先声药业 Simcere

先聲藥業集團有限公司

Simcere Pharmaceutical Group Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 2096

ANNUAL REPORT 2020

Providing Today's Patients with

MEDICINES

of the **Future**

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Mr. REN Jinsheng *(Chairman and Chief Executive Officer)*
Mr. ZHANG Cheng[(1)]
Mr. WAN Yushan
Mr. TANG Renhong

NON-EXECUTIVE DIRECTOR

Mr. ZHAO John Huan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SONG Ruilin
Mr. WANG Jianguo
Mr. WANG Xinhua

AUDIT COMMITTEE

Mr. WANG Xinhua *(Chairman)*
Mr. SONG Ruilin
Mr. WANG Jianguo

REMUNERATION AND APPRAISAL COMMITTEE

Mr. WANG Jianguo *(Chairman)*
Mr. WANG Xinhua
Mr. REN Jinsheng

NOMINATION COMMITTEE

Mr. SONG Ruilin *(Chairman)*
Mr. WANG Jianguo
Mr. REN Jinsheng

STRATEGY COMMITTEE

Mr. REN Jinsheng *(Chairman)*
Mr. ZHAO John Huan
Mr. WANG Jianguo

JOINT COMPANY SECRETARIES

Mr. BAO Jun
Ms. FENG Jie *(Associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom)*
Ms. MAK Po Man Cherie *(Associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom)*

AUTHORIZED REPRESENTATIVES

Mr. BAO Jun
Mr. WAN Yushan

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Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Xuanwu District, Nanjing
Jiangsu
PRC

COMPANY'S WEBSITE

http://www.simcere.com

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2096

Note:

(1) Mr. ZHANG Cheng resigned as an executive Director and the chief operating officer of the Company with effect from March 31, 2021.

Corporate Information

PRINCIPAL BANKS

Bank of China Limited
Nanjing Jiangbei New District Branch
No. 30, Wende Road
Pukou District, Nanjing
Jiangsu PRC

China Merchants Bank Co., Ltd.,
Nanjing Longpan Road Sub-Branch
No. 31, Changfu Street
Qinhuai District, Nanjing
Jiangsu PRC

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
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10 Chater Road
Central, Hong Kong

LEGAL ADVISER

William Ji & Co. LLP in Association with Tian Yuan Law Firm Hong Kong Office
Suites 3304-3309
33/F, Jardine House
One Connaught Place
Central, Hong Kong

COMPLIANCE ADVISER

China Galaxy International Securities (Hong Kong) Co., Limited
20th Floor, Wing On Centre
111 Connaught Road Central
Sheung Wan
Hong Kong

Company Overview

BUSINESS HIGHLIGHTS

As at December 31, 2020, the Group had two innovative pharmaceuticals approved for sale within the year: Sanbexin (edaravone and dexborneol concentrated solution for injection), category I innovative pharmaceutical, and Orencia (abatacept injection), imported registered innovative pharmaceutical. Sanbexin has been included into the "Drugs Catalogue for the National Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (2020)" released on December 28, 2020, and will benefit more patients suffering from stroke in the future.

As at December 31, 2020, the Group had more than 50 innovative product candidates in its R&D pipeline, with over 20 new projects established as compared to the beginning of the year. During the year, the Group obtained six IND approvals, had one IND application accepted for approval and 11 projects at clinical development stage.

The proportion of sales revenue from innovative pharmaceuticals of the Group grew year-to-year, contributed 25.5%, 32.9% and 45.1% of the total revenue for the years ended December 31 2018, 2019 and 2020, respectively.

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2020, the Group recorded the following financial results:

- Revenue of approximately RMB4,509 million, representing a decrease of approximately 10.5% as compared with that for the year ended December 31, 2019, among which the revenue from innovative pharmaceuticals of approximately RMB2,029 million, representing an increase of approximately 22.5% as compared with that for the year ended December 31, 2019;

- Research and development costs of approximately RMB1,142 million, representing an increase of approximately 59.4% as compared with that for the year ended December 31, 2019, which accounted for approximately 25.3% of the revenue;

- Profit for the year of approximately RMB664 million, representing a decrease of approximately 33.8% as compared with that for the year ended December 31, 2019; and

- Earnings per share of approximately RMB0.28, representing a decrease of approximately 34.9% as compared with that for the year ended December 31, 2019.

Company Overview

Simcere Pharmaceutical Group Limited (the "**Company**", together with its subsidiaries, the "**Group**"), now rapidly transitioning to an innovation and R&D-driven pharmaceutical company, has R&D, production and professional marketing capabilities. The Group is committed to providing today's patients with medicines of the future.

The Group focuses on three therapeutic areas, oncology, central nervous system diseases and autoimmune diseases. In each of these three areas, the Group has category I innovative pharmaceuticals approved for sale. The proportion of revenue from innovative pharmaceuticals of the Group grew year-to-year, contributed 25.5%, 32.9% and 45.1% of the total revenue for the years ended December 31 2018, 2019 and 2020, respectively.

As at December 31, 2020, the Group had two innovative pharmaceuticals approved for sale during the year: Sanbexin (edaravone and dexborneol concentrated solution for injection), category I innovative pharmaceutical, and Orencia (abatacept injection), imported registered innovative pharmaceutical. Sanbexin has been included into the "Drugs Catalogue for the National Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance ("**NRDL**") (2020)" released on December 28, 2020, and will benefit more patients suffering from stroke in the future.

Attaching great importance to innovative pharmaceutical R&D, the Group devotes itself to research and increases the R&D investment year on year. For the full year of 2020, the Group's R&D costs amounted to RMB1,142 million, accounting for approximately 25.3% of the revenue, representing an increase of approximately 59.4% as compared with the prior year. The Group has three innovative drug R&D centers located in Shanghai, Nanjing in the People's Republic of China ("**PRC**" or "**China**") and Boston in the United States of America ("**U.S.**"or "**United States**"), with a R&D team of over 900 staff. The Group has more than 50 innovative product candidates in its R&D pipeline, with over 20 new projects established as compared to the beginning of 2020. During the year, the Group obtained six Investigational New Drug ("**IND**") approvals, had one IND application accepted for approval and 11 projects at clinical development stage. The Group also has introduced several high-value innovative pharmaceutical projects through external collaborations, including KN035 (the partner's marketing application for this product was accepted by the National Medical Products Administration of the PRC (the "**NMPA**") in December 2020) and Trilaciclib (the partner's marketing application for this product was approved by the Food and Drug Administration of the United States (the "**U.S. FDA**") in February 2021). It will continuously promote the research and development of innovative pharmaceuticals and bring more drugs with better efficacy to patients through the dual-drive mode of independent R&D and R&D cooperation.

The Group continuously expands its marketing team and improves the professional marketing level. As at December 31, 2020, it has approximately 4,000 salespersons, representing an increase of approximately 1,100 as compared to June 30, 2020, laying a foundation for the marketing of innovative pharmaceuticals.

MAJOR PRODUCTS

Oncology Products	:	Endostar (recombinant human endostatin injection) Jepaso (nedaplatin for injection) Sinofuan (5-fluorouracil implants)
Central Nervous System Products	:	Sanbexin (edaravone and dexborneol concentrated solution for injection) Bicun (edaravone injection)
Autoimmune Products	:	Iremod (iguratimod tablets) Orencia (abatacept injection) Yingtaiqing (diclofenac sodium sustained release capsules/gel)
Other Products	:	Newanti (biapenem for injection) Softan (rosuvastatin calcium tablets) ZAILIN (amoxicillin granules/dispersible tablets/capsules) XINTA (levamlodipine besylate tablets)

Company Overview

On January 8, 2020, Orencia (abatacept injection), an imported and registered innovative pharmaceutical, obtained the Import Drug License issued by the NMPA. According to Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. ("**Frost & Sullivan**"), it became the first and only soluble CTLA4-Fc fusion protein approved for sale in China and the first and only selective T-cell co-stimulation immunomodulator in rheumatoid arthritis area worldwide.

On March 19, 2020, the workshop for oral solid dosage forms of Nanjing production facility passed the on-site inspection of the U.S. FDA with zero defect.

On July 29, 2020, the category I innovative pharmaceutical Sanbexin (edaravone and dexborneol concentrated solution for injection) obtained the drug registration certificate issued by the NMPA. It is a category I innovative drug that the Group has the proprietary intellectual property right; it is also the only innovative pharmaceutical for the treatment of stroke to obtain approval for marketing in the past five years worldwide. The drug wins the honor of National Major Scientific and Technological Special Project for Significant New Drug Development during the 13th Five-Year Plan Period (國家十三五「重大新藥創制」科技重大專項). On February 16, 2021 (the U.S. time), data of the phase III clinical study of Sanbexin was published in the international authoritative medical journal STROKE.

On November 16, 2020, Jiangsu Simcere Biological Pharmaceutical Co., Ltd. (江蘇先聲生物製藥有限公司), the antibody production arm of the Group, obtained the Pharmaceutical Manufacturing Permit issued by the NMPA.

Website of the Group: http://www.simcere.com/

Chairman's Statement

In 2020, with the progress in reform of the evaluation-based drug examination and approval system and the accelerated update of national reimbursement drug list, national policies offered unprecedented encouragement for innovation. Simcere has been, in the past few years, proceeding with and is now insisting on transformation to a R&D-driven company in a more comprehensive and faster way and engagement in the research and development of innovative pharmaceuticals with greater courage and intensity.

