected credit loss model		**(27,499)**	26,733
Impairment loss (reversed) recognised on other receivables under expected credit loss model		**(1,694)**	1,694
(Reversal of) write-down of inventories		**(2,236)**	1,858
Shares-based payment expense		**17,732**	9,126
Share of results of associates		**23,894**	20,917
Share of results of joint ventures		**(46,337)**	(34,449)
Gain on disposal of subsidiaries	37	**—**	(314,901)
Gain on disposal of a joint venture		**(24,273)**	—
Gain on deemed disposal of partial interest in an associate	18	**(13,092)**	(37,192)
Gain on deregistration of a subsidiary		**—**	(1,798)
Loss on deemed disposal of a subsidiary	37	**—**	19,038
Operating cash flows before movements in working capital		**7,165,728**	6,120,450
(Increase) decrease in inventories		**(617,067)**	601,436
Increase in trade receivables		**(943,552)**	(445,452)
(Increase) decrease in deposits, prepayments and other receivables		**(221,362)**	71,921
Increase in bills receivables		**(1,109,639)**	(182,799)
Decrease (increase) in amounts due from related companies		**44,125**	(105,486)
Increase in trade payables		**276,793**	337,706
(Decrease) increase in contract liabilities		**(197,295)**	162,703
Increase (decrease) in bills payables		**104,258**	(11,527)
Increase in other payables		**1,091,010**	461,001
Increase in government grants		**153,075**	128,868
Increase in amount due from an associate		**(400)**	—
Decrease in amounts due from joint ventures		**89,897**	688,218
Decrease in amounts due to joint ventures		**(103,503)**	(28,726)
Increase in amounts due to related companies		**45,742**	2,314
Cash generated from operations		**5,777,810**	7,800,627
Income tax paid		**(1,141,183)**	(1,061,017)
NET CASH FROM OPERATING ACTIVITIES		**4,636,627**	6,739,610

	Notes	2021 RMB'000	2020 RMB'000
INVESTING ACTIVITIES			
Purchase of and deposits paid for property, plant and equipment		**(1,410,146)**	(1,356,241)
Purchase of and deposits paid for right-of-use assets		**(9,152)**	(198,876)
Purchase of and deposits paid for other intangible assets		**(339,150)**	(21,489)
Purchase of and deposits paid for other financial assets		**(484,406)**	(251,304)
Capital injection to associates		**(81,000)**	(150,427)
Capital injection to a joint venture		**(40,000)**	—
Advance to an associate		**—**	(71,070)
Repayment from an associate		**73,310**	—
Advances to joint ventures		**—**	(100,238)
Repayment from joint ventures		**538,233**	—
Payment of contingent consideration		**(24,346)**	(18,130)
Receipts of government grants		**37,279**	4,728
Placement of structured bank deposits		**(3,373,500)**	(3,595,000)
Placement of restricted bank deposits		**(23,933)**	(36,571)
Placement of bank deposits		**(860,000)**	(430,000)
Withdrawal of structured bank deposits		**4,111,826**	3,861,646
Withdrawal of restricted bank deposits		**36,571**	128,771
Withdrawal of bank deposits		**690,000**	—
(Increase) decrease in structured bank deposits with maturity within three months		**(565,000)**	94,900
Interest received		**183,240**	91,934
Dividend received from a joint venture		**45,000**	—
Proceeds from distribution of other financial assets		**586,593**	191,437
Deregistration of a subsidiary		**—**	(2,987)
Disposal of subsidiaries	37	**150,914**	(289,675)
Proceeds from disposal of a joint venture		**34,650**	—
Proceeds from disposal of property, plant and equipment		**85,691**	28,832
Deemed disposal of a subsidiary	37	**—**	(9,753)
NET CASH USED IN INVESTING ACTIVITIES		**(637,326)**	(2,129,513)

	2021 *RMB'000*	2020 *RMB'000*
FINANCING ACTIVITIES		
Dividends paid	**(1,690,763)**	(1,527,694)
Dividends paid to non-controlling interests	**(12,500)**	(7,729)
Repurchase of share	**(263,512)**	—
Interest on lease liabilities	**(7,105)**	(10,322)
Interest on bank borrowings	**(559)**	(1,910)
Payment of lease liabilities	**(123,167)**	(92,321)
New borrowings raised	**—**	169,000
Repayment of borrowings	**(99,000)**	—
NET CASH USED IN FINANCING ACTIVITIES	**(2,196,606)**	(1,470,976)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,802,695**	3,139,121
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**7,259,458**	4,118,236
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(2,444)**	2,101
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**9,059,709**	7,259,458

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. General Information

CSPC Pharmaceutical Group Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries (hereinafter together with the Company collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 44.

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

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior year and/or the disclosures set out in these consolidated financial statements.

2. Application of Amendments To Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

Impacts on application of the agenda decision of the Committee – Cost necessary to sell inventories (HKAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising From a Single Transactions[3]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020[2]

1 Effective for annual periods beginning on or after 1 April 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 Effective for annual periods beginning on or after a date to be determined

The directors of the Company (the "Directors") anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Significant Accounting Policies

(a) Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition, the results of the valuation technique equal the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. Significant Accounting Policies *(continued)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has the rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date when the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

3. Significant Accounting Policies *(continued)*

(b) Basis of consolidation *(continued)*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Significant Accounting Policies *(continued)*

(c) Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2021, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

3. Significant Accounting Policies *(continued)*

(c) Business combinations or asset acquisitions *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

3. Significant Accounting Policies *(continued)*

(c) Business combinations or asset acquisitions *(continued)*

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustment depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU"s) (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

3. Significant Accounting Policies *(continued)*

(d) Goodwill *(continued)*

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

(e) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associate and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. Significant Accounting Policies *(continued)*

(e) Investments in associates and joint ventures *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

3. Significant Accounting Policies *(continued)*

(e) Investments in associates and joint ventures *(continued)*

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interest in the associate or joint venture that is not related to the Group.

(f) Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. Significant Accounting Policies *(continued)*

(f) Revenue from contracts with customers *(continued)*

For granting of a licence that is distinct from other promised goods or services, the nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the licence directly expose the customer to any positive or negative effects of the Group's activities; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group accounts for the promise to grant a licence as a performance obligation satisfied over time. Otherwise, the Group considers the grant of licence as providing the customers the right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the licence is granted.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Variable consideration

For contracts that contain variable consideration (price adjustments), the Group estimates the amount of consideration to which it will be entitled using the expected value method, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. Significant Accounting Policies *(continued)*

(g) Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

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

3. Significant Accounting Policies *(continued)*

(g) Leases *(continued)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. Significant Accounting Policies *(continued)*

(g) Leases *(continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. Significant Accounting Policies *(continued)*

(g) Leases *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

3. Significant Accounting Policies *(continued)*

(h) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates or joint ventures.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. Significant Accounting Policies *(continued)*

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

(k) Employment benefits

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

3. Significant Accounting Policies *(continued)*

(l) Share-based payments

Equity-settled share-based payments transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the share options determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of the reporting period, the Group revises its estimate of the number of share options expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimate, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

When share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment will be transferred to accumulated profits.

Awarded shares granted to employees

For grants of awarded shares that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of awarded shares at the grant date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of awarded shares that will eventually vest, with a corresponding increase in equity (share award reserve).

At the end of each reporting period, the Group revises its estimates of the number of awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity (share award reserve).

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is deducted from total equity and is presented as treasury share reserve. No gain or loss is recognized on the transactions of the Company's own shares.

When the trustee transfers the Company's granted shares to grantees upon vesting, the related costs of the granted shares vested are reversed from the treasury share reserve and the related expense of the granted shares vested is reversed from share award reserve. The difference arising from such transfer is debited/credited to accumulated profits.

3. Significant Accounting Policies *(continued)*

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates or joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. Significant Accounting Policies *(continued)*

(m) Taxation *(continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(n) Property, plant and equipment

Property, plant and equipment including buildings and tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. Significant Accounting Policies *(continued)*

(n) Property, plant and equipment *(continued)*

When the Group makes payments for ownership interests of properties which include both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

(o) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3. Significant Accounting Policies *(continued)*

(p) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets not yet available for use that are acquired separately are not amortised but tested individually for impairment annually and carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible assets — research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. Significant Accounting Policies *(continued)*

(p) Intangible assets *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination not yet available for use or with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain and loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

(q) Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to individual CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

3. Significant Accounting Policies *(continued)*

(q) Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill *(continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(r) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

3. Significant Accounting Policies *(continued)*

(s) Provisions *(continued)*

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

(t) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investments revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, deposits and other receivables, bills receivables, amounts due from related companies, an associate and joint ventures, bank deposits, restricted bank deposits and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade receivables due from related companies.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables and trade receivables due from related companies, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered based on provision matrix taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and trade receivables due from related companies, where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the other reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. Significant Accounting Policies *(continued)*

(t) Financial instruments *(continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration of an acquirer in a business combination to which HKFRS 3 applies.

Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables, bills payables, amounts due to an associate, joint ventures and related companies and borrowing) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

4. Key Sources of Estimation Uncertainty *(continued)*

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Provision of ECL for trade receivables

Trade receivables with major customers and credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on debtors' aging as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

As at 31 December 2021, the carrying amount of trade receivables amounted to RMB3,309,148,000 (2020: 2,398,859,000) were net of impairment allowance under ECL model. The provision of ECL is sensitive to changes in estimates. The information about the ECL are disclosed in note 40.

Estimated impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU (or a group of CGUs) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU (or a group of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

As at 31 December 2021, the carrying amount of goodwill amounted to RMB149,983,000 (2020: RMB149,983,000). Details of the recoverable amount calculation are disclosed in note 16.

4. Key Sources of Estimation Uncertainty *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated impairment assessment of other intangible assets not yet available for use

For other intangible assets not yet available for use, the Group would assess the assets individually for impairment annually. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belong, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2021, the carrying amounts of other intangible assets not yet available for use amounted to RMB384,837,000 (2020: RMB384,837,000). Details of the assessment of impairment of other intangible assets not yet available for use are disclosed in note 17.

Fair value measurement of financial assets

As at 31 December 2021, certain of the Group's financial assets, unquoted equity instruments amounting to RMB1,912,620,000 (2020: RMB1,840,922,000) were measured at fair values with fair value being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 40c for further disclosures.

5. Revenue and Segment Information

	2021	2020
	RMB'000	*RMB'000*
Sale of goods	**27,818,345**	24,942,204
Licence fee income	**48,525**	—
	27,866,870	24,942,204

5. Revenue and Segment Information *(continued)*

Information reported to executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

(a) Finished drugs — research and development, manufacture and sale of pharmaceutical products and licence fee income;

(b) Bulk products — manufacture and sale of vitamin C, antibiotic and other products in bulk powder form; and

(c) Functional food and others — manufacture and sale of functional food products including caffeine additives and vitamin supplements), provision of healthcare service and others.

Sale of goods

Revenue is recognised at a point of time upon control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

As at 31 December 2021, all outstanding sales contracts are expected to be fulfilled within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Licence fee income

The Group provides licence of its patented intellectual property ("IP") or commercialisation licence to customers and revenue is recognised when the customers obtain rights to access or use the underlying IP or licence. Licence fee income is recognised at a point of time upon the customer obtains control of IP or if control is transferred over time, e.g. commercialisation licence to customers for a term of period, revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation.

The consideration for licence comprises a fixed element (the upfront payment) and variable elements (including but not limited to development milestones and royalties).

For licence associated with customers' right to use, upfront fee received is recorded under contract liabilities and recognised as revenue only when customers have ability to use the licence and variable consideration is recognised only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future.