In the past year, we launched two innovative drugs, i.e. Sanbexin and Orencia, of which Sanbexin as developed in-house by us was listed in the national reimbursement drug list in the year of launch. In the field of oncology, we submitted a marketing application for Envafolimab, which was developed by us in strategic cooperation with Alphamab and 3D Medicines and was qualified for priority review; the CDK4/6 inhibitor Trilaciclib as developed in cooperation with G1 has obtained the IND approval; the new generation of NTRK/ROS1 multi-target inhibitor achieved clinical enrollment. In the field of autoimmune diseases, the clinical trial application for Iremod for the treatment of the new indication of Sjögren's syndrome was approved; the clinic trial of URAT1 inhibitor developed in cooperation with JW Pharmaceutical Corporation for the treatment of gout with hyperuricemia was approved. In the field of central nervous system, the phase III clinical research has started for Y-2 sublingual tablets (edaravone and dexborneol tablets). We look forward to the rapid progress of and new milestones in these innovative projects with unique strengths and potential.

In 2020, the Group realised revenue of RMB4,509 million and net profit of RMB664 million. The R&D costs amounted to RMB1,142 million, accounting for 25.3% of revenue. It is worth mentioning that the product revenue from our innovative drugs (Endostar, Iremod, Sanbexin and Orencia) accounted for 45.1% of the Group's total revenue, compared with that of 32.9% for the same period of last year. We believe that thanks to Sanbexin, Orencia and the continuous launch of future innovative products, this proportion will increase continually year by year, realizing our goal of full transformation into an innovative pharmaceutical company.

We are of the view that the innovative product portfolio launched and about to be launched by the Group will continue to bring patients with treatment methods of better efficacy. In the new year, our team will continue to grow and develop. We will attract more talented scientists to join our R&D team, so as to develop an innovative pharmaceutical R&D organisational ecology led by Shanghai R&D Center and complemented by Nanjing R&D Center and Boston R&D Center. Meanwhile, we will continue to expand our commercialization team, so as to provide rapid market coverage for innovative product launches and to improve the accessibility of effective pharmaceuticals to patients.

I hereby on behalf of the Board, management team and all staff of Simcere, would like to express our sincere thanks to our customers, partners and investors for their trust, support and help. We believe that in the wave of medical innovation in the PRC, every year is the best year for dream chasers with great aspirations. We will continue to practice the mission of "providing today's patients with medicines of the future" and persist in struggling with joint efforts, in an effort to motivate all our staff to help more patients and realize the value of the Group.

REN Jinsheng
Executive Director, Chairman and Chief Executive Officer

March 25, 2021

Management Discussion and Analysis

INDUSTRY REVIEW

In 2020, the COVID-19 pandemic brought challenge and test to the economic development of China. With the post-epidemic "new normal" of China and the active promotion of reform by the State in various aspects, the pharmaceutical industry continues to face with new development and opportunities.

On the one hand, China has introduced policies to propel evaluation of various innovative pharmaceuticals in an effort to gradually align with the international evaluation system, which, together with the capital market that provides a smooth financing channel for innovative pharmaceutical companies, vigorously promoted the boom of innovative pharmaceutical research and development. Global technological advances and the integration of translational medicine and innovative pharmaceuticals in practice continued to introduce highly innovative pharmaceuticals and to provide clinical treatment methods of better efficacy. In the future, only companies with a strong R&D and innovation power and a growing pipeline of product candidates will compete successfully and win the respect of doctors and patients.

On the other hand, on March 5, 2020, the State Council released the Opinions of the CPC Central Committee and the State Council on Deepening the Reform of Medical Insurance System, proposing to adjust the NRDL, incorporate drugs, diagnosis items and medical consumables of high clinical value and excellent pharmacoeconomics evaluation into the scope of medical insurance reimbursement, standardize the reimbursement scope for medical services and facilities, improve the NRDL dynamic adjustment mechanism and the medical insurance access negotiation system. The document put forward a top-level plan for the medical insurance system reform and set the overall reform objective and approach for the construction of medical insurance system in the next 5-10 years. The increasing population coverage of medical insurance, the increasing frequency of national negotiations on the NRDL, and the implementation of centralized procurement and rational use of drugs, are driving pharmacoeconomics to play an increasingly important role in payment. The commercialisation capabilities of pharmaceutical companies, as a part in the monetization-oriented transformation of innovation achievements, will play a vital and indispensable role.

The pandemic brings more social attention to healthcare enterprises. In the meantime, as China's pharmaceutical industry enters the dramatic reform stage, pharmaceutical enterprises need to build the comprehensive ability to pursue both product innovation and commercialization breakthrough, so that they can bring drugs with better efficacy to clinical patients on a continuous basis and therefore win in the competition.

BUSINESS REVIEW

During the year, the Group made the following achievements and progress:

On January 8, 2020, Orencia (abatacept injection), the imported innovative pharmaceutical under the cooperation of the Group and Bristol Myers Squibb ("**BMS**"), obtained the Import Drug License issued by the NMPA. According to Frost & Sullivan, it became the first and only soluble CTLA4-Fc fusion protein approved for sale in China and the first and only selective T-cell co-stimulation immunomodulator in rheumatoid arthritis area worldwide.

In March 2020, the Group entered into collaboration agreements with Jiangsu Alphamab Biopharmaceuticals Co., Ltd. (江蘇康寧傑瑞生物製藥有限公司) ("**Alphamab**") and 3D Medicines (Beijing) Co., Ltd. (思路迪(北京)醫藥科技有限公司) ("**3D Medicines**"), which have granted the Group an exclusive right to promote Envafolimab (KN035) for all oncology indications in China, potentially the first subcutaneously injectable anti-PD-L1 domain antibody worldwide. On December 17, 2020, the NMPA accepted the biologic license application ("**BLA**") for Envafolimab in the treatment of advanced solid tumors with microsatellite instability-high ("**MSI-H**") phenotype/mismatch-repair deficiency ("**dMMR**"), and included the product into the list of priority review in January 2021. The U.S. FDA also rewarded the product with orphan drug designation in treating advanced biliary tract cancer on January 18, 2020.

On July 29, 2020, Sanbexin (edaravone and dexborneol concentrated solution for injection), category I innovative pharmaceutical developed independently by the Group, obtained the drug registration certificate by the NMPA. It is the only innovative pharmaceutical for the treatment of stroke to obtain approval for sale in the past five years worldwide. On December 28, 2020, Sanbexin was admitted into the NRDL(2020) released during the same period.

On August 12, 2020, Aijiewei (tofacitinib citrate tablets), category IV generic pharmaceutical developed independently by the Group, was approved for marketing by the NMPA. The product won the bidding in the third round of centralized procurement of drugs in the same month. Categorized in the Part B of the NRDL, it is also included in China Rheumatoid Arthritis Diagnosis and Treatment Guidelines 2018 (《2018年中國類風濕關節炎診療指南》), having the same status as TNF-α inhibitors and IL-6 inhibitors. Being JAK kinase inhibitor, the product strengthens the Group's autoimmune disease products portfolio.

On August 13, 2020, the Group signed the license agreement with U.S.-based G1 Therapeutics, INC. (Nasdaq: GTHX) (the "**G1**") for the innovative pharmaceutical Trilaciclib. Trilaciclib, product of the partner G1, was designated as a breakthrough therapy by the U.S. FDA. In August 2020, the U.S. FDA has accepted the new drug application (the "**NDA**") filed by G1 for Trilaciclib for small-cell lung cancer patients being treated with chemotherapy and granted the approval for the products to be used in lowering the incidence rate of chemotherapy-induced myelosuppression in the extensive stage of adult SCLC patients on February 12, 2021. The Group received the Clinical Trial Approval for two indications of this pharmaceutical as approved and issued by the NMPA on January 18, 2021 and April 9, 2021.

On November 3, 2020, Simcere Pharmaceutical Animal Laboratory (先聲藥業動物實驗中心) passed the certification of Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC), representing that Group's laboratory animal quality and animal facility management level have met international standards.

During the year, the Group obtained six IND approvals for products in its innovative pharmaceutical pipeline, including SIM-201 (NTRK/ROS1, for oncology), SIM-295 (URAT1, for gout with hyperuricemia), iguratimod tablets (for Sjög-ren's syndrome) and etc. In addition, the Group had three Acceptance of Clinical Trial Application (藥物臨床試驗申請受理通知書) accepted (all of which have been approved as at the date of this annual results announcement for the year of 2020), including sevacizumab (VEGF, for ovarian cancer), Y-2 sublingual tablets (edaravone and dexborneol tablets, for acute ischemic stroke) and Trilaciclib (CDK4/6, for chemotherapy-induced myelosuppression).

During the year, to ensure the speed and efficiency of commercial promotion in the marketing of new products and improve its product coverage, the Group continued to expand the marketing team with approximately 1,100 salespersons newly added as compared with that as at June 30, 2020. Meanwhile, the Group continued to enhance its training efforts and improved the professional academic marketing ability of the marketing team.

For the year ended December 31, 2020, the Group recorded revenue of approximately RMB4,509 million, representing a decrease of approximately 10.5% from the prior year. Profit for the year reached approximately RMB664 million, representing a decrease of approximately 33.8% from the prior year. Earnings per share amounted to approximately RMB0.28, representing a decrease of approximately 34.9% from the prior year.

Revenue

Most of the Group's revenue was generated from sales of pharmaceutical products. Our products primarily concentrated on the strategically focused therapeutic areas: oncology diseases, central nervous system diseases and autoimmune diseases. The decrease of total revenue was mainly due to the decrease in sales revenue of Bicun (edaravone injection) for failing to be included in the NRDL issued in August 2019 and coming into effect in January 2020.

Oncology Products

Our main products in this therapeutic area include Endostar (recombinant human endostatin injection), Jepaso (nedaplatin for injection) and Sinofuan (5-fluorouracil implants). During the year ended December 31, 2020, revenue from the oncology product portfolio reached approximately RMB1,255 million, accounting for approximately 27.8% of the Group's total revenue.