5. Revenue and Segment Information *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2021

		Bulk products		Functional			
	Finished drugs	Vitamin C	Antibiotics and others	food and others	Segment total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	22,632,919	2,149,099	1,670,110	1,366,217	27,818,345	–	27,818,345
Inter-segment sales	–	11,537	176,182	28,320	216,039	(216,039)	–
Licence fee income	48,525	–	–	–	48,525	–	48,525
TOTAL REVENUE	22,681,444	2,160,636	1,846,292	1,394,537	28,082,909	(216,039)	27,866,870
SEGMENT PROFIT	5,216,239	741,808	143,110	315,597	6,416,754		6,416,754
Unallocated income							479,651
Unallocated expenses							(101,453)
Share of results of associates							(23,894)
Share of results of joint ventures							46,337
Gain on deemed disposal of partial interest in an associate							13,092
Gain on disposal of a joint venture							24,273
Finance costs							(7,664)
Profit before tax							6,847,096

5. Revenue and Segment Information *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2020

	Finished drugs	Bulk products: Vitamin C	Bulk products: Antibiotics and others	Functional food and others	Segment total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	20,404,678	1,859,272	1,372,639	1,305,615	24,942,204	–	24,942,204
Inter-segment sales	–	6,739	115,707	15,106	137,552	(137,552)	–
TOTAL REVENUE	20,404,678	1,866,011	1,488,346	1,320,721	25,079,756	(137,552)	24,942,204
SEGMENT PROFIT	4,814,309	333,009	119,869	275,160	5,542,347		5,542,347
Unallocated income							703,535
Unallocated expenses							(189,214)
Share of results of associates							(20,917)
Share of results of joint ventures							34,449
Gain on deemed disposal of partial interest in an associate							37,192
Gain on disposal of subsidiaries							314,901
Loss on deemed disposal of a subsidiary							(19,038)
Finance costs							(12,232)
Profit before tax							6,391,023

5. Revenue and Segment Information *(continued)*

Segment revenues and results *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, fair value changes on financial assets measured at FVTPL, finance costs, central administrative expenses, share of results of associates and joint ventures, gain on deemed disposal of partial interest in an associate, gain on disposal of a joint venture, gain on disposal of subsidiaries and loss on deemed disposal of a subsidiary. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Other segment information

For the year ended 31 December 2021

		Bulk products					
	Finished drugs	Vitamin C	Antibiotics and others	Functional food and others	Segment total	Unalloated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation and amortisation	609,873	86,331	92,799	66,683	855,686	9,785	865,471

For the year ended 31 December 2020

		Bulk products					
	Finished drugs	Vitamin C	Antibiotics and others	Functional food and others	Segment total	Unalloated	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	546,832	84,972	94,837	66,920	793,561	15,246	808,807

5. Revenue and Segment Information *(continued)*

Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of customers:

	2021	2020
	RMB'000	*RMB'000*
The PRC (country of domicile)	**24,288,769**	21,615,773
Other Asian regions	**1,474,553**	872,244
Americas	**1,159,269**	1,252,436
Europe	**700,267**	987,194
Others	**244,012**	214,557
	27,866,870	24,942,204

The Group's operations are substantially based in the PRC and substantially all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

6. Finance Costs

	2021	2020
	RMB'000	*RMB'000*
Interest on lease liabilities	**7,105**	10,322
Interest on bank borrowings	**559**	1,910
	7,664	12,232

7. Profit for the Year

	2021 *RMB'000*	2020 *RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration *(note 9)*		
— salaries, wages and other benefits	**3,456,607**	2,771,548
— contribution to retirement benefit schemes	**212,608**	97,128
— shared-based payment expense	**17,732**	9,126
Total staff costs	**3,686,947**	2,877,802
Depreciation of property, plant and equipment	**700,408**	671,254
Depreciation of right-of-use assets	**137,983**	120,713
Depreciation of investment property	**1,719**	1,719
Amortisation of other intangible assets	**25,361**	15,121
Total depreciation and amortisation	**865,471**	808,807
Auditor's remuneration		
— audit services	**4,067**	4,217
— non-audit services	**5,874**	4,860
Government grant income (included in other income) *(note 34)*	**(96,252)**	(111,606)
Impairment losses recognised on other intangible assets (included in other expenses)	**50,000**	—
Impairment losses recognised under expected credit loss model, net of reversal (included in other gains or losses)	**4,070**	38,120
Interest income (included in other income)	**(183,240)**	(102,820)
Fair value changes on financial assets measured at FVTPL (included in other gain or losses)	**(205,040)**	(531,097)
Fair value changes on structured bank deposits (included in other gains or losses)	**(81,532)**	(57,705)
Fair value changes on contingent consideration payables (included in other gains or losses)	**—**	10,423
Loss on disposal of property, plant and equipment (included in other gains or losses)	**10,786**	12,386
Net foreign exchange loss (included in other gains or losses)	**35,961**	127,465

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss for the years ended 31 December 2021 and 2020.

8. Income Tax Expense

	2021	2020
	RMB'000	RMB'000
Current taxation:		
— PRC Enterprise Income Tax ("PRC EIT")	**880,441**	1,039,914
— PRC withholding tax on dividends distributed by subsidiaries	**94,750**	136,419
— United States of America ("USA") Federal and State Income tax	**6,787**	4,714
	981,978	1,181,047
Deferred taxation *(note 33)*	**176,994**	(19,034)
	1,158,972	1,162,013

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2023.

The calculation of USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

8. Income Tax Expense *(continued)*

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2021	2020
	RMB'000	RMB'000
Profit before tax	**6,847,096**	6,391,023
Tax at the PRC EIT rate of 25%	**1,711,774**	1,597,756
Tax effect of expenses not deductible for tax purpose	**173,260**	208,774
Tax effect of income not taxable for tax purpose	**(53,457)**	(104,579)
Tax effect of share of results of associates	**5,973**	5,229
Tax effect of share of results of joint ventures	**(11,584)**	(8,612)
Utilization of tax losses not previously recognized	**(99,796)**	—
Tax effect of tax losses not recognised	**37,542**	121,847
Effect of tax relief and concessions granted to certain PRC subsidiaries	**(785,913)**	(804,608)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,077)**	(213)
PRC withholding tax on dividends distribution by subsidiaries	**182,250**	146,419
Income tax expense for the year	**1,158,972**	1,162,013

Details of deferred taxation and unused tax losses are set out in note 33.

9. Directors' and Chief Executive's Emoluments

The emoluments paid or payable to each of the 16 (2020: 16) directors were as follows:

2021

	Executive directors									Independent non-executive directors							
	Cai Dongchen *RMB'000* (Chairman and CEO)	Zhang Cuilong *RMB'000* (Rotating CEO)	Wang Zhenguo *RMB'000*	Pan Weidong *RMB'000*	Wang Huaiyu *RMB'000*	Li Chunlei *RMB'000*	Wang Qingxi *RMB'000*	Chak Kin Man *RMB'000*	Jiang Hao *RMB'000*	Wang Bo *RMB'000*	Lo Yuk Lam *RMB'000*	Yu Jinming *RMB'000*	Chen Chuan *RMB'000*	Wong Hong Guang *RMB'000*	Au Chun Kwok Alan *RMB'000*	Law Cheuk Kin Stephen *RMB'000*	Total *RMB'000*
Fees	50	50	50	50	50	50	50	50	50	125	7	15	125	125	299	249	1,395
Salaries and allowances	3,747	693	693	679	693	693	1,613	1,868	706	–	–	–	–	–	–	–	11,385
Performance-related bonuses	9,130	8,300	4,150	4,150	4,150	4,150	–	2,905	4,150	–	–	–	–	–	–	–	41,085
Contributions to retirement benefit schemes	348	65	65	123	65	69	75	172	97	–	–	–	–	–	–	–	1,079
Total emoluments	13,275	9,108	4,958	5,002	4,958	4,962	1,738	4,995	5,003	125	7	15	125	125	299	249	54,944

2020

	Executive directors										Non-executive director	Independent non-executive directors					
	Cai Dongchen *RMB'000* (Chairman and CEO)	Zhang Cuilong *RMB'000* (Rotating CEO)	Wang Zhenguo *RMB'000*	Pan Weidong *RMB'000*	Wang Huaiyu *RMB'000*	Lu Hua *RMB'000*	Li Chunlei *RMB'000*	Wang Qingxi *RMB'000*	Chak Kin Man *RMB'000*	Jiang Hao *RMB'000*	Lee Ka Sze Carmelo *RMB'000*	Chan Siu Keung Leonard *RMB'000*	Wang Bo *RMB'000*	Lo Yuk Lam *RMB'000*	Yu Jinming *RMB'000*	Chen Chuan *RMB'000*	Total *RMB'000*
Fees	53	53	53	53	53	–	53	53	53	4	338	240	107	107	89	107	1,416
Salaries and allowances	4,274	693	693	693	693	404	693	1,725	2,003	60	–	–	–	–	–	–	11,931
Performance-related bonuses	7,120	8,010	5,340	3,560	3,560	–	3,560	890	2,670	890	–	–	–	–	–	–	35,600
Contributions to retirement benefit schemes	394	56	56	73	56	42	56	75	185	12	–	–	–	–	–	–	1,005
Total emoluments	11,841	8,812	6,142	4,379	4,362	446	4,362	2,743	4,911	966	338	240	107	107	89	107	49,952

9. Directors' and Chief Executive's Emoluments *(continued)*

The performance-related incentive payment is determined by the remuneration committee for both years having regard to the performance of the Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the Directors waived any emoluments in both years.

Mr. Cai Dongchen is also the chief executive officer (the "CEO") of the Company and his emoluments disclosed above include those for services rendered by him as the CEO. The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as the Directors for the Company.

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received market remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its fellow subsidiaries or subsidiaries was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10. Five Highest Paid Employees

The five highest paid employees of the Group for the year ended 31 December 2021 included 3 (2020: 5) directors and the chief executive of the Company, details of whose emoluments are set out in note 9 above. The emoluments of the remaining 2 (2020: nil) highest paid individuals who are neither a director nor chief executive officer of the Company are as follows:

	2021 ***RMB'000***
Salary and other allowances	**14,153**
Contributions to retirement benefit schemes	**185**
Share-based payment expense	**12,338**
	26,676

10. Five Highest Paid Employees *(continued)*

The emoluments of these 2 employees were within the following bands:

	2021 Number of employees
HK$13,500,001 to HK$14,000,000	**1**
HK$19,000,001 to HK$19,500,000	**1**

No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

11. Earnings Per Share

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

	2021 ***RMB'000***	2020 *RMB'000*
Earnings for the purpose of basic and diluted earnings per share	**5,605,185**	5,159,655

11. Earnings Per Share *(continued)*

Number of shares	**2021** **'000**	2020 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**11,953,486**	11,954,570
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	**353**	967
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**11,953,839**	11,955,537

The weighted average number of ordinary shares for the calculation of earnings per share for both years has been adjusted for the effects of the shares held by the trustee pursuant to the share award scheme.

The computation of diluted earnings per share does not assume the exercise of a subsidiary's share options since their assumed exercise would result in an increase in earnings per share.

12. Dividends

	2021 ***RMB'000***	2020 *RMB'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2021 Interim, paid — HK8 cents (equivalent to RMB6.6 cents) (2020: 2020 Interim, paid — HK6 cents (equivalent to RMB5.3 cents)) per share	**795,058**	395,134
2020 Final, paid — HK9 cents (equivalent to RMB7.5 cents) (2020: 2019 Final, paid — HK20 cents (equivalent to RMB18.2 cents)) per share	**898,320**	1,135,014
Less: dividend for shares held by share award scheme	**(2,615)**	(2,454)
	1,690,763	1,527,694

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HK10 cents per ordinary share, in an aggregate amount of approximately RMB975,660,000, has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

13. Property, Plant and Equipment

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2020	3,676,209	5,834,466	307,917	25,931	1,904,758	11,749,281
Exchange adjustments	(3,801)	(3,121)	(191)	(127)	(96)	(7,336)
Additions	51,352	93,676	16,188	2,331	860,357	1,023,904
Transfers	444,828	368,251	91,900	621	(905,600)	–
Transfer to investment property *(note 15)*	(37,125)	–	–	–	–	(37,125)
Disposals	(7,279)	(100,238)	(15,705)	(8,024)	–	(131,246)
Deemed disposal of a subsidiary *(note 37)*	(27,955)	(41,155)	(748)	(251)	(22,671)	(92,780)
Disposal of subsidiaries *(note 37)*	(526,965)	(597,245)	(7,893)	(5,730)	(353,689)	(1,491,522)
At 31 December 2020	**3,569,264**	**5,554,634**	**391,468**	**14,751**	**1,483,059**	**11,013,176**
Exchange adjustments	**(913)**	**(786)**	**(66)**	**(41)**	**–**	**(1,806)**
Additions	**165,426**	**92,556**	**11,273**	**1,271**	**1,286,721**	**1,557,247**
Transfers	**443,277**	**750,567**	**41,843**	**–**	**(1,235,687)**	**–**
Disposals	**(41,737)**	**(128,339)**	**(6,475)**	**–**	**–**	**(176,551)**
At 31 December 2021	**4,135,317**	**6,268,632**	**438,043**	**15,981**	**1,534,093**	**12,392,066**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2020	951,470	2,172,320	149,035	17,280	–	3,290,105
Exchange adjustments	(308)	(887)	(100)	(91)	–	(1,386)
Provided for the year	152,100	473,101	42,436	3,617	–	671,254
Eliminated on disposals	(3,245)	(64,771)	(14,070)	(7,942)	–	(90,028)
Eliminated on deemed disposal of a subsidiary *(note 37)*	(4,049)	(10,928)	(382)	(251)	–	(15,610)
Eliminated on disposal of subsidiaries *(note 37)*	(189,292)	(411,859)	(8,301)	(2,149)	–	(611,601)
At 31 December 2020	**906,676**	**2,156,976**	**168,618**	**10,464**	**–**	**3,242,734**
Exchange adjustments	**(82)**	**(218)**	**(40)**	**(32)**	**–**	**(372)**
Provided for the year	**166,989**	**486,597**	**43,615**	**3,207**	**–**	**700,408**
Eliminated on disposals	**(6,954)**	**(67,075)**	**(6,045)**	**–**	**–**	**(80,074)**
At 31 December 2021	**1,066,629**	**2,576,280**	**206,148**	**13,639**	**–**	**3,862,696**
CARRYING VALUES						
At 31 December 2021	**3,068,688**	**3,692,352**	**231,895**	**2,342**	**1,534,093**	**8,529,370**
At 31 December 2020	2,662,588	3,397,658	222,850	4,287	1,483,059	7,770,442

13. Property, Plant and Equipment *(continued)*

The Group has obtained the formal title for all buildings in the PRC except for buildings with carrying amount of RMB464,513,000 (2020: RMB279,230,000) in which the Group is in the process of obtaining.