Management Discussion and Analysis

Endostar (recombinant human endostatin injection) is the first proprietary anti-angiogenic targeted drug in China and the only endostatin approved for sale in China and worldwide. Recombinant human endostatin has been included in the NRDL since 2017 and is recommended as a first-line treatment for patients with advanced non-small-cell lung cancer (NSCLC) by a number of oncology clinical practice guidelines issued by the National Health Commission of the PRC, ("**NHC**"), Chinese Medical Association (中華醫學會) and Chinese Society of Clinical Oncology ("**CSCO**"). In September 2020, CSCO Expert Committee on Antineoplastic Safety Management (中國臨床腫瘤學會抗腫瘤藥物安全管理專家委員會) and CSCO Expert Committee on Vascular Targeting Therapy (中國臨床腫瘤學會血管靶向治療專家委員會) published the Expert Consensus on the Clinical Application of Recombinant Human Endostatin to Treat Malignant Serous Effusion (《重組人血管內皮抑制素治療惡性漿膜腔積液臨床應用專家共識》) in Chinese Clinical Oncology. Based on the relevant translational research, clinical trial and real world study, the consensus aimed to provide guidance for the reasonable application of Endostar in the clinical practice to treat malignant serous effusion.

Central Nervous System Products

Our main products in this therapeutic area include Sanbexin (edaravone and dexborneol concentrated solution for injection), the innovative pharmaceutical launched in 2020, and Bicun (edaravone injection), the first-to-market generic pharmaceutical. On December 28, 2020, Sanbexin was included into the NRDL (2020), which will become effective on March 1, 2021. During the year ended December 31, 2020, revenue from the central nervous system product portfolio reached approximately RMB704 million, accounting for approximately 15.6% of the Group's total revenue.

Sanbexin (edaravone and dexborneol concentrated solution for injection) is a category I innovative drug developed independently by the Group with proprietary intellectual property right. According to Frost & Sullivan, it is the only pharmaceutical for the treatment of stroke to obtain approval for sale in the past five years worldwide. Sanbexin incorporated approximately 1,200 acute ischemic stroke patients into the phase III clinical trial, and conducted randomized, double-blind, positive controlled, head to head comparison with edaravone monotherapy. Data shows that Sanbexin has the efficacy advantage. Launched to the market, the product brings treatment of better efficacy to acute ischemic stroke patients.

Autoimmune Products

Our main products in this therapeutic area include Iremod (iguratimod tablets), Orencia (abatacept injection) and Yingtaiqing (diclofenac sodium sustained release capsules/gel). During the year ended December 31, 2020, revenue from the autoimmune product portfolio reached approximately RMB1,119 million, accounting for approximately 24.8% of the Group's total revenue.

Iremod (iguratimod tablets), the first iguratimod pharmaceutical product approved for sale in the world and the only of its kind approved for sale in China, is the only small molecule DMARD that is developed independently and marketed in China in the recent ten years. Iguratimod has been included in the NRDL since 2017 and is recommended as the primary therapy drug for the treatment of active rheumatoid arthritis by a number of clinical practice guidelines and pathways issued by the NHC, Chinese Medical Association, Asia Pacific League of Associations for Rheumatology and the Ministry of Health, Labor and Welfare of Japan. Currently, we are actively promoting the indication expansion program on Sjög-ren's syndrome for this product.

According to Frost & Sullivan, Orencia (abatacept injection) is the first innovative biologics developed for the PRC Market by a China-based company jointly with a leading global pharmaceutical company. It is the first and only soluble CTLA4-Fc fusion protein approved for sale in China and the first and only selective T-cell co-stimulation immunomodulator in rheumatoid arthritis area worldwide. Abatacept injection is an innovative biologics for the treatment of moderate to severe rheumatoid arthritis. It may be used in combination with other disease-modifying anti-rheumatic drugs ("**DMARDs**") (other than TNF-α inhibitors), such as methotrexate, to treat moderate to severe active rheumatoid arthritis patients who do not respond favorably to other DMARDs. Abatacept injection distinguishes itself by proven efficacy, safety and patient compliance. The product is developed by BMS, and the Group has been granted the right for developing, registering and commercializing the product in China. According to Frost & Sullivan, sales revenue of the product in the world has increased to USD3.2 billion in 2019.

Other Products

Our main products in these therapeutic areas include the first generic drug Newanti (biapenem for injection), Softan (rosuvastatin calcium tablets), ZAILIN (amoxicillin granules/dispersible tablets/capsules) and Xinta (Levamlodipine besylate tablet). During the year ended December 31, 2020, revenue from the said product portfolio reached approximately RMB1,152 million, accounting for approximately 25.6% of the Group's total revenue.

RESEARCH AND DEVELOPMENT

During the year ended December 31, 2020, R&D costs amounted to approximately RMB1,142 million, accounting for approximately 25.3% of the revenue. R&D costs of the year increased approximately 59.4% as compared with the prior year.

The research of the Group follows the dual-drive strategy of independent R&D and R&D cooperation. In the past year, we further increased the investment in independent R&D, including the construction of innovative pharmaceutical R&D platform and the clinical trial expenditure; in addition, we continued to cooperate with distinguished pharmaceutical enterprises at home and abroad, trying to bring drugs with better efficacy to patients at an early date.

The Group's R&D strategy continues to focus on the three advantageous therapeutic areas: oncology, central nervous system and autoimmune, and develops products covering both small molecule chemical drugs and large molecule biologics. The Group pays high attention to the building of innovative pharmaceutical R&D ability, and establishes R&D centers in Shanghai, Nanjing and Boston. As at December 31, 2020, the Group had over 900 R&D fellows, including over 130 doctors and 460 masters. The number of the Group's R&D fellows increased by approximately 170 as compared with that as at June 30, 2020. The drug R&D of the Group has realized functions covering the whole process from drug discovery, clinical trial to registration, and possessed a national key laboratory of translational medicine and innovative pharmaceuticals.

Meanwhile, the Group attaches great importance to the protection of intellectual property rights. During the year ended December 31, 2020, the Group had 89 new patent applications (including domestic and overseas unpublished patents applications): 78 invention patent applications, 7 utility model patent applications and 4 appearance design patent applications. As at December 31, 2020, the Group has accumulatively obtained 168 licensed invention patents, 63 licensed utility model patents and 15 licensed appearance design patents.

As at December 31, 2020, the Group has over 50 innovative pharmaceutical projects in its R&D pipeline, of which 11 products were in the stage of clinical study, including:

(1) Oncology: sevacizumab (communication with CDE regarding the phase III clinical study protocol has completed recently), pegylated recombinant human endostatin for injection, docetaxel polymeric micelles for injection, SIM-201 (the second generation inhibitor of NTRK/ROS1), and etc.

(2) Central nervous system: Y-2 sublingual tablets (edaravone and dexborneol tablets, for which communication with CDE regarding the phase III registration study protocol has completed recently).

(3) Autoimmune: SIM-335 (IL-17 pathway modulator), iguratimod tablets (new indications), SIM-295 (URAT1).

During the year ended December 31, 2020, the Group submitted marketing applications for six generic drugs, including nifedipine controlled-release tablets, palbociclib capsules, apremilast tablets, bendamustine hydrochloride for injection, mycophenolate mofetil capsules and Tenofovir Alafenamide Fumarate tablets. Meanwhile, it filed the application for and completed four consistency evaluation cases regarding pemetrexed disodium for injection, bortezomib for injection, nedaplatin for injection and amoxicillin and clavulanate potassium tablets.

With regard to cooperation, the Group actively builds relationship and cooperation with distinguished domestic and overseas pharmaceutical enterprises. In March 2020, the Group was granted by our business partners an exclusive right to promote Envafolimab (KN035) for all oncology indications in China, which is potentially the first subcutaneously injectable PD-L1 domain antibody medicine worldwide. On December 17, 2020, the NMPA accepted the BLA for Envafolimab in the treatment of advanced solid tumors with MSI-H/dMME, and included it into the list of priority review in January 2021.

In August 2020, the Group signed the license agreement with G1 for the innovative drug Trilaciclib. Trilaciclib, product of the partner G1, was designated as a breakthrough therapy by the U.S. FDA, with an aim to improve prognosis of cancer patients treated with chemotherapy. In August 2020, G1 filed with the U.S. FDA the NDA for Trilaciclib, which has been approved by the U.S. FDA on February 12, 2021. This product is expected to be used in lowering the incidence rate of chemotherapy-induced myelosuppression in the extensive stage of adult SCLC patients. On November 13, 2020, the Group received the Notice for Acceptance of Clinical Trial Application (藥物臨床試驗申請受理通知書) issued by NMPA on the product, and it received the Clinical Trial Approval for chemotherapy-induced myelosuppression of SCLC patients as approved and issued by the NMPA on January 18, 2021. Then on April 9, 2021, the Group received the Clinical Trial Approval as approved and issued by the NMPA, and was thereby permitted to carry out a phase III, randomized and double-blind clinical trial comparing Trilaciclib and placebo among mCRC patients being treated with FOLFOXIRI/Bevacizumab (貝伐珠單抗).

OPERATING RESULTS AND PUBLISHED PROFIT FORECAST

The Group's profit attributable to equity shareholders for the year ended December 31, 2020 was approximately RMB670 million, being approximately 39.5% higher than the profit forecast as set out in the prospectus of the Company dated October 13, 2020 (the "**Prospectus**"), mainly due to the net unrealised gain from financial assets measured at fair value through profit or loss invested by the Group.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended December 31, 2020, net cash inflow generated from operating activities of the Group amounted to approximately RMB97 million. Capital expenditure of the year amounted to approximately RMB353 million, which was mainly used for the construction of plants and the purchase of equipments and motor vehicles for production, research and development as well as administrative activities. Cash flow from financing activities of the year mainly refers to the net proceeds from our listing amounting to approximately RMB3,003 million.