The above items of property, plant and equipment, except for construction in progress, after taking account their residual values, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 20 to 25 years
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20% — 33.33%
Motor vehicles	20%

14. Right-of-use Assets

	Land and buildings *RMB'000*
CARRYING VALUES	
As at 1 January 2020	823,202
Additions	616,611
Adjustments on lease modifications	7,853
Disposal of subsidiaries *(note 37)*	(149,418)
Deemed disposal of a subsidiary *(note 37)*	(9,711)
Depreciation provided for the year	(120,713)
Exchange adjustment	(3,926)
As at 31 December 2020	**1,163,898**
Additions	**9,123**
Depreciation provided for the year	**(137,983)**
Exchange adjustment	**(489)**
As at 31 December 2021	**1,034,549**

14. Right-of-use Assets *(continued)*

	2021	2020
	RMB'000	*RMB'000*
Expenses relating to short-term leases and other leases with lease terms ending within 12 months	**1,516**	2,771
Total cash outflows for leases *(Note)*	**140,940**	246,992

Note: Amount includes payments of principal and interest portion of lease liabilities, short-term leases and payments for right-of-use assets.

The Group has entered into contracts to lease certain land and buildings for its operations for a fixed term of one year to twenty years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, lease liabilities of RMB94,044,000 (2020: RMB217,714,000) are recognised with related right-of-use assets of RMB86,764,000 as at 31 December 2021 (2020: RMB205,719,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

15. Investment Property

	RMB'000
COST	
At 1 January 2020	—
Transfer from property, plant and equipment *(note 13)*	37,125
At 31 December 2020 and 31 December 2021	**37,125**
DEPRECIATION	
At 1 January 2020	—
Provided for the year	1,719
At 31 December 2020	**1,719**
Provided for the year	**1,719**
At 31 December 2021	**3,438**
CARRYING VALUES	
At 31 December 2021	**33,687**
At 31 December 2020	35,406

The investment property is depreciated on a straight-line basis over the shorter of lease terms of the leasehold land or 5% per annum.

The fair value of the Group's investment property at 31 December 2021 was approximately RMB57,789,000 (2020: RMB57,789,000). The fair value was determined by the Directors with reference to recent market evidence of transaction prices for similar properties in similar locations and conditions. In estimating the fair value of the property, the highest and best use of the property is its current use.

16. Goodwill and Impairment Testing on Goodwill

	RMB'000
COST	
At 1 January 2020	**188,964**
Deemed disposal of a subsidiary *(note 37)*	**(38,981)**
At 31 December 2020 and 31 December 2021	**149,983**

16. Goodwill and Impairment Testing on Goodwill *(continued)*

For the purpose of impairment testing, goodwill has been allocated to four individual CGUs as at 31 December 2021 (2020: four). The carrying amount of goodwill as at 31 December 2021 and 2020 allocated to these units is as follows:

	2021	2020
	RMB'000	*RMB'000*
Ouyi Group (note a)	**82,172**	82,172
Baike Group (note a)	**17,875**	17,875
Gold Faith Group (note a)	**1,724**	1,724
Yong Shun Group (note b)	**48,212**	48,212
	149,983	149,983

Notes:

(a) The recoverable amounts of Ouyi (as defined in note 44) and its subsidiaries (collectively referred to as "Ouyi Group"), Baike Shandong (as defined in note 44) and its subsidiaries (collectively referred to as "Baike Group"), and Gold Faith Investments Limited ("Gold Faith") and its subsidiaries (collectively referred to as "Gold Faith Group") have been determined based on value in use calculations with certain key assumptions. The calculations use cash flow projections based on financial budgets approved by management. The pre-tax discount rates used to discount the projected cash flows of Ouyi Group, Baike Group and Gold Faith Group are at a range of 12% to 15% (2020: 12% to 15%) per annum. Cash flows beyond the forecasted period are extrapolated using a steady 3% (2020: 3%) growth rate. The long-term growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin based on past performance and management's expectation of the market development. The Directors believe that any reasonably possible changes in any of these assumptions would not cause the carrying amounts to exceed the recoverable amount.

(b) The recoverable amount of Yong Shun Technology Development Limited ("Yong Shun") and its subsidiaries (collectively referred to as "Yong Shun Group") has been determined based on value in use calculation with certain key assumptions. The calculation uses cash flow projection based on financial budget approved by the management. The pre-tax discount rate used to discount the projected cash flows of Yong Shun Group is 22% per annum (2020: 21%). Cash flows beyond the forecasted period are extrapolated using a steady 3% growth rate (2020: 3%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin based on management's expectations of the market development. The Directors believe that any reasonably possible changes in any of these assumptions would not cause the carrying amount to exceed the recoverable amount. In the opinion of the Directors, no impairment was recognised during the year as the clinical development of the drug candidates has progressed as planned during the year.

During the years ended 31 December 2021 and 2020, the Directors determine that there is no impairment of any of its CGUs containing goodwill.

17. Other Intangible Assets

	Development costs	In-process research and development projects	Exclusive commercialisation right	Licences and patents	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note a)	*(note b)*	*(note c)*	*(note d)*	
COST					
At 1 January 2020	117,321	911,954	103,723	173,365	1,306,363
Additions	10,423	1,066	–	10,000	21,489
Deemed disposal of a subsidiary *(note 37)*	(554)	(631,906)	–	–	(632,460)
Exchange adjustments	–	–	–	(2,208)	(2,208)
At 31 December 2020	**127,190**	**281,114**	**103,723**	**181,157**	**693,184**
Additions	**31,223**	**–**	**–**	**3,638**	**34,861**
Exchange adjustments	**(518)**	**–**	**–**	**(173)**	**(691)**
At 31 December 2021	**157,895**	**281,114**	**103,723**	**184,622**	**727,354**
AMORTISATION					
At 1 January 2020	109,239	–	–	61,462	170,701
Provided for the year	4,359	–	–	10,762	15,121
Deemed disposal of a subsidiary *(note 37)*	(554)	–	–	–	(554)
Exchange adjustments	–	–	–	(826)	(826)
At 31 December 2020	**113,044**	**–**	**–**	**71,398**	**184,442**
Provided for the year	**3,095**	**–**	**–**	**22,266**	**25,361**
Impairment loss recognised *(note d)*	**–**	**–**	**–**	**50,000**	**50,000**
Exchange adjustments	**(227)**	**–**	**–**	**(76)**	**(303)**
At 31 December 2021	**115,912**	**–**	**–**	**143,588**	**259,500**
CARRYING VALUES					
At 31 December 2021	**41,983**	**281,114**	**103,723**	**41,034**	**467,854**
At 31 December 2020	14,146	281,114	103,723	109,759	508,742

17. Other Intangible Assets *(continued)*

Notes:

(a) Development costs mainly represent costs internally generated or techniques acquired from third parties for the development of products and production technology.

(b) In-process research and development projects ("IPR&D"s) were acquired through business combination. IPR&Ds not yet available for use are not amortised, but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

(c) The Group entered into an agreement with a third party in 2018 for acquisition of an exclusive commercialisation right in relation to a drug that has already received regulatory approval from U.S. Food and Drug Administration. Pursuant to the agreement, the Group is responsible for the approval application and commercialisation of the product in the PRC.

The consideration payable by the Group comprises upfront payments and milestone payments subject to the progress of obtaining regulatory approval in the PRC. An upfront payment of United States Dollars ("US$") 15,000,000 (approximately RMB103,723,000) paid by the Group was capitalised as an intangible asset.

The exclusive commercialisation right is not yet available for use and is not amortised, but tested individually for impairment annually until regulatory approval of the product in the PRC has been obtained.

(d) The Directors concluded there was indication for negative changes in markets and conducted impairment assessment on certain licence with finite useful live with carrying amount of RMB63,000,000.

The recoverable amount of RMB13,000,000 has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with a pre-tax discount rate of 20% as at 31 December 2021. The annual growth rate used is 3%, which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the past performance and management expectation of the market development.

The recoverable amount of each IPR&D and exclusive commercialisation right has been determined based on a value in use calculation using cash flow projection based on financial forecast approved by the Directors. The pre-tax discount rates applied to the cash flow projections are 18% to 23%, which are determined by reference to the average discount rate for each IPR&D and exclusive commercialisation right with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

17. Other Intangible Assets *(continued)*

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of IPR&Ds and exclusive commercialisation right:

The estimation of cash inflows/outflows include budgeted sales and gross margin based on management's expectation of the market development.

Discount rate — The discount rate used is before tax and reflects specific risks in respect of the related research and development efforts.

Growth rate — The growth rate is based on the estimated growth rate of related products taking into account the industry growth rate, past experience and the medium-term or long-term growth target.

The above other intangible assets having finite useful lives are amortised on a straight-line basis over their estimated useful lives:

Licences and patents	3 to 10 years
Development costs	1 to 10 years

18. Interests in Associates

	2021	2020
	RMB'000	*RMB'000*
Cost of investments in associates	**682,675**	592,557
Share of post-acquisition losses	**(31,719)**	(20,917)
	650,956	571,640

18. Interests in Associates *(continued)*

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/voting rights held by the Group		Principal activities
			2021	2020	
Beijing Guoxinhuijin Co, Ltd. ("Guoxin")	Limited liability	The PRC	**30.07%**	30.07%	Network media
Wuhan YZY Biopharma Co., Ltd. ("YZY Biopharma") *(note a)*	Limited liability	The PRC	**33.89%**	35.56%	Research and development of pharmaceutical products
Shijiazhuang High-Tech Zone Puenguoxin Investment Center (Limited Partnership)	Limited partnership	The PRC	**21.50%**	21.50%	Investment holding
Wuhan KDWS Biological Technology Co., Ltd ("KDWS") *(note b)*	Limited liability	The PRC	**6.98%**	6.98%	Research and development of pharmaceutical products
Qingdao Shiyao Xiantong New Drug Investment Partnership (Limited Partnership)	Limited partnership	The PRC	**35%**	—	Investment holding
Taizhou Huarui Shiyao Fengshou Equity Investment Partnership (Limited Partnership)	Limited partnership	The PRC	**20.83%**	—	Investment holding

18. Interests in Associates *(continued)*

notes:

(a) YZY Biopharma became an associate of the Company through deemed disposal during the year ended 31 December 2020. Details are set out in note 37.

During the year ended 31 December 2021, the Group's equity interest in YZY Biopharma was diluted to 33.89% (2020: 35.56%) upon additional capital contribution from other equity owners resulting in a gain on deemed disposal of RMB13,092,000 (2020: RMB37,192,000).

(b) The Group has significant influence through its board representation in KDWS.