The Group maintained a sound financial position. As at December 31, 2020, we had cash and cash equivalents of approximately RMB3,270 million (as at December 31, 2019: approximately RMB355 million), pledged deposits of approximately RMB917 million (as at December 31, 2019: RMB291 million). As at December 31, 2020, our pledged deposits were mainly used as guarantees of certain banking facilities granted to the Group. As at December 31, 2020, the Group had a balance of bank loans of RMB3,068 million (as at December 31, 2019: RMB2,783 million), of which RMB1,793 million (as at December 31, 2019: RMB1,644 million) would mature within one year. The Group's bank loans are mainly denominated in RMB, with some loans denominated in Euro and USD. For details of the maturity profile of bank loan, currency and interest rate structure, please refer to notes 25 and 36 of the Notes to the Financial Statements. As at December 31, 2020, the gearing ratio of the Group (total liability divided by total asset) was approximately 51.2% (as at December 31, 2019: approximately 78.1%).

Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved. The Group expects to fund its working capital and other capital requirements from a combination of various sources, including but not limited to internal financing and external financing at reasonable market rates. In order to better control and minimize the cost of funds, the Group's treasury activities are centralized and all cash transactions are dealt with the banks with good reputation.

Most assets and liabilities of the Group were denominated in RMB, USD and Euro. Currently, the Group does not employ any financial instruments or enter into any foreign exchange contracts to hedge against foreign exchange risk. However, by closely monitoring the net exposure of foreign exchange risk, the Group managed the foreign exchange risk, thus minimizing the impact of foreign exchange fluctuations.

PLEDGE OF GROUP'S ASSETS

As at December 31, 2020, approximately RMB916 million bank deposit and approximately RMB172 million land and buildings were secured as guarantees of certain banking credits granted to the Group.

CONTINGENT LIABILITIES

As at December 31, 2020, the Group had no material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD

During the year ended December 31, 2020, the Group did not have any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at December 31, 2020, the Group did not have any plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended December 31, 2020, we conducted several material acquisitions and disposals. For details, please see "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization – Capital Increase in BCY Pharm", "History, Reorganization and Corporate Structure – Post-Track Record Period Acquisition", "Note 15 – Interest in Associates" of "Appendix I – Accountants' Report" and "Note 41 – Subsequent Events" of "Appendix I – Accountants' Report" to the Prospectus published by the Company.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2020, the Group had a total of 6,512 full-time employees. We attached great importance to the recruitment, training and retention of outstanding employees, maintaining a high standard in selecting and recruiting talents worldwide, and offers competitive compensation packages. The remuneration of employees mainly included basic salary, performance-based bonus and long-term incentives. Remuneration of the Directors and senior management who worked full time for the Company shall be determined by the Remuneration and Appraisal Committee under the Board with reference to the principal duties of relevant managerial positions, the results of performance assessment as well as the remuneration level in the market. During the year ended December 31, 2020, staff costs (including emoluments, social insurance and other benefits of the Directors) amounted to approximately RMB1,158 million. We established Simcere Institute, providing employees with training services on a regular basis, including orientation programs and technical training for new employees, professional and management training for middle and senior management and health and safety training across all staff. We also offered a large number of trainings on professional knowledge to the sales and marketing team.

PROSPECTS

In the post-pandemic era, pharmaceutical enterprises, being a key focus in China's real economic development, will increasingly highlight the pro-social characteristics and social values of the industry. The in-depth health-care reform, accelerated registration and expansion of NRDL will continue to boost the prosperous development of innovative pharmaceutical business and bring more clinically favourable products.

In such a strong environment of innovation, the Group insisted on the strategic direction of rapid transformation towards innovation, fully utilising its own understanding of patient needs and quality innovation, to attract more outstanding scientists and core talents to join us, and to increase the investment of innovation capital. All these efforts aim at strengthening our core competitiveness in terms of strategy execution, establishment of innovative pharmaceutical projects, clinical project advancement, collaborative development and commercialisation, increasing the clinical value of our products, so that more effective pharmaceuticals can be delivered to patients as soon as possible. On this basis, the Group will also make unremitting efforts to achieve steady growth. With an ever-richer pipeline of innovative pharmaceuticals and ever-growing R&D and commercialisation capabilities, we have the confidence and strength to enter a brand new phase of growth.

Directors' Report

The board (the "**Board**") of directors ("**Directors**", and each a "**Director**") of the Company is pleased to submit this report and audited consolidated financial statements of the Group for the year ended December 31, 2020.

GENERAL INFORMATION

The Company was incorporated in Hong Kong on November 30, 2015. The shares of the Company were listed on the Main Board of the Stock Exchange on October 27, 2020 (the "**Listing Date**").

PRINCIPAL BUSINESS

The Company is an investment holding company and the Group primarily engages in the R&D, production and commercialization of pharmaceuticals with the national key laboratory of translational medicine and innovative pharmaceuticals. The Group has a diversified product portfolio in its strategically focused therapeutic areas, including, (i) oncology, (ii) central nervous system diseases and (iii) autoimmune diseases, with leading positions in their respective therapeutic segments and/or established track record.

Operating segment information of the Company for the year ended December 31, 2020 is presented in Note 4 to the consolidated financial statements, and a list of principal subsidiaries of the Company, together with the details of their places of incorporation and business, principal activities and issued and paid-in capital, is set out in Note 15 to the consolidated financial statements. There are no changes in the principal business of the Group during the year.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended December 31, 2020 and the financial positions of the Group and the Company as at the same date are set out on pages 68 to 71 of the consolidated financial statements and page 162 of the company-level statement of financial position.

On March 25, 2021, the Board declared the payment of final dividend of RMB0.15 per Share for the year ended December 31, 2020 to shareholders whose names are on the register of members of the Company on Tuesday, July 6, 2021. The proposed final dividend will be subject to the approval at the annual general meeting of the Company (the "**AGM**") to be held on Friday, June 25, 2021 and is expected to be distributed to shareholders on or before Friday, July 16, 2021.

DIVIDEND POLICY

For the details of the dividend policy of the Company, please refer to the "Corporate Governance Report – Dividend Policy" on page 50 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group including an indication of likely future developments of the Group's business and an analysis of the Group's performance using financial key performance indicators during the year ended December 31, 2020 are provided in the sections headed "Company Overview", "Chairman's statement" and "Management discussion and analysis" on pages 4, 7 and 8 of this annual report, which form part of this report.

FINANCIAL SUMMARY

According to the audited consolidated financial statements, a summary of results, assets and liabilities of the Group for the past four fiscal years is presented on page 164 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 15 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year are set out in Note 12 to the consolidated financial statements.

SHARE CAPITAL

The Company had 2,608,641,618 ordinary shares in issue as at December 31, 2020. Details of the movements in the share capital the Company for the year ended December 31, 2020 are set out in Note 33 to the consolidated financial statements.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the initial public offering of the shares of the Company in October 2020 and allotment and issuance of shares pursuant to the partial exercise of the over-allotment option in November 2020 amounted in aggregate to approximately HK$3,513 million. The proposed use of the net proceeds was disclosed in the Company's Prospectus. As at December 31, 2020, the net proceeds utilized was approximately HK$443 million and the remaining net proceeds was approximately HK$3,070 million. As at December 31, 2020, the net proceeds utilized by the Group were as follows:

Purpose	Percentage of the total amount	Net amount of raised funds received (HK$ in million)	Net amount of raised funds unutilized from Listing Date to December 31, 2020 (HK$ in million)	Net amount of raised funds utilized as at December 31, 2020 (HK$ in million)	Expected timeline for utilization
Continued research and development of our selected product candidates in our strategically focused therapeutic areas	60%	2,107.85	2,088.05	19.80	The actual net proceeds are expected to be fully utilized by 2027.
Reinforcement of our sales and marketing capabilities	10%	351.31	334.49	16.82	The actual net proceeds are expected to be fully utilized by 2022.
Investment in companies in the pharmaceutical or biotechnology sector	10%	351.31	351.31	–	The actual net proceeds are expected to be fully utilized by 2023.
Repayment of certain of our outstanding bank loans	10%	351.31	–	351.31	The actual net proceeds have been fully utilized in 2020.
Working capital and other general corporate purposes	10%	351.31	295.81	55.50	The actual net proceeds are expected to be fully utilized by 2022.
Total	**100%**	**3,513.09**	**3,069.66**	**443.43**	

For more details, please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" of the Prospectus. On April 15, 2021, the Board reallocated the unutilized net proceeds from the initial public offering of HK$325.62 million, details of which were disclosed in the Company's announcement of change in use of proceeds dated April 15, 2021. Saved as disclosed therein, the Company intends to apply the unutilised net proceeds as at December 31, 2020 in the manner and proportion set out in the Prospectus.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from Listing Date and up to December 31, 2020.

DEBENTURE ISSUED

The Group did not issue any debenture during the year ended December 31, 2020.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 33 to the consolidated financial statements, respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

For details of the reserves available for distribution to the shareholders by the Company as at December 31, 2020, please refer to Note 33 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's customers primarily consist of (i) our distributors and pharmacy chains which directly purchase pharmaceutical products from us; and (ii) other pharmaceutical manufacturers to which we provide promotion services. The Company's suppliers primarily include (i) suppliers for the raw materials of our pharmaceutical products; and (ii) manufacturers of third-party pharmaceutical products.

For the year ended December 31, 2020, revenue from the five largest customers of the Group accounted for 10.1% of its total revenues and the largest customer of the Group accounted for 2.4% of its total revenues. For the year ended December 31, 2020, purchase amount from the five largest suppliers of the Group accounted for 36.7% of its total purchase costs and the largest supplier of the Group accounted for 21.1% of its total purchase costs.

At no time during the year ended December 31, 2020 have the Directors, their respective close associates or any shareholder of the Company (who, to the knowledge of the Directors, owns more than 5% of the issued capital of the Company), has any interest in any of the Group's top five customers and suppliers.

KEY RELATIONSHIP WITH STAKEHOLDERS

Human resources are one of the most important assets of the Group. The Group strives to motivate its employees by providing them with a clear career path as well as comprehensive and professional training courses. In addition, the Group also offers competitive remuneration packages to its employees, including basic salary, certain benefits and other performance based incentives.