Summarised financial information of the Group's associates which represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs is set out below.

The associates are accounted for using the equity method in these consolidated financial statements.

Guoxin

	2021	2020
	RMB'000	*RMB'000*
Current assets	**310,049**	262,643
Non-current assets	**502,569**	526,593
Current liabilities	**(26,900)**	(21,479)
Non-current liabilities	**(74,724)**	(78,080)
Revenue	**116,689**	92,222
Profit and total comprehensive income for the year	**16,961**	17,170
Dividends received from the associate during the year	**—**	—

18. Interests in Associates *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2021 RMB'000	2020 RMB'000
Net assets of Guoxin	**710,994**	689,677
Proportion of the Group's ownership interest in Guoxin	**30.07%**	30.07%
The Group's share of net assets of Guoxin	**213,796**	207,389
Goodwill	**28,909**	28,909
Carrying amount of the Group's interest in Guoxin	**242,705**	236,298

YZY Biopharma

	2021 RMB'000	2020 RMB'000
Current assets	**142,549**	192,561
Non-current assets	**625,817**	633,296
Current liabilities	**(39,656)**	(127,416)
Non-current liabilities	**(89,855)**	(84,942)

	2021 RMB'000	1.4.2020 to 31.12.2020 RMB'000
Revenue	**–**	–
Loss and total comprehensive expense for the year/period	**(87,120)**	(65,924)
Dividends received from the associate during the year/period	**–**	–

18. Interests in Associates *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2021	2020
	RMB'000	*RMB'000*
Net assets of YZY Biopharma	**638,855**	613,499
Proportion of the Group's ownership interest in YZY Biopharma	**33.89%**	35.56%
The Group's share of net assets of YZY Biopharma	**216,507**	218,160
Goodwill	**44,182**	44,182
Other adjustments	**(6,381)**	—
Carrying amount of the Group's interest in YZY Biopharma	**254,308**	262,342

Note: The loss and total comprehensive expense for the period from 1 January 2020 to 31 March 2020 before deemed disposal was approximately RMB18,186,000.

The aggregate information of associates that are not individually material is considered insignificant.

19. Interests in Joint Ventures

Details of the Group's investments in joint ventures are as follows:

	2021	2020
	RMB'000	*RMB'000*
Cost of investment in joint ventures	**142,910**	113,288
Deemed capital contribution *(Note)*	**38,497**	38,497
Share of post-acquisition profits, net of dividends received	**111,098**	109,761
	292,505	261,546

Note: Deemed capital contribution represents capitalisation of the imputed interest of advance to a joint venture.

19. Interests in Joint Ventures *(continued)*

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/voting rights held by the Group		Principal activities
			2021	2020	
Hebei Huarong Pharmaceutical Co., Ltd ("Huarong") *(note a)*	Sino foreign equity joint venture	The PRC	**26.47%**	26.47%	Manufacture and sale of vitamin B12 products
Yantai Jiashi Pharmaceutical Technology Co., Ltd ("Yantai Jiashi")	Sino foreign equity joint venture	The PRC	**50%**	50%	Provision of pharmaceutical research and development services
Bioworkshops Limited ("Bioworkshops") *(note a)*	Limited liability	The British Virgin Islands ("BVI")/the PRC	**78%**	78%	Provision of pharmaceutical research and development services
CSPC Zhongcheng Pharmaceutical Logistics Co., Limited ("Zhongcheng Logistics") *(note b)*	Limited liability	The PRC	**–**	49.5%	Storage, sourcing and distribution
CSPC Health and Life Research Institute (Sanya) Co., Ltd. *(note a)*	Limited liability	The PRC	**55%**	–	Provision of pharmaceutical research and development services

19. Interests in Joint Ventures *(continued)*

Notes:

(a) Pursuant to the relevant agreements and articles of association, the strategic financial and operating decisions relating to the relevant activities require the unanimous consent of all the joint venture partners. Accordingly, these companies were accounted as joint ventures.

(b) Zhongcheng Logistics was disposed during the year ended 31 December 2021.

Summarised financial information in respect of the Group's material joint ventures which represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs is set out below.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Huarong

	2021	2020
	RMB'000	*RMB'000*
Current assets	**720,764**	634,046
Non-current assets	**657,047**	631,172
Current liabilities	**(312,280)**	(336,801)
Non-current liabilities	**—**	—
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**156,149**	344,574
Revenue	**921,578**	849,226
Profit and total comprehensive income for the year	**225,705**	290,539
Dividends received from Huarong during the year	**45,000**	—
The above profit for the year includes the following:		
Depreciation and amortisation	**(46,851)**	(43,051)
Interest income	**6,318**	2,758
Income tax expense	**(39,822)**	(52,465)

19. Interests in Joint Ventures *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Huarong recognised in the consolidated financial statements:

	2021	2020
	RMB'000	*RMB'000*
Net assets of Huarong	**1,065,531**	928,417
Proportion of the Group's ownership interest in Huarong	**26.47%**	26.47%
The Group's share of net assets of Huarong	**282,046**	245,752
Other adjustment	**(28,609)**	(7,059)
	253,437	238,693

Zhongcheng Logistics

	2020
	RMB'000
Current assets	207,237
Non-current assets	1,301,382
Current liabilities	(1,452,686)
Non-current liabilities	(9,765)
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	95,777
Current financial liabilities (excluding trade and other payables and provisions)	(183,788)

	1.1.2021 to 30.4.2021	1.5.2020 to 31.12.2020
	RMB'000	*RMB'000*
Revenue	**269,234**	2,960,202
Loss and total comprehensive expense for the period	**(25,203)**	(27,160)
The above loss for the period includes the following:		
Depreciation and amortisation	**(21,845)**	(21,475)
Interest income	**364**	4,433
Income tax expense	**–**	(9,974)

19. Interests in Joint Ventures *(continued)*

Zhongcheng Logistics *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Zhongcheng Logistics recognised in the consolidated financial statements:

	2020
	RMB'000
Net assets of Zhongcheng Logistics	46,168
Proportion of the Group's ownership interest in Zhongcheng Logistics	49.5%
The Group's share of net assets of Zhongcheng Logistics	22,853

Aggregate information of joint ventures that are not individually material

	2021	2020
	RMB'000	*RMB'000*
The Group's share of losses and total comprehensive expense	**(932)**	(29,012)
Unrecognised share of losses of joint ventures for the year	**(20,405)**	(13,912)
Cumulative unrecognised share of losses of joint ventures	**(28,127)**	(31,994)

20. Other Financial Assets

	2021	2020
	RMB'000	*RMB'000*
Unlisted investments in partnerships and funds	**1,693,705**	1,239,585
Listed equity securities	**66,725**	36,102
Unlisted equity securities	**218,915**	601,337
	1,979,345	1,877,024
Analysed as:		
Financial assets measured at FVTPL	**1,733,068**	1,239,585
Financial assets measured at FVTOCI *(Note)*	**246,277**	637,439
	1,979,345	1,877,024

Note: The Directors have elected to designate these investments to be measured at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

The Directors consider that the Group does not have any control nor significant influence to affect the variable returns through its investment in those enterprises or similar activities.

In the current year, the Group received RMB586,593,000 (2020: RMB190,946,000) upon distribution by the partnerships and funds, which was also the fair value as at the date of distribution.

21. Inventories

	2021	2020
	RMB'000	*RMB'000*
Raw materials	**765,469**	525,200
Work in progress	**295,314**	203,886
Finished goods	**1,419,586**	1,131,980
	2,480,369	1,861,066

The inventories are net of a provision of RMB5,522,000 as at 31 December 2021 (2020: RMB7,758,000)

22. Trade Receivables

	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**3,358,607**	2,421,295
Less: allowance for impairment	**(49,459)**	(22,436)
	3,309,148	2,398,859

As at 1 January 2020, trade receivables (net of allowance for impairment) from contracts with customers amounted to RMB2,258,844,000.

The Group allows a general credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on the invoice dates which approximated the respective revenue recognition dates:

	2021	2020
	RMB'000	*RMB'000*
0 to 90 days	**3,122,761**	2,209,401
91 to 180 days	**175,494**	176,777
181 to 365 days	**8,578**	11,281
More than 365 days	**2,315**	1,400
	3,309,148	2,398,859

22. Trade Receivables *(Continued)*

Trade receivables with aggregate carrying amount of RMB186,387,000 (2020: RMB189,458,000) are past due as at the reporting date. The amounts are not considered as in default because there has not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

As at 31 December 2021, the Group's trade receivables denominated in US$ amounted to RMB516,332,000 (2020: RMB359,844,000).

Details of impairment assessment of trade receivables are set out in note 40.

23. Deposits, Prepayments and Other Receivables

	2021	2020
	RMB'000	*RMB'000*
Prepayments	**177,753**	90,098
Prepayment for acquisition of other intangible assets	**304,289**	–
Deposits paid for property, plant and equipment and right-of-use assets	**265,582**	461,437
Consideration receivable for disposal of a subsidiary *(note 37)*	**–**	150,914
Other taxes recoverable	**199,534**	134,215
Others	**203,138**	152,981
	1,150,296	989,645
Analysed as:		
Current	**580,425**	484,289
Non-current	**569,871**	505,356
	1,150,296	989,645

Details of impairment assessment of deposits and other receivables are set out in note 40.

24. Bills Receivables

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (2020: less than 365 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information, experience and forward-looking information that is available without undue cost of effort.

25. Structured Bank Deposits

Structured bank deposits of RMB200,000,000 carry no guaranteed return and have a total expected return up to 3.1% per annum (2020: RMB822,470,000 carry no guaranteed return and have a total expected return up to 5.2% per annum), depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the terms of relevant deposits.

Structured bank deposits of RMB1,243,413,000 carry guaranteed return of 1.4% per annum and have a total expected return up to 3.41% per annum (2020: RMB712,737,000 carry guaranteed return of 1.4% per annum and have a total expected return up to 4.6% per annum), depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives.

26. Bank Deposits, Balances and Cash

	2021	2020
	RMB'000	*RMB'000*
Bank deposits	**600,000**	430,000
Restricted bank deposits	**23,933**	36,571
Bank balances and cash	**9,059,709**	7,259,458
	9,683,642	7,726,029
Analysed as:		
Current	**9,283,642**	7,296,029
Non-current	**400,000**	430,000
	9,683,642	7,726,029

Restricted bank deposits and bank balances carry interest at market interest rates ranging from 0.01% to 3.60% (2020: 0.01% to 2.90%) per annum.

Bank deposits carry interest at market interest rates ranging from 3.26% to 4.13% (2020: 3.31% to 4.13%) per annum.

The restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade payables and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term bank facilities.

26. Bank Deposits, Balances and Cash *(continued)*

The restricted bank deposits, bank deposits and bank balances that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2021	2020
	RMB'000	*RMB'000*
HK$	**105,418**	164,701
US$	**224,801**	335,764

27. Trade Payables

The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	2021	2020
	RMB'000	*RMB'000*
0 to 90 days	**1,262,830**	1,011,690
91 to 180 days	**82,438**	39,574
More than 180 days	**136,091**	153,302
	1,481,359	1,204,566

The general credit period on purchases of goods is up to 90 days (2020: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

28. Other Payables

	2021	2020
	RMB'000	*RMB'000*
Other tax payable	**102,507**	131,291
Selling expense payable	**2,500,679**	1,912,702
Payables arising from construction cost and acquisition of property, plant and equipment	**790,696**	848,242
Government grants *(note 34)*	**467,545**	373,442
Salaries, wages and staff welfare payable	**416,749**	254,590
Research and development expense payable	**143,644**	24,515
Others	**509,207**	263,945
	4,931,027	3,808,727

28. Other Payables *(continued)*

	2021	2020
	RMB'000	*RMB'000*
Analysed as:		
Current	**4,680,829**	3,554,759
Non-current — government grants *(note 34)*	**250,198**	253,968
	4,931,027	3,808,727

29. Bills Payables

All bills payables of the Group are aged within 365 days (2020: 365 days) and not yet due at the end of the reporting period. As at 31 December 2021, bills payables are secured by certain restricted bank deposits of RMB14,125,800 (2020: RMB7,400,000).

30. Borrowing

The amount as at 31 December 2020 represented fixed-rate RMB bank loan repayable within one year and carried an effective interest rate of 2.05% per annum and was secured by the corporate guarantee of CHL. The bank loan was repaid during the year ended 31 December 2021.