The Group purchases imported pharmaceutical products from overseas suppliers directly and generate revenue by on-selling them to hospitals and pharmacies through distributors. Our suppliers have granted us the rights to market, promote and manage sales channels for their products in China. The Group maintains a stable and long-term relationship with its suppliers by providing them access to the growing Chinese market with steady sales growth.

The Group sells pharmaceutical products to distributors, who on-sell the products to hospitals and pharmacies either directly or indirectly through their sub-distributors. The Group maintains stable and long-term relationship with its distributors by providing them guidance and training.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognizes the importance of proper adoption of environmental policies which is essential to the attainability of corporate growth. The Strategy Committee of the Company is responsible for (i) making suggestions for the development of the Company's environmental, social and governance ("ESG") objectives and monitoring the progress of their implementation, and (ii) reviewing the development trends of the ESG industry as well as evaluating and making suggestions for major ESG-related decisions, ensuring that the Company complies with relevant legal and regulatory requirements and promoting implementation of relevant policies by various departments of the Company. Details of the relevant environmental policies and performance will be disclosed in the "Environmental, Social and Governance Report" of the Company which will be announced separately.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in "Directors' Report – Continuing Connected Transactions – Non-exempt Continuing Connected Transactions – Risks Relating to the Contractual Arrangements" and Note 36 to the consolidated financial statements in this annual report, summarized below are principal risks and uncertainties identified and faced by the Group which may have a material and adverse impact on the Group's business performance, financial condition, results of operations or prospects. There may be other principal risks and uncertainties in addition to those set out below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Principal Risks and Uncertainties Relating to the Industry

– We operate in a highly competitive environment, and we may not be able to compete effectively against current and future competitors.

– Science and technology, clinical demand and market condition in the pharmaceutical industry may change rapidly, and we may not be able to sufficiently and promptly respond to such changes.

Principal Risks and Uncertainties Relating to Our Products and Product Candidates

– We may not be able to maintain the sales volumes, pricing levels and profit margins of our major products due to various factors.

– Our products may be excluded or removed from national, provincial or other government-sponsored medical insurance programs, or be included in national or provincial negative catalogs, any of which could result in decrease of demand for our relevant products.

– We may fail in tender processes to sell our products to PRC public hospitals and other medical institutions and therefore lose market share.

– We or our products may not be able to achieve or maintain widespread acceptance and positive reputation among government authorities, business partners, healthcare practitioners and patients.

– The prices of certain of our products are subject to pricing regulation, competition and other factors and therefore may decrease.

– Our products may not be produced to the necessary and consistent quality standards. Our products may also cause or be perceived to cause severe side effects, and we may face negative consequences as a result.

- We may be subject to product liability claims in connection with products sold and/or promoted by us as well as product candidates used by us in clinical trials. We may fail to successfully defend ourselves against such claims.

- Development of product candidates, in particular innovative drug candidates, is time-consuming and costly, and the outcome is uncertain. We may fail to achieve research and development milestones as planned and/or disclosed, address regulatory concerns effectively, obtain regulatory approvals in a timely manner, conduct commercialization successfully, or achieve market acceptance as anticipated, for our product candidates.

Principal Risks and Uncertainties Relating to Third-party Products

- We have limited control over the quality of the products manufactured by third-party pharmaceutical companies and sold and/or promoted by us. Such third-party products may be found defective or otherwise not produced to the necessary and consistent quality standards.

Principal Risks and Uncertainties Relating to Our Operations

- We rely on third parties to monitor, support and/or conduct pre-clinical studies and clinical trials of our product candidates. If these third parties do not successfully carry out their contractual obligations or meet expected deadlines, we may not be able to obtain regulatory approvals for or commercialize our product candidates in a timely manner or at all.

- We may face significant competition in seeking appropriate collaboration partners, invest time and effort in negotiating collaboration details, obtain additional expertise and capital, incur non-recurring and other charges, or increase near and long-term expenditures, in connection with our existing and future collaboration arrangements for the development and commercialization of our product candidates. We may not be able to realize benefits from such arrangements.

- We depend on the supply of certain raw materials and pharmaceutical products, and we may encounter decrease, shortage or delay in the supply of, or increase in the price of, such raw materials and pharmaceutical products.

- If our production facilities encounter substantial disruption or other problems in manufacturing our products, our production capacity could be materially and adversely affected, and we may not be able to fulfill contractual obligations or meet market demand for our products in a timely manner or at all. If we fail to increase production capacity, we may not be able to capture the potential growth in market demand for our products, or to commercialize our product candidates.

- We may fail to maintain optimal inventory levels, which could increase our operating costs or lead to unfulfilled customer orders.

- We may fail to sell and/or promote our products and third-party products effectively due to various factors, including, among other things, inadequate promotion, sales and marketing activities, failure to attract, train and retain a sufficient number of qualified promotion, sales and marketing personnel, and failure to maintain, expand and optimize an effective distribution network.

- Our employees, distributors or third-party promoters may engage in misconduct or other improper activities, as a result of which, we may be exposed to regulatory investigations, penalties or other negative consequences.

- We may not be able to successfully complete any future acquisitions or enhance post-acquisition performance.

- Failure to adequately protect our intellectual property, or if the scope of our intellectual property fails to sufficiently protect our proprietary rights, other pharmaceutical companies could compete against us more directly. Occurrence of counterfeits of our products may also expose us to reduced sales volume of our relevant products, negative publicity, reputational damages, fines and penalties, and even litigations.

- If we become a party to litigations, legal disputes, claims or administrative proceedings, which could be time-consuming and costly, and such involvement may divert our management's attention and result in costs and liabilities and damage our reputation.

- Our insurance coverage is limited. If we experience uninsured losses, it could adversely affect our financial conditions and results of operations.

- If our internal risk management and control system is not adequate or effective, and if it fails to detect potential risks in our business as intended, our business, financial conditions and results of operations could be materially and adversely affected.

- We may lose the services of one or more of our senior management team and other key personnel, and we may not be able to locate suitable or qualified replacements in a timely manner or at all.

Principal Risks and Uncertainties Relating to Our Financial Condition

- If we experience delays in collecting payments from distributors, our cash flows and operations could be adversely affected.

- If we do not have access to sufficient funding for the implementation of our strategies and other aspects of our business, our business prospects could be adversely affected.

- Preferential tax treatment and financial subsidies we have enjoyed may change or discontinue.

- The fair value measurement of certain of our assets is subject to significant risks and uncertainties and the fair value change of such assets may materially and adversely affect our results of operations.

- Any significant decrease in our profitability in the future could materially and adversely affect our ability to recover our deferred tax assets.

- We have recognized large amount of goodwill and have intangible assets other than goodwill. Any impairment of our goodwill or intangible assets could adversely affect our financial condition and results of operations.

- We are subject to liquidity risk in our interests in associates and a joint venture and if our associates and joint venture do not perform as expected or do not generate sufficient revenue in any financial period, our financial condition or results of operations could be materially and adversely affected.

Principal Risks and Uncertainties Relating to Regulatory Compliance

– We are subject to changing legal and regulatory requirements in the PRC. Promulgation of new laws, rules and regulations, or changes in the interpretation or implementation of existing laws, rules and regulations, may materially and adversely affect our business and profitability, or impose additional compliance burdens on us.

– Our overseas investments may be subject to laws, rules, regulations and policies, as well as changes thereof, in the PRC and the corresponding jurisdictions.

– We or our business partners may fail to successfully obtain, maintain or renew the necessary permits, licenses or certificates for the development, production, promotion, sales or distribution of our products.

Principal Risks and Uncertainties Relating to Doing Business in the PRC

– Economic, political and social conditions and government policies in the PRC, as well as the global economy, may continue to affect our business.

– Our operations are subject to the uncertainties and particularities associated with the legal system in the PRC.

– Anti-monopoly claims or regulatory actions against us may expose us to penalties, business constraints and reputational damages.

– The PRC government's control of foreign currency conversion and restrictions on the remittance of RMB out of the PRC may limit our foreign exchange transactions and our ability to pay dividends and meet other obligations.

– We rely on dividends paid by our subsidiaries for our cash needs, and limitations under the PRC laws on the ability of our PRC subsidiaries to distribute dividends to us could materially and adversely affect our ability to utilize such funds.

– Investors may experience difficulties in effecting service of legal process and seeking recognition and enforcement of foreign judgments in the PRC.

Principal Risks and Uncertainties Relating to COVID-19 Epidemic

– Any prolonged spread or new occurrence of COVID-19 epidemic in the PRC or elsewhere in the world could materially and adversely affect our business performance, financial condition and results of operations.

The Company believes that risk management is essential to the Group's effective and efficient operations, reliable financial reporting and regulatory compliance. Senior management team of the Company assists the Board in evaluating material risk exposure of the Group, participates in formulation of appropriate risk management and internal control measures, and ensures such measures are properly implemented in the Group's daily operations. However, investors are still advised to make their own judgment or consult their own investment advisers before making any investment in the Shares.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year of 2020, there was no incidence of significant non-compliance of relevant laws and regulations related to the Group's operations that had a significant impact on the Group's business and operations.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as of December 31, 2020 are set out in the section headed "Management discussion and analysis – Liquidity and Financial Resources" in this annual report and Note 25 to the consolidated financial statements.

DONATIONS

During the year under review, the Group made charitable and other donations in an aggregate amount of approximately RMB24 million.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On April 15, 2021, the Company disposed 100% of total issued share capital of Simgene Group Limited, a wholly-owned subsidiary of the Company. Simgene Group Limited indirectly held 100% of equity interest of Shanghai Xianjing, which in turn controlled Shanghai Xianbo through Contractual Arrangements during the reporting period. Upon the closing of the disposal, Simgene Group Limited will cease to be a subsidiary of the Company and the financial statements of Shanghai Xianbo will cease to be consolidated with the financial statements of the Company. For details, please refer to the announcement of the Company dated April 15, 2021 with regard to connected transaction in relation to disposal of subsidiaries.