At the end of the reporting period, the Group had the following undrawn borrowing facilities:

	2021	2020
	RMB'000	*RMB'000*
HK$ bank loans	**445,592**	373,800
RMB bank loan	**200,000**	—
	645,592	373,800

31. Contract Liabilities

Contract liabilities represent deposits received from sales of goods. As at 1 January 2020, contract liabilities amounted to RMB503,755,000.

The Group may receive certain percentage of the contract value from customers upon signing of the sale agreements or placing of purchase orders. This gives rise to contract liability at the start of a contract until revenue is recognised.

During the year ended 31 December 2021, revenue recognised in the current year relating to brought-forward contract liabilities amounted to RMB625,699,000 (2020: RMB503,755,000).

32. Lease Liabilities

	2021	2020
	RMB'000	*RMB'000*
The lease liabilities are payable as follows:		
Within one year	**38,424**	124,835
Within a period of more than one year but not more than two years	**10,879**	39,976
Within a period of more than two years but not more than five years	**21,804**	25,409
Within a period of more than five years	**22,937**	27,494
	94,044	217,714
Less: Amount due for settlement within one year shown under current liabilities	**(38,424)**	(124,835)
Amount due for settlement after one year shown under non-current liabilities	**55,620**	92,879

The weighted average incremental borrowing rate applied to lease liabilities was 4.35% (2020: 4.4%) per annum.

33. Deferred Taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2021	2020
	RMB'000	*RMB'000*
Deferred tax assets	**43,000**	117,471
Deferred tax liabilities	**(381,484)**	(320,444)
	(338,484)	(202,973)

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Inventories	Property, plant and equipment	Right-of-use assets/ lease liabilities	Other intangible assets	Withholding tax on undistributed profits of subsidiaries, associates and joint ventures	Fair value change on financial assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	34,843	1,687	(5,213)	(140,777)	(160,124)	–	–	(269,584)
Credit (charge) to profit or loss	6,026	(28,966)	770	(574)	(10,000)	(24,722)	76,500	19,034
Deemed disposal of a subsidiary *(note 37)*	–	1,992	(7)	94,936	–	–	–	96,921
Charge to other comprehensive income	–	–	–	–	–	(49,219)	–	(49,219)
Exchange adjustments	(125)	–	–	–	–	–	–	(125)
At 31 December 2020	**40,744**	**(25,287)**	**(4,450)**	**(46,415)**	**(170,124)**	**(73,941)**	**76,500**	**(202,973)**
Credit (charge) to profit or loss	**1,958**	**3,833**	**182**	**–**	**(87,500)**	**(18,967)**	**(76,500)**	**(176,994)**
Charge to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**41,697**		**41,697**
Exchange adjustments	**(214)**	**–**	**–**	**–**	**–**	**–**	**–**	**(214)**
At 31 December 2021	**42,488**	**(21,454)**	**(4,268)**	**(46,415)**	**(257,624)**	**(51,211)**	**–**	**(338,484)**

33. Deferred Taxation *(continued)*

At the end of the reporting period, the Group has unused tax losses of approximately RMB798,796,000 (2020: RMB1,050,184,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unused tax losses will expire as follows:

	2021	2020
	RMB'000	*RMB'000*
2021	**–**	1,300
2022	**5,573**	5,809
2023	**21,553**	26,458
2024	**208,032**	224,028
2025	**206,813**	216,841
2026	**149,207**	6,909
2027	**–**	84,867
2028	**575**	45,770
2029	**1,362**	161,636
2030	**204,722**	276,566
2031	**959**	–
	798,796	1,050,184

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared and payable to investors that are non-PRC tax resident enterprises in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Therefore, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB14,682,479,000 (2020: RMB11,478,292,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant deferred taxation for the year or at the end of the reporting period.

34. Government Grants

	2021	2020
	RMB'000	*RMB'000*
Current:		
— Other subsidies *(note a)*	**217,347**	119,474
Non-current:		
— Acquisition of property, plant and equipment *(note b)*	**250,198**	253,968
Total (included in other payables in note 28)	**467,545**	373,442

Notes:

(a) Other subsidies are generally provided in relation to development of pharmaceutical products or improvement of production efficiency. Such amounts are included in other payables until the conditions attaching to the grants have been fulfilled. During the year, the Group recognised income of RMB55,203,000. (2020: RMB93,002,000).

(b) Government grants include cash subsidies received from the PRC government which are specific for the purchase of plant and machinery and will be transferred to profit or loss over the useful lives of the related assets upon the Group has complied with the conditions attaching to the grants. During the year, the Group recognised income of RMB41,049,000 (2020: RMB18,604,000).

35. Share Capital

	Number of shares	**Share capital**
		RMB'000
Issued and fully paid		
At 1 January 2020	6,236,338,403	10,899,412
Bonus issue of shares *(note a)*	5,737,431,329	—
At 31 December 2020	**11,973,769,732**	**10,899,412**
Shares repurchased and cancelled *(note b)*	**(23,790,000)**	**—**
At 31 December 2021	**11,949,979,732**	**10,899,412**

Notes:

(a) On 3 July 2020, the Company issued 1,247,267,680 ordinary shares pursuant to a bonus issue of one new share for every five existing shares held by shareholders of the Company.

On 29 October 2020, the Company issued 4,490,163,649 ordinary shares pursuant to a bonus issue of three new shares for every five existing shares held by shareholders of the Company.

35. Share Capital *(continued)*

Notes: (continued)

(b) During the year, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

	Number of shares	Price per share highest	Price per share lowest	Aggregation consideration paid	
		HK$	*HK$*	*HK$'000*	*RMB'000*
Months of repurchase					
November 2021	3,100,000	8.10	8.02	25,005	20,754
December 2021	35,396,000	8.60	8.03	291,450	241,904
	38,496,000			316,455	262,658

23,790,000 and 14,706,000 of the above ordinary shares were cancelled upon delivery of share certificate in December 2021 and January 2022, respectively. Transaction cost of RMB854,000 (approximately HK$1,030,000) for the repurchase were not included in the aggregation consideration paid.

36. Long Term Incentive Programs

(a) Share option scheme

The share option scheme adopted on 9 December 2015 (the "Option Scheme") is for the purpose of providing the Company with a flexible means of giving incentive to eligible participants and is valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Option Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Option Scheme unless the Company obtains a fresh approval from its shareholders. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding the independent non-executive director of the Company who is the grantee). Where the granting of options to a participant who is an independent non-executive director of the Company or a substantial shareholder of the Company would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant in aggregate exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000 (equivalent to RMB4,400,000), such proposed grant must be approved by the shareholders of the Company by poll in general meeting.

36. Long Term Incentive Programs *(continued)*

(a) Share option scheme *(continued)*

Options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer (both dates inclusive) upon payment of HK$1. The subscription price for option granted is determined by the Board and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the Board to each grantee and such period shall expire not later than 10 years from the date of grant of options. No share options have been granted under the Option Scheme since its adoption.

As at the date of this report, the total number of shares of the Company available for issue under the Option Scheme is 591,101,840 shares, representing approximately 4.95% of the Company's issued share capital as at the same date.

(b) Share award scheme

The share award scheme adopted on 20 August 2018 (the "Award Scheme") is for the purpose of providing the Company with a flexible means of giving incentive to eligible participant and is valid and effective for a period of 10 years from its adoption.

The total number of shares which may be purchased or issued pursuant to the Award Scheme shall not in aggregate exceed 2% of the shares of the Company in issue as at the date of approval of the Award Scheme. The maximum number of shares which may be granted to a selected participant at any one time or in aggregate under the Award Scheme must not exceed 0.5% of the shares of the Company in issue as at the date of approval of the Award Scheme.

Where any grant of shares is proposed to be made to any selected participant who is a Director (including any independent non-executive director), such grant must first be approved by all the independent non-executive directors and in each case excluding any independent non-executive director who is the proposed selected participant.

Any awarded shares held by the trustee on behalf of a selected participant shall be vested by selected participant in accordance with the vesting conditions or vesting schedule as set out in the grant notice. Awarded shares which do not vest will be forfeited and may be re-granted to other selected participants by the Board.

As at 31 December 2021, 17,700,000 of the Company's own ordinary shares are held by the trustee of the Award Scheme (2020: 19,200,000).

36. Long Term Incentive Programs *(continued)*

(b) Share award scheme *(continued)*

During the year ended 31 December 2021, the Company granted 3,130,000 (2020: nil) awarded shares to certain employees of the Group. The vesting periods of these awarded shares are up to a maximum of 25 months from the date of grant, subject to the accomplishment of certain non-market conditions. The fair value of these awarded shares amounted to RMB23,526,000, which was determined with reference to the share prices of the Company on the dates of grant.

During the year ended 31 December 2021, 1,500,000 (2020: nil) awarded shares were vested, 764,000 (2020: nil) awarded shares were forfeited, and share-based payment expense of RMB16,242,000 (2020: RMB7,046,000) was recognised in profit or loss. As at 31 December 2021, there were 3,260,000 (2020: 2,394,000) awarded shares outstanding.

At the end of each reporting period, the Group revises its estimates of the number of awarded share that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share awards reserve.

(c) Share option scheme adopted by a subsidiary

Novarock Biotherapeutics Limited ("Novarock") adopted share option scheme in 2018 (the "Novarock Share Option Scheme"). Under the Novarock Share Option Scheme, Novarock may grant options to any of their full-time employees and any eligible persons as defined therein to subscribe for the respective ordinary shares of Novarock.

During the year ended 31 December 2021, 17,600 options were granted, 13,500 options were forfeited and no options were exercised or cancelled. As at 31 December 2021, there are 129,600 options with an exercise price of US$22 per share outstanding (2020: 125,500 options).

During the year ended 31 December 2021, share-based payment expense of RMB1,490,000 (2020: RMB2,080,000) has been recognised in profit or loss.

37. Disposal of Subsidiaries

For the year ended 31 December 2020

(i) On 10 March 2020, the Group has entered into an agreement with an independent third party to dispose of its entire 99.39% equity interest in Shijiazhuang Zhongrun Pharmaceutical Technology Limited ("Zhongrun Technology") for a consideration of RMB503,046,000. The disposal was completed on 10 March 2020 with the Group losing control in Zhongrun Technology. Cash consideration of RMB352,132,000 were received in 2020 with the remaining balance received during the year ended 31 December 2021. The net assets of Zhongrun Technology at the date of disposal were as follows:

Net cash inflow arising on disposal:

	RMB'000
Cash consideration received during the year ended 31 December 2020	352,132
Less: bank balances and cash disposed of	(243,632)
	108,500

Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	52,743
Right-of-use assets	31,606
Other receivables	58,438
Bank balances and cash	243,632
Other payables	(169,604)
Net assets disposed of	216,815

Gain on disposal of a subsidiary:

Consideration	503,046
Non-controlling interest	1,316
Net assets disposed of	(216,815)
Gain on disposal	287,547

37. Disposal of Subsidiaries *(continued)*

For the year ended 31 December 2020 *(continued)*

(ii) On 16 April 2020, the Group has entered into an agreement with an independent third party to dispose of its 49.5% equity interest in CSPC Zhongcheng Pharmaceutical Logistic Co., Limited and its subsidiary ("Zhongcheng Logistics Group") for a consideration of RMB34,650,000. The disposal was completed on 30 April 2020 with the Group losing control in Zhongcheng Logistics Group. Pursuant to the relevant agreements and revised articles of association of Zhongcheng Logistics, the Group has joint control over the strategic financial and operating decisions relating to the relevant activities of Zhongcheng Logistics Group. Accordingly, Zhongcheng Logistics Group became a joint venture of the Group with effect from 1 May 2020 and has since been accounted for using the equity method of accounting. The net assets of Zhongcheng Logistics Group at the date of disposal were as follows:

Net cash outflow arising on disposal:

	RMB'000
Cash consideration	34,650
Less: bank balances and cash disposed of	(432,825)
	(398,175)

Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	827,178
Right-of-use assets	117,812
Interest in a joint venture	257
Inventories	67,254
Trade receivables	295,744
Other receivables	91,534
Bills receivables	133,744
Trade receivables due from related companies	101,409
Restricted bank deposits	57,522
Bank balances and cash	432,825
Trade payables	(230,682)
Other payables	(340,703)
Contract liabilities	(40,759)
Bills payables	(267,610)
Amounts due to intergroup companies	(1,131,492)
Borrowing	(70,000)
Net assets disposed of	44,033

37. Disposal of Subsidiaries *(continued)*

For the year ended 31 December 2020 *(continued)*

(ii) *(continued)*

Gain on disposal of a subsidiary:

	RMB'000
Consideration received	34,650
Non-controlling interest	440
Fair value of equity interest retained in Zhongcheng Logistics Group at the date of disposal	36,297
Net assets disposed of	(44,033)
Gain on disposal	27,354

(iii) The Group lost control over YZY Biopharma upon cancellation of the contractual arrangement with certain shareholders of YZY Biopharma on 1 April 2020. Accordingly, YZY Biopharma ceased to be a subsidiary and became an associate of the Group with effect from 1 April 2020 and has been accounted for in the consolidated financial statements using the equity method of accounting. The net assets of YZY Biopharma at the date of deemed disposal were as follows:

Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	77,170
Right-of-use assets	9,711
Goodwill	38,981
Other intangible assets	631,906
Inventories	4,129
Other receivables	8,998
Bank balances and cash	9,753
Trade payable	(13,341)
Other payables	(21,383)
Amounts due to intergroup companies	(9,118)
Borrowing	(23,000)
Deferred tax liabilities	(96,921)
Net assets disposed of	616,885

37. Disposal of Subsidiaries *(continued)*

For the year ended 31 December 2020 *(continued)*

(iii) *(continued)*

Loss on deemed disposal of a subsidiary:

	RMB'000
Net assets disposed of	(616,885)
Non-controlling interest	346,617
Fair value of equity interest retained in YZY Biopharma at the date of deemed disposal	251,230
Loss on deemed disposal	(19,038)

38. Capital and Other Commitments

At the end of the reporting period, the Group had the following capital commitments:

	2021 **RMB'000**	2020 *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,676,805**	1,458,616
Commitments arising from unlisted equity investments in partnerships	**426,829**	661,053
Commitments arising from research and development projects	**258,836**	147,873

39. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowing as disclosed in note 30 and amounts due to related companies, amounts due to an associate and joint ventures in note 42, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

40. Financial Instruments

40a. Categories of financial instruments

	2021	2020
	RMB'000	*RMB'000*
Financial assets		
FVTPL		
— other financial assets	**1,733,068**	1,239,585
— structured bank deposits	**1,443,413**	1,535,207
FVTOCI		
— other financial assets	**246,277**	637,439
— bills receivables	**2,071,866**	1,225,479
Amortised cost	**14,414,383**	12,153,571
Financial liabilities		
Amortised cost	**5,676,018**	4,608,898
FVTPL		
— contingent consideration payable	**–**	24,346

40b. Financial risk management objectives and policies

The major financial instruments of the Group include bills receivables at FVTOCI, trade receivables, bills receivables, other receivables, amounts due from related companies, joint ventures and an associate, other financial assets, bank deposits, structured bank deposits, restricted bank deposits, bank balances and cash, trade payables, other payables, bills payables, amount due to a joint venture, an associate and related companies and borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in US$, listed equity investments denominated in HK$, unlisted fund investment in partnerships denominated in US$ and bank balances and cash denominated in US$ and HK$, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

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

	Liabilities		**Assets**	
	2021	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HK$	**4,621**	7,768	**105,418**	164,701
US$	**8,573**	1,136	**746,876**	876,689

Sensitivity analysis

The Group is mainly exposed to currency risk of HK$ and US$.

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in RMB against HK$ and US$5% (2020: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% (2020: 5%) change in foreign currency rates. The post-tax profit would decrease by the below amounts where RMB strengthens 5% (2020: 5%) against the relevant currency. For a 5% (2020: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and other equity.

	HK$ Impact (i)		**US$ Impact (ii)**	
	2021	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Post-tax profit	**(4,032)**	(6,277)	**(29,532)**	(35,022)

(i) This is mainly attributable to the exposure to outstanding HK$ denominated bank balances not subject to cash flow hedges at the end of the reporting period.

(ii) This is mainly attributable to the exposure to outstanding US$ denominated bank balances and trade receivables not subject to cash flow hedges at the end of the reporting period.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowing (see note 30 for details of this borrowing), which was raised from a bank in the PRC and lease liabilities (see note 32 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

No sensitivity is presented for variable-rate bank balances and fixed-rate bank borrowing as the Directors considered that the relevant interest rate risk is minimal.

(iii) *Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities. The Group also invested in certain unquoted equity securities for long-term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective listed equity instruments had been 5% (2020: 5%) higher/lower:

- Other reserves would increase/decrease by RMB1,368,000 (2020: RMB1,805,000) for the Group as a result of the changes in fair value of the listed equity investments measured at FVTOCI.

- Post-tax profit would increase/decrease by RMB1,968,000 (2020: nil) for the Group as a result of the changes in fair value of the listed equity investments measured at FVTPL.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment

As at 31 December 2021, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

The Group's concentration of credit risk by geographical locations on trade receivables is mainly in the PRC. The Group has concentration of credit risk as 26% (31 December 2020: 21%) and 41% (31 December 2020: 32%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year.

Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has applied the simplified approach to measure the loss allowance at lifetime ECL. Except for trade receivables with major customers and credit-impaired balances which are assessed individually, the Group determines the ECL on the remaining balances by using a provision matrix grouped by common risk characteristic. As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group rebuts the presumption of default under ECL for trade receivables over 90 days past due based on the strong financial position with good repayment records of those customers and continuous business relationship with the Group.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers (continued)

Trade receivables with major customers and with an aggregate gross carrying amount of RMB1,579,940,000 as at 31 December 2021 (2020: RMB1,067,797,000) are assessed individually. These balances are from counterparties which have low risk of default and usually settle within credit period. The exposure to credit risk for these balances are assessed within lifetime ECL with an average loss rate of approximately 2.03% (2020: 0.02%), impairment allowance of RMB32,118,000 (2020: RMB259,000) was provided by the Group as at 31 December 2021. Trade receivables with credit-impaired and with an aggregate gross carrying amount of nil as at 31 December 2021 (2020: RMB6,240,000) are assessed individually and impairment allowance of nil (2020: RMB6,240,000) was provided by the Group as at 31 December 2021.

The remaining trade receivables with gross carrying amount of RMB1,778,667,000 (2020: RMB1,347,258,000) are assessed based on debtors' aging. The following table provides information about the exposure to credit risk for trade receivables which are assessed within lifetime ECL (not credit-impaired) as at 31 December 2021 and 2020.

Gross carrying amount

	Average loss rate			
	2021	2020	**2021**	2020
			RMB'000	*RMB'000*
Current (not past due)	**0.09%**	0.12%	**1,607,885**	1,167,113
1 — 270 days past due	**5.1%**	4.92%	**160,785**	172,784
More than 270 days past due	**77.7%**	81.34%	**9,997**	7,361
			1,778,667	1,347,258

The estimated loss rates are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific trade receivable is updated.

As at 31 December 2021, the Group provided RMB17,341,000 (2020: RMB15,937,000) impairment allowance for trade receivables based on the provision matrix other than those major customers. Impairment allowance of nil (2020: RMB6,240,000) was made on credit-impaired debtors.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) *RMB'000*	Lifetime ECL (credit-impaired) *RMB'000*	Total *RMB'000*
As at 1 January 2020	14,686	—	14,686
Transfer to credit-impaired	(5,761)	5,761	—
Impairment losses recognised	18,139	2,422	20,561
Impairment losses reversed	(10,868)	—	(10,868)
Write-offs	—	(1,943)	(1,943)
As at 31 December 2020	**16,196**	**6,240**	**22,436**
Transfer to credit-impaired	**—**	**—**	**—**
Impairment losses recognised	**49,459**	**—**	**49,459**
Impairment losses reversed	**(16,196)**	**—**	**(16,196)**
Write-offs	**—**	**(6,240)**	**(6,240)**
As at 31 December 2021	**49,459**	**—**	**49,459**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivable is over two years past due, whichever occurs earlier.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Bank deposits/bank balances/restricted bank deposits/structured bank deposits

The credit risks on bank deposits, bank balances, restricted bank deposits and structured bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2021, the gross carrying amounts of bank deposits, bank balances, restricted bank deposits and structured bank deposits are RMB600,000,000, RMB9,059,709,000, RMB23,933,000 and RMB1,443,413,000 respectively (2020: RMB430,000,000, RMB7,259,458,000, RMB36,571,000 and RMB1,535,207,000, respectively) and the 12m ECL is considered immaterial for both years.

Bills receivables

The credit risk of bills receivables is limited because the counterparties are mainly banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2021, the gross carrying amount of bills receivables measured at amortized cost and FVTOCI are RMB1,027,322,000 and RMB2,071,866,000, respectively (2020: RMB764,070,000 and RMB1,225,479,000, respectively), the 12m ECL is considered immaterial for both years.

Amounts due from related companies

In order to minimise the credit risk, the Group will assess the credit quality of related companies. Other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. The Group measures the loss allowance at lifetime ECL. As at 31 December 2021, the gross carrying amounts of receivables due from related companies is RMB100,135,000 (2020: RMB144,260,000).

For the purpose of impairment assessment for trade receivables and other receivables from related companies, the lifetime ECL and 12m ECL are considered to be immaterial after considering counterparties' financial background and creditability.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Amounts due from joint ventures

The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2021, the gross carrying amount of amounts due from joint ventures is RMB293,736,000 (2020: RMB924,511,000). Reversal of impairment of RMB27,499,000 (2020: impairment of RMB37,500,000) on amounts due from joint ventures was recognised by the Group as at 31 December 2021 due to the subsequent settlement of amounts due from joint ventures.

For the purpose of impairment assessment for amounts due from joint ventures, exposure to credit risk for those balances are assessed individually with 12m ECL.

Amount due from an associate

The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2021, the gross carrying amount of amount due from an associate is RMB400,000 (2020: RMB82,428,000).

The Group regularly monitors the business performance of the associate. The Group's credit risk in this balance is mitigated after considering associate's financial background and creditability. For the year ended 31 December 2021, the Group assessed the ECL for amount due from an associate is insignificant and thus no loss allowance is recognised.

Other receivables

For other receivables which represented consideration receivable for disposal of a subsidiary, the management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. Reversal of impairment of RMB1,694,000 (2020: impairment of RMB1,694,000) was provided by the Group as of 31 December 2021.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowing and ensures compliance with the relevant loan covenants.

As at 31 December 2021, the Group has available unutilised bank loan facilities of RMB645,592,000 (2020: RMB373,800,000). Details of which are set out in note 30. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and derivative instrument. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

As at 31 December 2021

	Weighted average effective interest rate %	Less than 1 month or on demand *RMB'000*	1 – 3 months *RMB'000*	3 months to 1 year *RMB'000*	1 – 3 years *RMB'000*	More than 3 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount *RMB'000*
Non-derivative financial liabilities								
Trade payables	–	218,529	1,262,830	–	–	–	1,481,359	1,481,359
Other payables	–	3,858,364	–	–	–	–	3,858,364	3,858,364
Bills payables	–	–	40,000	101,258	–	–	141,258	141,258
Amounts due to joint ventures	–	136,127	–	–	–	–	136,127	136,127
Amounts due to related companies	–	58,910	–	–	–	–	58,910	58,910
Lease liabilities	4.35%	2,502	15,306	27,551	31,452	30,291	107,102	94,044
		4,274,432	1,318,136	128,809	31,452	30,291	5,783,120	5,770,062

As at 31 December 2020

	Weighted average effective interest rate %	Less than 1 month or on demand *RMB'000*	1 – 3 months *RMB'000*	3 months to 1 year *RMB'000*	1 – 3 years *RMB'000*	More than 3 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount *RMB'000*
Non-derivative financial liabilities								
Trade payables	–	192,876	1,011,690	–	–	–	1,204,566	1,204,566
Other payables	–	3,015,534	–	–	–	–	3,015,534	3,015,534
Bills payables	–	–	22,000	15,000	–	–	37,000	37,000
Amounts due to joint ventures	–	239,630	–	–	–	–	239,630	239,630
Amounts due to related companies	–	13,168	–	–	–	–	13,168	13,168
Borrowing								
– fixed-rate	2.1	–	99,556	–	–	–	99,556	99,000
Lease liabilities	4.4	16,961	14,567	94,506	74,423	31,546	232,003	217,714
		3,478,169	1,147,813	109,506	74,423	31,546	4,841,457	4,826,612
Derivative								
Contingent consideration payable	4.9	24,346	–	–	–	–	24,346	24,346

40. Financial Instruments *(continued)*

40c. Fair value measurement of financial instruments

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liability	Fair value as at 31 December 2021 RMB'000	Fair value as at 31 December 2020 RMB'000	Fair value hierarchy	Valuation techniques and key input(s)	Significant Unobservable input(s)	Relationship of unobservable inputs to fair value
Equity securities listed in Hong Kong	**66,725**	36,102	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unquoted investments	**1,912,620**	1,840,922	Level 3	Recent transaction prices of underlying investments.	N/A	N/A
				Discount cash flows – in this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Long-term pre-tax operating margin	The higher the long-term pre-tax operating margin, the higher the fair value, vice versa.
Bills receivables at FVTOCI	**2,071,866**	1,225,479	Level 2	Discounted cash flow at a discount rate that reflects the credit risk of issuers	N/A	N/A
Structured bank deposits	**1,443,413**	1,535,207	Level 2	Expected yields of underlying investments in and commodities, bonds and funds invested by bank at a discount rate that reflect the credit risk of the bank	N/A	N/A
Contingent consideration payable in a business combination	**-**	24,346	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Probability of the achievement of certain milestone events	The higher the probability, the higher the fair value, vice versa.