EQUITY-LINKED AGREEMENTS

Saved for the pre-IPO share incentive scheme adopted by Simcere Pharmaceutical Holding Limited, a controlling shareholder of the Company, as set out in Note 32 to the consolidated financial statements, no equity-linked agreements were entered into by the Company, or subsisted during the year ended December 31, 2020.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 166 of the articles of association of the Company (the "**Articles of Association**"), subject to the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), every Director, company secretary or other senior management member of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto. Such permitted indemnity provision is currently in force and was in force throughout the year ended December 31, 2020.

The Company has purchased Directors, company secretary and senior management's liabilities insurance on behalf of its Directors, joint company secretaries and senior management.

Directors' Report

DIRECTORS

The directors of the Company and its subsidiaries during the year and as at the date of this report were as follows:

Directors of the Company:	Directors of subsidiaries:	
Executive Directors:	CHEN Yanqiong	QIAN Haibo
Mr. REN Jinsheng	CHEN Yunfei	REN Jinsheng
(Chairman and Chief Executive Officer)	CHENG Xianghua[(3)]	SHI Ruiwen[(3)]
Mr. ZHANG Cheng[(1)]	CHU Xuexi	TANG Renhong[(3)]
Mr. WAN Yushan	CONG Yuehua	WAN Yushan
Mr. TANG Renhong		
	FENG Heng[(3)]	WANG Feng (王峰)[(3)]
Non-executive Directors:	FENG Honggang[(4)]	WANG Feng (汪峰)[(4)]
Mr. ZHAO John Huan	FU Huaping[(4)]	WANG Honglin
Mr. ZHANG Yi[(2)]		
	MU Hua[(4)]	WANG Pin[(3)]
Independent non-executive Directors:	Jorma Pylkkänen[(4)]	WEN Bin[(4)]
Mr. SONG Ruilin	Kyu Don Kim	XU Jianjian
Mr. WANG Jianguo	LI Zhengtao	XU Xiangbin[(4)]
Mr. WANG Xinhua	LU Jianxue[(3)]	XU Yuxi
	MA Yan[(3)]	YIN Xiaojin[(4)]
	Matthew Kraman[(4)]	ZHANG Rong
	PENG Shaoping[(3)]	ZHOU Jindong[(4)]

Note:

(1) Mr. ZHANG Cheng resigned as an executive Director and the chief operating officer of the Company with effect from March 31, 2021.

(2) Mr. ZHANG Yi resigned as a non-executive Director with effect from June 1, 2020.

(3) Appointed as the director of the subsidiaries during the year ended December 31, 2020 and up to March 25, 2021.

(4) No longer as the director of the subsidiaries during the year ended December 31, 2020 and up to March 25, 2021.

Directors' Report

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENTS

Biographical details of the Directors and the senior management of the Company are set out on pages 54 to 60 of this Annual Report.

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

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

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company, while each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years.

The above appointments are always subject to the provisions of retirement and rotation of Directors under the Articles of Association.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS AS WELL AS COMPETING BUSINESS

Save as disclosed in the section headed "Connected Transactions" to the Prospectus, sections headed "Related Party Transactions" and "Continuing Connected Transactions" and Note 35, headed "Material Related Party Transactions", to the consolidated financial statements in this Annual Report, no transaction, arrangement or contracts of significance (as defined in Appendix 16 of the Listing Rules) related to the business of the Company to which the Company, its holding companies or any of its subsidiaries was a party and in which a Director, an entity connected with a Director or a controlling shareholder of the Company has or had a material interest, whether directly or indirectly, subsisted for the year ended December 31, 2020.

None of the Directors or their respective associates (as defined under the Listing Rules) has any interest in a business which competes or is likely to compete with our Group's business under Rules 8.10(2)(b) and 8.10(2)(c) of the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year, were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other corporations.

DEED OF NON-COMPETITION

The controlling shareholders of the Company have respectively acknowledged to the Company that they have honored the non-competition undertaking made to the Company under the deed of non-competition entered into on October 8, 2020 ("**Deed of Non-competition**"). The independent non-executive Directors have reviewed such compliance and confirmed that the above-mentioned parties had kept and duly performed all the undertakings under the Deed of Non-competition since the Listing Date and up to December 31, 2020.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company, as required to be disclosed under section 543 of the Companies Ordinance, was entered into or existed during the year ended December 31, 2020.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 35 to the consolidated financial statements. Saved as disclosed in Note 35 to the consolidated financial statements, pursuant to Chapter 14A of the Listing Rules, none of such related party transactions constitutes a connected transaction or continuing connected transaction (as the case may be).

CONTINUING CONNECTED TRANSACTIONS

For the year ended December 31, 2020, the Group has entered into the following continuing connected transactions:

(1) Partially-exempt Continuing Connected Transactions

As disclosed in the Prospectus, the following transactions constituted partially-exempt continuing connected transactions of the Company. For further details, please refer to the section headed "Connected Transactions – Partially-exempt Continuing Connected Transactions" of the Prospectus.

The Group has followed the pricing policies set forth in section headed "Connected Transactions – Partially-Exempt Continuing Connected Transactions" of the Prospectus as well as the guidelines under the Listing Rules in determining the prices and terms of the connected transactions conducted during the reporting period.

Property Lease and Comprehensive Services Framework Agreement

On October 8, 2020, the Company and Nanjing BioSciKin Technology Development Co., Ltd ("**Nanjing BioSciKin Technology**"), for themselves and on behalf of their respective subsidiaries, entered into a property lease and comprehensive services framework agreement (the "**Property Lease and Comprehensive Services Framework Agreement**"), pursuant to which Nanjing BioSciKin Technology agreed to (i) lease certain properties owned by it or its subsidiaries located at No. 699-18, Xuanwu Avenue, Xuanwu District, Nanjing, the PRC (the "**BioSciKin Innovation Park**") to the Group for office, laboratory and staff dormitory use and provide related property management services; and (ii) provide the Group with certain general supporting services within the BioSciKin Innovation Park, which include, among others, utilities and network support, conference supporting services, staff canteen services, accommodation services and other logistics services.

The Property Lease and Comprehensive Services Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Nanjing BioSciKin Technology is a subsidiary of State Good Group Limited which is in turn wholly owned by Mr. REN Jinsheng ("**Mr. REN**") through Excel Good Group Limited, and hence an associate of Mr. Ren Jinsheng and a connected person of the Company.

The annual cap for the (i) rents and property management services fees and (ii) general supporting fees payable under the Property Lease and Comprehensive Services Framework Agreement for the year ended December 31, 2020 is RMB55 million, while the actual transaction amount of the year ended December 31, 2020 was approximately RMB51 million.

Simcare Sales and Distribution Framework Agreement

On October 8, 2020, the Company and Simcare Jiangsu Pharmaceutical Co., Ltd. ("**Simcare Jiangsu**"), for themselves and on behalf of their respective subsidiaries, entered into a sales and distribution framework agreement (the "**Simcare Sales and Distribution Framework Agreement**"), pursuant to which Simcare Jiangsu agreed to purchase certain pharmaceuticals provided by us for retail sales and further distribution.

The Simcare Sales and Distribution Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

During the reporting period, Simcare Jiangsu was a company held as to (i) 78.4% by Nanjing Huasheng Yikang Technology Co., Ltd. ("**Nanjing Huasheng**"), a company ultimately wholly owned by Mr. Ren Jinsheng, and (ii) 19.6% by Nanjing Xianyi Venture Capital Center (Limited Partnership), the general partner and the limited partner of which are Nanjing Huasheng (subsequently changed into BioSciKin Precision Medical Holding Group Co., Ltd. on November 30, 2020) and Mr. Ren Weidong, respectively, and hence a then associate of Mr. Ren Jinsheng, and therefore a then connected person of the Company. On April 9, 2021, Mr. Ren Jinsheng or Mr. Ren Weidong was no longer interested in any equity interest of Simcare Jiangsu, and hence Simcere Jiangsu has ceased to be a connected person of the Company.

The annual cap for the transactions under the Simcare Sales and Distribution Framework Agreement for the year ended December 31, 2020 is RMB20 million, while the actual transaction amount of the year ended December 31, 2020 was approximately RMB18 million.

Sanroad Promotion Services Framework Agreement

On October 8, 2020, Jiangsu Simcere Pharmaceutical Co., Ltd. ("**Jiangsu Simcere**") and Beijing Sanroad Biological Products Co., Ltd. ("**Beijing Sanroad**") entered into a promotion services framework agreement (the "**Sanroad Promotion Services Framework Agreement**"), pursuant to which Jiangsu Simcere agreed to (i) provide promotion services to Beijing Sanroad within the designated geographic areas in the PRC with respect to TB-PPD (purified protein derivative of tuberculin), and (ii) assist Beijing Sanroad in launching TB-PPD to the target market.

The Sanroad Promotion Services Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Beijing Sanroad is a subsidiary of Nanjing BioSciKin Technology, an associate of Mr. Ren Jinsheng, and therefore a connected person of the Company.

The annual cap for the transactions under the Sanroad Promotion Services Framework Agreement for the year ended December 31, 2020 is RMB68 million, while the actual transaction amount of the year ended December 31, 2020 was approximately RMB47 million.

In respect of the continuing connected transactions, the Company confirms that it has followed the policies and guidelines as set out in the guidance letter HKEX-GL73-14 issued by the Stock Exchange when determining the price and terms of the transactions conducted during the year ended December 31, 2020.

Save as disclosed above, none of the other related party transactions set out in the note 35 of the financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the continuing connected transactions outlined above, and confirmed that such continuing connected transactions had been entered into:

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

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Confirmations from the Company's Independent Auditor

The Auditor has performed the relevant procedures regarding the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 Hong Kong Institute of Certified Public Accountants. The Auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2020:

(i) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions have exceeded the annual caps as set by the Company.