There were no transfers between levels in the current year.

40. Financial Instruments *(continued)*

40c. Fair value measurement of financial instruments *(continued)*

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

Unrealised fair value loss of RMB19,723,000 included in OCI for the year ended 31 December 2021 (2020: RMB240,898,000) is related to other financial assets measured at FVTOCI held at 31 December 2021 and are reported as changes of "other reserve".

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 and 2 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports to the Directors every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

40. Financial Instruments *(continued)*

40c. Fair value measurement of financial instruments *(continued)*

(ii) Reconciliation of Level 3 Measurements

	Unquoted equity investments	Contingent consideration payable
	RMB'000	*RMB'000* *(Note)*
At 1 January 2020	1,035,812	32,053
Total gains		
— in other comprehensive income	296,135	—
— in profit or loss	531,097	10,423
Purchase of unquoted equity investments	216,024	—
Disposal of unquoted equity investments	(190,946)	—
Transfer to interests in associates	(47,200)	—
Payment of contingent consideration	—	(18,130)
At 31 December 2020	**1,840,922**	**24,346**
Total gains		
— in other comprehensive income	**(16,745)**	**—**
— in profit or loss	**250,785**	**—**
Purchase of unquoted equity investments	**419,087**	**—**
Disposal of unquoted equity investments	**(581,429)**	
Payment of contingent consideration	**—**	**(24,346)**
At 31 December 2021	**1,912,620**	**—**

Note: Pursuant to the sales and purchase agreement for the acquisition of YZY Biopharma in 2018, the Group was required to pay an additional consideration up to RMB55,426,000 if milestone events in relation to two biospecific antibodies can be achieved by the respective agreed timeline from 2018 to 2020. The fair value of such contingent arrangement amounted to nil at 31 December 2021 (2020: RMB24,346,000).

(iii) Fair value of financial instruments that are recorded at amortised cost

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

41. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowing	**Dividend payable**	**Dividend payable to non-controlling interests**	**Lease liabilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 30)	*(note 12)*		*(note 32)*	
At 1 January 2020	23,000	–	–	164,535	187,535
Financing cash flows	167,090	(1,527,694)	(7,729)	(102,643)	(1,470,976)
Finance costs recognised	1,910	–	–	10,322	12,232
Dividend declared	–	1,527,694	7,729	–	1,535,423
Disposal of a subsidiary *(note 37)*	(70,000)	–	–	–	(70,000)
Deemed disposal of a subsidiary *(note 37)*	(23,000)	–	–	–	(23,000)
New leases entered	–	–	–	141,653	141,653
Leases modified	–	–	–	7,853	7,853
Foreign exchange translation	–	–	–	(4,006)	(4,006)
At 31 December 2020	**99,000**	**–**	**–**	**217,714**	**316,714**
Financing cash flows	**(99,559)**	**(1,690,763)**	**(12,500)**	**(130,272)**	**(1,933,094)**
Finance costs recognised	**559**	**–**	**–**	**7,105**	**7,664**
Dividend declared	**–**	**1,690,763**	**12,500**	**–**	**1,703,263**
New leases entered	**–**	**–**	**–**	**674**	**674**
Foreign exchange translation	**–**	**–**	**–**	**(1,177)**	**(1,177)**
At 31 December 2021	**–**	**–**	**–**	**94,044**	**94,044**

42. Related Party Disclosures

During the year, the Group had significant transactions and balances with related parties. Other than those disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following significant transactions with related parties and the balances with them at the end of the reporting period are as follows:

(i) Related companies

Name of company	Nature of transactions/balances	2021 RMB'000	2020 RMB'000
CSPC Holdings Company Limited ("CHL") *(note a)*, and its subsidiaries and associates (the "CHL Group")	Sale of pharmaceutical products	**509,631**	466,409
	Rental expense	**—**	966
	Payment of lease liabilities	**107,719**	79,861
	Purchase of steam	**40,807**	29,902
	Recharge of utility expenses	**3,093**	2,977
	Warehouse service income	**1,499**	510
	Rental income	**254**	237
	Purchase of low cost consumables	**566**	3,002
	Purchase of pharmaceutical products	**55,560**	18,805
	Provision of incineration service fee	**205**	—
	Provision of utility	**950**	—
	Balance due from/to the CHL Group		
	— trade receivables *(note b)*		
	aged 0-90 days	**92,520**	104,198
	aged 91-180 days	**3,974**	39,216
	aged 181-365 days	**2,789**	465
	aged over 365 days	**45**	—
		99,328	143,879
	— other receivables *(note c)*	**807**	381
	— trade payables *(note b)*		
	aged 0-90 days	**(21,292)**	(488)
	aged 91-180 days	**(5,420)**	(1,876)
	aged 181-365 days	**(6,415)**	(5,523)
	aged over 365 days	**(23,372)**	—
		(56,499)	(7,887)
	— other payables *(note c)*	**(2,411)**	(5,281)
	— lease liabilities	**(42,319)**	(91,654)

42. Related Party Disclosures *(continued)*

(ii) Joint ventures

Name of company	Nature of transactions/balances	2021 RMB'000	2020 RMB'000
Huarong	Purchase of raw materials	**139,833**	192,847
	Recharge of utility expenses	**3,295**	284
	Sales of raw materials	**71**	154,018
	Sales of property, plant and equipment	**—**	68
	Purchase of electricity	**1,326**	1,730
	Provision of construction service	**276**	—
	Provision of incineration service fee	**376**	485
	Balance due from/to Huarong		
	— trade receivables *(note b)*		
	aged 0-90 days	**270**	77
	aged 91-180 days	**80**	—
		350	77
	— other receivables *(note c)*	**2,388**	16,598
	— trade payables *(note b)*		
	aged 0-90 days	**(84,238)**	(29,063)
	aged 91-180 days	**(3,750)**	(32,915)
	aged 181-365 days	**(2,542)**	—
		(90,530)	(61,978)
	— other payables *(note c)*	**—**	(8,740)
Yantai Jiashi	Balance due from Yantai Jiashi		
	— other receivables	**26,586**	—
	— other payables	**(45,523)**	(29,348)
Bioworkshops	Provision of research and development services	**44,368**	33,675
	Provision of utility services	**3,405**	2,329
	Provision of management services	**750**	758
	Rental income	**3,687**	3,386
	Imputed interest income	**8,983**	11,912
	Balance due from/to Bioworkshop		
	— trade receivables *(note b)*		
	aged 0-90 days	**1,610**	1,067
	— other receivables — non-current *(note d)*	**253,953**	245,930
	— current	**8,849**	—
	— trade payables *(note b)*		
	aged 0-90 days	**—**	(7,015)
	— other payables *(note c)*	**(74)**	(94)

42. Related Party Disclosures *(continued)*

(ii) Joint ventures *(continued)*

		1.1.2021 to 30.4.2021 *RMB'000*	2020 *RMB'000*
Zhongcheng Logistics Group	Purchase of raw materials	**137,289**	607,230
	Provision of utility services	**692**	74
	Sales of pharmaceutical products	**57,682**	193,968
	Purchase of property, plant and equipment	**–**	2,748
	Provision of incineration service fee	**–**	139
	Warehouse service income	**27**	1,642
	Payment on lease liabilities	**12,962**	12,394

	2020 *RMB'000*
Balance due from/to Zhongcheng Logistics Group	
— trade receivables *(note b)*	
aged 0-90 days	1,157
aged 91-180 days	795
	1,952
— other receivable *(note e)*	621,387
—lease liabilities	(66,753)
— trade payables *(note b)*	
aged 0-90 days	(40,100)
— other payables *(note c)*	(92,355)

42. Related Party Disclosures *(continued)*

(iii) An associate

Name of company	Nature of transaction/balance	2021 RMB'000	2020 RMB'000
YZY Biopharma	Capital injection	9,118	—
	Balance due from YZY Biopharma — other receivable *(note f)*	400	82,428

Notes:

a. Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significant influence over the Company and exercises control over CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.

b. The general credit period for trade receivables and payables is 90 days (2020: 90 days).

c. Amounts are unsecured, repayable on demand and non-interest bearing.

d. Amount is unsecured and with imputed interest computed using the prevailing market interest rate of 4.75% per annum for comparable long term borrowings, approximately RMB179,037,000 of the balance is denominated in US$.

e. Amount is unsecured, non-interest bearing and repayable on demand except for a balance of RMB511,401,000 (net of impairment of RMB24,499,000) which bears interest rate of 4.00% per annum with terms of two to three years.

f. Amount is unsecured, repayable on demand and bears interest rate of nil (2020: 8.00%) per annum.

(iv) Compensation to key management personnel

The details of the compensation paid to the executive directors of the company are set out in note 9.

43. Employee Retirement Benefit Schemes

The Group has offered a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions are made by both the employer and the employees based on a certain percentage of the employees' relevant income. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. There was no contribution forfeited by the Group during the year.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on a certain percentage of payroll costs stipulated by the local government authorities. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. Upon retirement, the local government authorities are responsible for the payment of the retirement benefits to the retired employees.

The Group established a 401(k) savings trust plan ("401(k) Plan"), a defined contribution plan funded by employers and employees, in the US that qualifies as an Inland Revenue Service ("IRS") deferred salary arrangement under Section 401(k) of the US Internal Revenue Code. Under the 401(k) Plan, participating employees may elect to contribute up to a maximum amount subject to certain IRS limitations.

During the year, the contributions made by the Group relating to the above arrangements were RMB212,608,000 (2020: RMB97,128,000), of which RMB790,000 (2020: RMB894,000) and RMB2,681,000 (2020: RMB2,886,000) were attributable to the Mandatory Provident Fund Scheme in Hong Kong and 401(k) Plan in the US, respectively.

44. Particulars of Subsidiaries

44.1 General information of subsidiaries

The directors are of the opinion that a complete list of particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries as at 31 December 2021 which principally affect the results or assets of the Group.