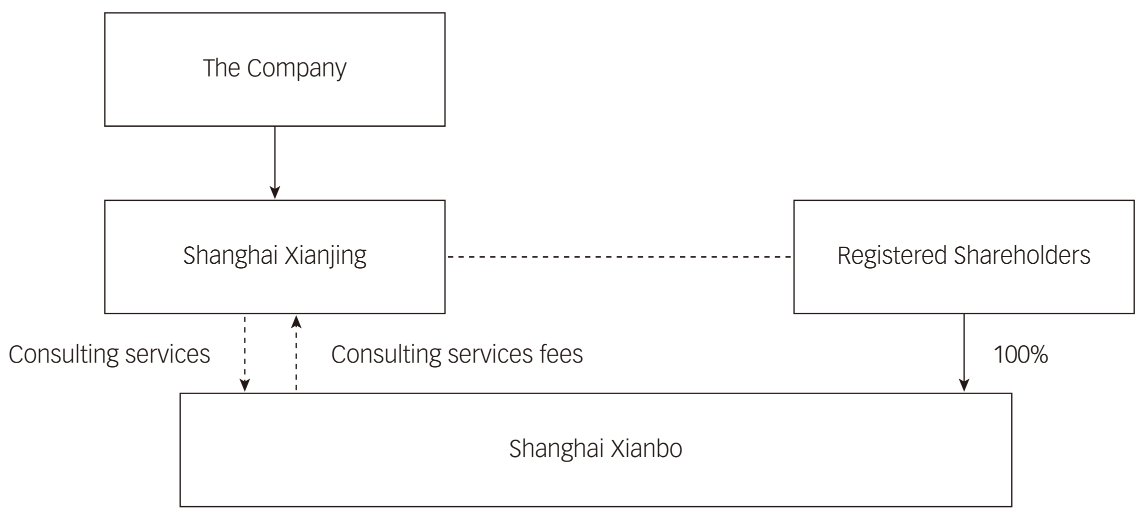
Save as disclosed in this annual report, during the year ended December 31, 2020, the Company had no connected transactions or continuing connected transactions which are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended December 31, 2020.

(2) Non-exempt Continuing Connected Transactions

Contractual Arrangements

As disclosed in "Contractual Arrangements" section in the Prospectus, due to regulatory restrictions on foreign ownership in Relevant Businesses in the PRC, the Company, as foreign investors, are prohibited from holding equity interest in its Consolidated Affiliated Entity, namely Shanghai Xianbo Biological Technology Co., Ltd. ("**Shanghai Xianbo**"). As a result, the Company, through its wholly-owned subsidiary, Shanghai Xianjing Biological Technology Co., Ltd. ("**Shanghai Xianjing**"), entered into the Contractual Arrangements with Shanghai Xianbo and the Registered Shareholders, namely Mr. Ren Jinsheng and Mr. Zhu Zhenfei (朱振飛), which enable the Group to, among others, (i) receive substantially all of the economic benefits from its Consolidated Affiliated Entity in consideration for the services provided by Shanghai Xianjing to its Consolidated Affiliated Entity; (ii) exercise effective control over its Consolidated Affiliated Entity; and (iii) hold an exclusive option to acquire all or part of the equity interest in and/or the assets of the Consolidated Affiliated Entity when and to the extent permitted by the PRC laws and regulations.

The following simplified diagram illustrates the flow of economic benefits from the Shanghai Xianbo to the Group stipulated under the Contractual Arrangements:



Notes:

"→" denotes directly or indirectly legal and beneficial ownership in the equity interest.

"- →" denotes contractual relationship through the Exclusive Business Cooperation Agreement.

"—" denotes the control by Shanghai Xianjing over Shanghai Xianbo through (i) powers of attorney to exercise all shareholders' rights in Shanghai Xianbo; (ii) exclusive options to acquire all or part of the equity interest and/or assets in Shanghai Xianbo; and (iii) equity pledges over the equity interest in Shanghai Xianbo.

A brief description of the specific agreements that comprise the Contractual Arrangements entered into by each of Shanghai Xianjing, Shanghai Xianbo and relevant Registered Shareholders is set out as follows:

Exclusive Business Cooperation Agreement

Shanghai Xianbo and Shanghai Xianjing entered into the exclusive business cooperation agreement on April 30, 2020 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Shanghai Xianbo agreed to engage Shanghai Xianjing as its exclusive provider of technical support, consultation, and other services, including (1) management consultation, (2) technical consultation, (3) technical service, (4) network support, (5) business support, (6) human resource support, (7) license and authorization of the use of intellectual properties, (8) rental of equipment and office properties, (9) market consultation, (10) research and development of products, (11) management consultant service in relation to the business operation of the Shanghai Xianbo and (12) other relevant services requested by Shanghai Xianbo from time to time to the extent permitted under PRC laws.

Pursuant to the Exclusive Business Cooperation Agreement, the service fee is equivalent to the total consolidated net profit of Shanghai Xianbo, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Shanghai Xianjing is entitled to adjust the level of the service fee at its sole discretion taking into account certain factors, including, among other things, difficulty and complication of such services, time commitment to such services, actual service scope and business value and the market price of the same or similar services. Shanghai Xianbo has agreed to pay the service fees to the bank account designated by Shanghai Xianjing within five business days after Shanghai Xianjing issues the payment notice. In addition, pursuant to the Exclusive Business Cooperation Agreement, as to the services provided by the third parties to Shanghai Xianbo identical or similar to the contemplated services before the date of the Exclusive Business Cooperation Agreement, Shanghai Xianbo shall immediately terminate the relevant agreements except for the prior written consent given by Shanghai Xianjing and assume any charges or liabilities due to such termination.

Entrustment Agreement and Powers of Attorney

Each of Shanghai Xianbo, the Registered Shareholders and Shanghai Xianjing entered into the shareholder's rights entrustment agreements (the "**Entrustment Agreement**") on April 30, 2020, pursuant to which, each Registered Shareholder, through the power of attorney ("**Power of Attorney**"), irrevocably and exclusively grant Shanghai Xianjing or its designee(s) (being the Directors of the Company and their successors and liquidators replacing such Directors but excluding those non-independent or who may give rise to the conflict of interests) the power to exercise all rights of the Registered Shareholders as set out in the then-valid articles of association of Shanghai Xianbo and relevant laws and regulations.

The Entrustment Agreement has an indefinite term and will be terminated in the event that (i) the Entrustment Agreement is unilaterally terminated by Shanghai Xianjing; or (ii) it is legally permissible for Shanghai Xianjing or its offshore holding companies to hold equity interest directly or indirectly in Shanghai Xianbo and Shanghai Xianjing or its designee(s) is registered to be the shareholder of Shanghai Xianbo.

Exclusive Option Agreement

Shanghai Xianjing, Shanghai Xianbo and the Registered Shareholders entered into the exclusive option agreement (the "**Exclusive Option Agreement**") on April 30, 2020, pursuant to which the Registered Shareholders jointly and severally granted Shanghai Xianjing the irrevocable and exclusive rights (the "**Exclusive Option Rights**"), provided that it is permitted under the PRC laws and regulations, to acquire the equity interest of Shanghai Xianbo from the Registered Shareholders or to acquire the assets of Shanghai Xianbo by Shanghai Xianjing or its designee(s), in whole or in part at any time and from time to time, for free or at a nominal price or the lowest price legally permissible under the PRC laws and regulations. Upon the equity interest or assets being duly transferred to Shanghai Xianjing or its designee(s) and after deducting necessary tax expenses, Shanghai Xianjing or its designee(s) shall pay the consideration within seven days to the designated bank accounts of the Registered Shareholders or Shanghai Xianbo. Shanghai Xianbo and the Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Shanghai Xianjing or its designee(s) any consideration they received within seven days in the event that Shanghai Xianjing exercises the Exclusive Option Rights to acquire the equity interest and/or assets in Shanghai Xianbo. If such return is not permissible under the PRC laws, the returned consideration shall be escrowed by Shanghai Xianjing and the Registered Shareholders and Shanghai Xianbo shall execute all escrow agreements or other documents in favor of Shanghai Xianjing.

The Registered Shareholders and Shanghai Xianbo shall procure the subsidiaries of Shanghai Xianbo subsequently established, acquired or actually controlled by them to comply with the undertakings as if they were parties to the Exclusive Option Agreement. The Exclusive Option Agreement is for an indefinite term of commencing on the date of the agreement, until it is terminated (1) by Shanghai Xianjing through giving Shanghai Xianbo and the Registered Shareholders a prior written notice of termination; or (2) upon the transfer of the entire equity interest held by the Registered Shareholders and/or the transfer of all the assets of Shanghai Xianbo to Shanghai Xianjing or its designated person. Neither Shanghai Xianbo nor the Registered Shareholders is contractually entitled to terminate the Exclusive Option Agreement with Shanghai Xianjing.

Equity Pledge Agreement

Shanghai Xianjing, Shanghai Xianbo and the Registered Shareholders entered into the equity pledge agreement (the "**Equity Pledge Agreement**") on April 30, 2020, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interest in Shanghai Xianbo to Shanghai Xianjing as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Pledge Agreement, the Registered Shareholders confirm and agree that, in the event of bankruptcy, reorganization, merger, or any change in the equity interest of Shanghai Xianbo, the Registered Shareholders will procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Shanghai Xianbo declares any dividend during the term of the pledge, Shanghai Xianjing is entitled to receive all such dividends, bonus or other income for free arising from the pledged equity interest, if any. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken to Shanghai Xianjing, among other things, not to transfer the interest in his equity interest in Shanghai Xianbo without the prior written consent of Shanghai Xianjing.

The equity pledge takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until (1) each of the Registered Shareholders has transferred all his equity interest and assets of Shanghai Xianbo in accordance with the Exclusive Option Agreement; (2) the Equity Pledge Agreement has been unilaterally terminated by Shanghai Xianjing; or (3) the performance of the Equity Pledge Agreement will violate applicable laws and regulations and Listing Rules of the Stock Exchange. The registration of the Equity Pledge Agreement as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and the PRC laws and regulations.