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activity
				2021		2020		
				Directly %	Indirectly %	Directly %	Indirectly %	
Dragon Merit Holdings Limited	Hong Kong	Limited liability	RMB639,800,001	–	100	–	100	Investment holding
CSPC Weisheng Pharmaceutica (Shijiazhuang) Co., Ltdl	The PRC	Foreign investment enterprise with limited liability	US$106,348,000	100	–	100	–	Manufacture and sale of vitamin C products
CSPC Hebei Zhongnuo Pharmaceutical Co., Ltd	The PRC	Sino-foreign equity joint venture with limited liability	RMB678,555,900	88.82	10.57	88.82	10.57	Manufacturing and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	100	–	100	–	Research and development of pharmaceutical products
CSPC Yinhu Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB150,000,000	–	89.45	–	89.45	Manufacture and sale of pharmaceutical products

44. Particulars of Subsidiaries *(continued)*

44.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activity
				2021		2020		
				Directly	Indirectly	Directly	Indirectly	
				%	%	%	%	
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Limited liability	RMB170,000,000	–	75	–	75	Manufacture and sales of health supplement products
CSPC NBP Pharmaceutical Co., Ltd	The PRC	Foreign investment enterprise with limited liability	RMB413,594,300	54.06	45.94	54.06	45.94	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Co., Ltd. ("Ouyi")	The PRC	Foreign investment enterprise with limited liability	RMB300,000,000	–	100	–	100	Manufacture and sales of pharmaceutical products
CSPC Innovation Pharmaceutical Co., Ltd. ("CSPC XNW")	The PRC	Limited liability	RMB546,000,000	–	75	–	75	Manufacture and sales of caffeine products
CSPC Baike (Shandong) Biopharmaceutical Co., Ltd. ("Baike Shandong")	The PRC	Limited liability	RMB734,700,000	33.62	66.38	33.62	66.38	Manufacture and sales of pharmaceutical products
CSPC Shengxue Glucose Co., Ltd.	The PRC	Limited liability	RMB434,910,000	–	100	–	100	Manufacture and sales of pharmaceutical products
Hebei Zhongnuo GWK Medicines& Health Products Co., Ltd.	The PRC	Limited liability	RMB30,000,000	–	75	–	75	Manufacture and sales of health supplement products
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB70,000,000	–	75	–	75	Sales of health supplement products

44. Particulars of Subsidiaries *(continued)*

44.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activity
				2021		2020		
				Directly	Indirectly	Directly	Indirectly	
				%	%	%	%	
CSPC Neimenggu Zhongnuo Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB66,867,900	–	99.39	–	99.39	Manufacture and sales of pharmaceutical products
Shijiazhang Ouyihe Medical Trading Co., Ltd	The PRC	Foreign investment enterprise with limited liability	RMB200,000,000	100	–	100	–	Sales of pharmaceutical products
Xinshi Biopharmaceutical Limited	The PRC	Limited liability	RMB132,800,000	–	100	–	100	Research and development of pharmaceutical products
CSPC Shanghai Co., Ltd.	The PRC	Limited liability	RMB800,000,000	–	100	–	100	Investment holding
Shanghai Yishi Pharmaceutical Technology Co., Ltd	The PRC	Limited liability	RMB10,000,000	–	100	–	100	Research and development of pharmaceutical products
Shanghai Runshi Pharmaceutical Technology Co., Ltd	The PRC	Limited liability	RMB10,000,000	–	89	–	89	Research and development of pharmaceutical products
CSPC Megalith Biopharmaceutical Co., Ltd	The PRC	Limited liability	RMB500,000,000	–	100	–	100	Manufacture of pharmaceutical products
Beijing Kangchuanglian Biopharmaceutical Technology Research Co., Ltd	The PRC	Limited liability	RMB5,000,000	–	100	–	100	Research and development of pharmaceutical products

44. Particulars of Subsidiaries *(continued)*

44.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activity
				2021		2020		
				Directly %	Indirectly %	Directly %	Indirectly %	
Shanghai JMT-BIO Technology Co., Ltd	The PRC	Limited liability	RMB70,000,000	–	100	–	100	Research and development of pharmaceutical products
Shanghai JMT-BIO Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB20,000,000	–	100	–	100	Research and development of pharmaceutical products
Shanghai Novarock Biopharmaceutical Co., Ltd.	The PRC	Limited liability	US$10,000,000	–	75.27	–	71.15	Research and development of pharmaceutical products
Shanghai Alamab Biopharmaceutical Co., Ltd.	The PRC	Limited liability	US$10,000,000	–	85	–	85	Research and development of pharmaceutical products
Conjupro Bioerapecitics Inc.	USA	Limited liability	US$9,512	–	100	–	100	Research and development of pharmaceutical products
CSPC Healthcare Inc.	USA	Limited liability	US$74,400	–	100	–	100	Sales of pharmaceutical products
CSPC Dophen Corporation	USA	Limited liability	US$381,440	–	100	–	100	Research and development of pharmaceutical products
Megalith Pharmaceuticals Inc.	USA	Limited liability	US$1,000	–	100	–	100	Research and development of pharmaceutical products
AlaMab Therapeutics, Inc.	USA	Limited liability	US$500	–	85	–	85	Research and development of pharmaceutical products

44. Particulars of Subsidiaries *(continued)*

44.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activity
				2021		2020		
				Directly %	**Indirectly %**	Directly %	Indirectly %	
Novarock Biotherapeutics Limited	USA	Limited liability	US$465	**–**	**75.27**	–	71.15	Research and development of pharmaceutical products
CSPC Innovation USA Inc.	USA	Limited liability	US$50,000	**–**	**75**	–	75	Sales of pharmaceutical products
CSPC Dermay Europe GMBH	Germany	Limited liability	EUR50,000	**–**	**100**	–	100	Sales of pharmaceutical products
CSPC Deryang Europe GMBH	Germany	Limited liability	EUR50,000	**–**	**75**	–	75	Sales of pharmaceutical products

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

44.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of a non-wholly-owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CSPC XNW	The PRC	25%	25%	81,713	75,393	743,143	671,084
Individually immaterial subsidiaries with non-controlling interests						98,416	97,701
						841,559	768,785

44. Particulars of Subsidiaries *(continued)*

44.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

CSPC XNW

	2021	2020
	RMB'000	*RMB'000*
Current assets	**2,317,964**	1,913,048
Non-current assets	**907,812**	1,041,855
Current liabilities	**(231,040)**	(234,242)
Non-current liabilities	**(34,398)**	(33,761)
Equity attributable to owners of the Company	**2,217,195**	2,015,816
Non-controlling interests	**743,143**	671,084
Revenue	**1,375,186**	1,289,212
Expenses	**(1,058,642)**	(978,369)
Profit for the year	**316,544**	310,843
Profit and total comprehensive income attributable to owners of the Company	**234,831**	235,450
Profit and total comprehensive income attributable to the non-controlling interests	**81,713**	75,393
Profit and total comprehensive income for the year	**316,544**	310,843

44. Particulars of Subsidiaries *(continued)*

44.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

	2021	2020
	RMB'000	*RMB'000*
Dividends paid to non-controlling interests of CSPC XNW	**–**	–
Net cash inflow from operating activities	**170,592**	349,072
Net cash (outflow) inflow from investing activities	**(26,860)**	346,166
Net cash outflow from financing activities	**(42,864)**	(28,000)
Effect of foreign exchange rate changes	**(6,750)**	(2,129)
Net cash inflow	**94,118**	665,109

45. Statement of Financial Position and Reserves of the Company

	2021 RMB'000	2020 RMB'000
Non-current assets		
Property, plant and equipment	57	173
Investments in subsidiaries	9,478,774	8,324,944
Other financial asset	27,362	36,102
Amounts due from subsidiaries	2,502,897	2,260,895
Right-of-use assets	2,834	5,354
	12,011,924	10,627,468
Current assets		
Other receivables	1,629	125,531
Amounts due from subsidiaries	956,505	1,863,851
Amounts due from a related company	179,028	179,168
Bank balances and cash	88,027	225,685
	1,225,189	2,394,235
Current liabilities		
Other payables	49,837	45,477
Tax liabilities	39,457	71,893
Lease liabilities	1,896	1,155
	91,190	118,525
Net current assets	1,133,999	2,275,710
Total assets less current liabilities	13,145,923	12,903,178
Non-current liabilities		
Lease liabilities	1,050	4,291
Net assets	13,144,873	12,898,887
Capital and reserves		
Share capital	10,899,412	10,899,412
Reserves	2,245,461	1,999,475
Total equity	13,144,873	12,898,887

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 22 March 2022 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

45. Statement of Financial Position and Reserves of the Company *(continued)*

Movement in the Company's reserves

	Investments valuation reserve	Treasury share reserve	Share award reserves	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	(2,807)	(100,706)	6,721	1,732,534	1,635,742
Profit for the year	–	–	–	1,887,404	1,887,404
Other comprehensive expense for the year	(3,023)	–	–	–	(3,023)
Total comprehensive (expense) income for the year	(3,023)	–	–	1,887,404	1,884,381
Dividend recognised as distribution	–	–	–	(1,527,694)	(1,527,694)
Recognition of equity-settled share-based payment expanse	–	–	7,046	–	7,046
At 31 December 2020	**(5,830)**	**(100,706)**	**13,767**	**2,092,244**	**1,999,475**
Profit for the year	**–**	**–**	**–**	**2,186,586**	**2,186,586**
Other comprehensive expense for the year	**(2,567)**	**–**	**–**	**–**	**(2,567)**
Total comprehensive (expense) income for the year	**(2,567)**	**–**	**–**	**2,186,586**	**2,184,019**
Dividend recognised as distribution	**–**	**–**	**–**	**(1,690,763)**	**(1,690,763)**
Recognition of equity-settled share-based payment expense	**–**	**–**	**16,242**	**–**	**16,242**
Repurchase of shares	**–**	**–**	**–**	**(263,512)**	**(263,512)**
Disposal of other financial assets	**701**	**–**	**–**	**(701)**	**–**
Share vested under the share award scheme	**–**	**15,106**	**(12,338)**	**(2,768)**	**–**
At 31 December 2021	**(7,696)**	**(85,600)**	**17,671**	**2,321,086**	**2,245,461**

Financial Summary

	For the year ended 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
	(Restated)	(Restated)			
	(note a)	*(note a)*			
Results					
Revenue	13,386,479	17,716,540	22,103,192	24,942,204	**27,866,870**
Cost of sales	(5,303,764)	(5,979,187)	(6,192,211)	(6,256,882)	**(6,731,776)**
Gross profit	8,082,715	11,737,353	15,910,981	18,685,322	**21,135,094**
Other income	103,366	139,742	243,783	264,736	**411,223**
Other gains or losses	(50,953)	155,195	48,450	376,816	**242,675**
Selling and distribution expenses	(3,780,688)	(6,184,505)	(8,712,083)	(9,377,620)	**(10,443,422)**
Administrative expenses	(555,581)	(656,597)	(748,509)	(945,713)	**(1,009,824)**
Research and development expenses	(703,458)	(1,342,101)	(2,000,426)	(2,889,837)	**(3,432,590)**
Other expenses	(79,083)	(26,125)	(142,015)	(57,036)	**(108,204)**
Finance costs	(23,182)	(74,337)	(32,426)	(12,232)	**(7,664)**
Share of results of associates	–	–	–	(20,917)	**(23,894)**
Share of results of joint ventures	8,892	43,554	58,407	34,449	**46,337**
Gain on deemed disposal of partial interest in an associate	–	–	–	37,192	**13,092**
Gain on disposal of a joint venture	–	–	–	–	**24,273**
Gain on disposal of subsidiaries	–	–	–	314,901	**–**
Loss on deemed disposal of a subsidiary	–	–	–	(19,038)	**–**
Profit before tax	3,002,028	3,792,179	4,626,162	6,391,023	**6,847,096**
Income tax expense	(594,252)	(733,760)	(892,810)	(1,162,013)	**(1,158,972)**
Profit for the year	2,407,776	3,058,419	3,733,352	5,229,010	**5,688,124**
Profit for the year attributable to:					
Owners of the Company	2,399,484	3,080,802	3,714,106	5,159,655	**5,605,185**
Non-controlling interests	8,292	(22,383)	19,246	69,355	**82,939**
	2,407,776	3,058,419	3,733,352	5,229,010	**5,688,124**
	RMB cents	*RMB cents*	*RMB cents*	*RMB cents*	***RMB cents***
	(Restated)	(Restated)	(Restated)		
	(note b)	*(note b)*	*(note b)*		
Earnings per share					
Basic	20.52	25.71	31.07	43.16	**46.89**
Diluted	20.52	N/A	31.07	43.16	**46.89**

	As at 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
	(Restated)	(Restated)			
	(note a)	*(note a)*			
Assets and liabilities					
Total assets	17,988,805	23,216,837	26,318,322	30,070,206	**34,741,576**
Total liabilities	(5,129,097)	(7,687,237)	(6,800,157)	(6,969,133)	**(7,913,345)**
Net assets	12,859,708	15,529,600	19,518,165	23,101,073	**26,828,231**
Equity attributable to owners of the Company	12,788,655	15,052,260	18,461,723	22,332,288	**25,986,672**
Non-controlling interests	71,053	477,340	1,056,442	768,785	**841,559**
Total equity	12,859,708	15,529,600	19,518,165	23,101,073	**26,828,231**

Notes:

(a) Other gains or losses and research and development expenses were reclassified from other income, administrative expense and other expenses in the consolidated financial statements so as to conform with the current year presentation.

(b) The earnings per share has been adjusted for the effect of the bonus issues on 3 July 2020 and 29 October 2020.