Reasons for Adopting the Contractual Arrangements

Foreign investment activities in the PRC now are mainly governed by the Encouraging List 2019 and the Negative List 2020 (the "**Relevant PRC Regulations**"), promulgated jointly by the MOFCOM and the NDRC, pursuant to which the industries listed therein are divided into three categories in terms of foreign investment, namely, "encouraged," "permitted," and "prohibited." According to the Relevant PRC Regulations, foreign investment is prohibited in the development and application of gene diagnostic and therapeutic technologies.

The Group engages in the R&D of CAR T-cell therapy and TCR T-cell therapy (the "**Relevant Businesses**"), which involve the development and application of gene diagnostic and therapeutic technologies, and therefore fall into the scope of the "prohibited" category. The Relevant Businesses are carried out by Shanghai Xianbo, and thus, the Company cannot directly or indirectly hold any equity interest in Shanghai Xianbo.

In order to comply with the PRC laws and regulations and maintain effective control over the Relevant Businesses, the Group, through its wholly-owned subsidiary, Shanghai Xianjing, entered into the Contractual Arrangements with Shanghai Xianbo, its Consolidated Affiliated Entity, and its Registered Shareholders (as defined below), pursuant to which Shanghai Xianjing acquired effective control over the financial and operational policies of Shanghai Xianbo and has become entitled to all the economic benefits derived from its operations. In light of the foregoing reasons, the Company believe that the Contractual Arrangements are narrowly tailored as they are used to enable the Group to conduct businesses in the field that are subject to foreign investment restrictions in the PRC.

The Directors are of the view that the Contractual Arrangements and the transactions contemplated therein have been and will be entered into in the ordinary and usual course of the Company's business on normal commercial terms or better that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Group will unwind and terminate the Contractual Arrangements wholly or partially once Relevant Businesses are no longer prohibited or restricted from foreign investment.

Risks Relating to the Contractual Arrangements

The Company believes the following risks are associated with the Contractual Arrangements:

- If the PRC government deems that the Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, the Group could be subject to severe penalties or be forced to relinquish its interests received through the Contractual Arrangements;
- The Contractual Arrangements may result in adverse tax consequences to the Group;
- The shareholders of the Consolidated Affiliated Entity may have potential conflicts of interest with the Group, which may materially and adversely affect the Group's business and financial condition;
- The Contractual Arrangements may not be as effective in providing operational control as direct ownership. The Consolidated Affiliated Entity and its shareholders may fail to perform their obligations under the Contractual Arrangements;
- The Group may lose control over the Consolidated Affiliated Entity and may not enjoy its full economic benefits if the Consolidated Affiliated Entity declares bankruptcy or become subject to a dissolution or liquidation proceeding;
- If the Group exercise the option to acquire equity ownership of the Consolidated Affiliated Entity, the ownership transfer may subject us to certain limitations and substantial costs.

For further details, please refer to the section headed "Rick Factors – Risks Relating to the Contractual Arrangements" of the Prospectus.

The Foreign Investment Law

The Foreign Investment Law (外商投資法) (the "**FIL**") promulgated by the National People's Congress on March 15, 2019 and Implementation Regulations for Foreign Investment Law promulgated by the State Council of China on December 26, 2019 (the "**Implementation Regulations for FIL**") have taken effect on January 1, 2020. The FIL replaces the existing laws regulating foreign investments in PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. The FIL and Implementation Regulations for FIL embody an expected regulatory trend in PRC to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

The FIL and Implementation Regulations for FIL do not explicitly stipulate the contractual arrangements as a form of foreign investment. The FIL does not mention concepts including "actual control" and "controlling through contractual arrangements" nor does it specify the regulation on controlling through contractual arrangements. Furthermore, the FIL and Implementation Regulations for FIL do not specifically stipulate rules on the Relevant Businesses. Instead, the FIL and Implementation Regulations for FIL stipulate that "foreign investors invest in PRC through any other methods under laws, administrative regulations, or provisions prescribed by the State Council". In addition, the FIL and Implementation Regulations for FIL do not specify what actions shall be taken with respect to the existing companies with a contractual arrangement, whether or not these companies are controlled by PRC entities and/or citizens. The Company's PRC Legal Advisors are of the view that the PRC government is likely to take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them and make decisions according to different situations in practice.

Nevertheless, there are possibilities that future laws, administrative regulations or provisions of the State Council of PRC may stipulate contractual arrangements as a way of foreign investments, and then whether the Contractual Arrangements will be recognized as foreign investments, whether the Company's Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how its Contractual Arrangements will be dealt with are uncertain.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced during the reporting period. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the reporting period.

During the reporting period, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2020, the Company had not encountered interference or encumbrance from any PRC governing bodies in operating its businesses through its Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of the Shanghai Xianbo and its respective subsidiaries amounted to RMB for the year ended December 31, 2020. The total assets of the Shanghai Xianbo and their respective subsidiaries amounted to RMB97 million as of December 31, 2020, representing approximately 0.9% of the total assets of the Group.

The Company will timely announce (i) any updates or material changes to any ancillary regulations or implementation rules of the FIL that will materially and adversely affect us as and when they occur and (ii) in the event that any ancillary regulations or implementation rules of the FIL or any new foreign investment law has been promulgated, a clear description and analysis of law, specific measures adopted by the Company to comply with the law (supported by advice from PRC legal advisors), as well as its material impact on the Company's business operation and financial position.

Listing Rules Implications and Waivers from the Stock Exchange

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the Consolidated Affiliated Entities will be treated as the Company's wholly owned subsidiaries, and their Directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the Company's "connected persons" as applicable under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and the Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company.

In respect of the Contractual Arrangements, the Company have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent Shareholders' approval under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Company's Shares are listed on the Stock Exchange, subject, however, to the following conditions, details of which are set out in the "Connected Transactions" section in the Prospectus:

(a) No change without independent non-executive Directors' approval;

(b) No change without independent Shareholders' approval;

(c) Economic benefits flexibility;

(d) Renewal and reproduction;

(e) Ongoing reporting and approvals.

Confirmation from Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(i) the transactions carried out during the year ended December 31, 2020 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2020; and

(iii) any new contracts entered into, renewed or reproduced between the Company and the Consolidated Affiliated Entities during the year ended December 31, 2020 are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Company and the Shareholder as a whole.

Confirmations from the Auditor

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid Contractual Arrangements:

(i) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed transactions under the Contractual Arrangements have not been approved by the Board;

(ii) nothing has come to the Auditor's attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

(iii) nothing has come the Auditor's attention that causes the Auditor to believe that any dividends or other distributions have been made by Shanghai Xianbo to the holders of its equity interest which were not otherwise subsequently assigned or transferred to the Group.

On April 15, 2021, the Company disposed 100% of total issued share capital of Simgene Group Limited, a wholly-owned subsidiary of the Company. Simgene Group Limited indirectly held 100% of equity interest of Shanghai Xianjing, which in turn controlled Shanghai Xianbo through Contractual Arrangements during the reporting period. Upon the closing of the disposal, Simgene Group Limited will cease to be a subsidiary of the Company and the financial statements of Shanghai Xianbo will cease to be consolidated with the financial statements of the Company. For details, please refer to the announcement of the Company dated April 15, 2021 with regard to connected transaction in relation to disposal of subsidiaries.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2020, the interest or short position of the Directors or chief executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

1. Interest in the Company

Name of Director/ Chief executive	Nature of interest	Number of Shares/ underlying shares interested	Approximate percentage of shareholding interest[1]
Mr. REN Jinsheng[2]	Interest in controlled corporations/Interest of concert parties	2,035,922,965	78.05%
Mr. ZHAO John Huan[3]	Interest in controlled corporations	114,986,405	4.41%

Notes:

(1) The calculation is based on the total number of 2,608,641,618 issued shares of the Company as at December 31, 2020.

(2) Mr. Ren Jinsheng, together with Excel Good Group Limited, P&H Holdings Group Ltd., Right Wealth Holdings Limited, Mr. Ren Yong, Ms. Li Shimeng, Mr. Ren Weidong, Ms. Ren Zhen and Ms. Peng Suqin (together, "**Ultimate Controlling Shareholders**") collectively and indirectly hold 2,035,922,965 Shares, including (i) 606,810,031 Shares and 1,196,009,986 Shares directly held by Artking Global Limited and Simcere Pharmaceutical Holding Limited, respectively, both of which are companies controlled by the Ultimate Controlling Shareholders; and (ii) 112,141,578 Shares and 120,961,370 Shares directly held by Excel Good Group Limited and Fortune Fountain Investment Limited, respectively, both of which are companies controlled by Mr. Ren Jinsheng. By virtue of the SFO, as the Ultimate Controlling Shareholders are deemed to be persons acting in concert under the Takeovers Code, each of them is deemed to be interested in the Shares held by each other.

(3) Premier Praise Limited (尚嘉有限公司) (the "**Premier Praise**") directly holds 114,986,405 Shares. Premier Praise is held as to 82.22% by Hony Capital Fund V, L.P. The general partner of Hony Capital Fund V, L.P. is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan and as to 51% by two other individuals who are Independent Third Parties, respectively. Therefore, Mr. Zhao John Huan is deemed to be interested in the Shares held by Premier Praise by virtue of the SFO.

2. Interests in the associated corporations

Name of Director/ Chief executive	Capacity/ Nature of interest	Name of associated corporation	Approximate percentage of shareholding interest
Mr. REN Jinsheng	Beneficial interest	Shanghai Xianbo Biological Technology Co., Ltd. (上海先博生物科技有限公司)	95%

Save as disclosed above, as at December 31, 2020, so far as is known to the Directors, none of the Directors and the chief executives of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company under Divisions 7 and 8 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2020, the interests or short positions of persons (other than the Directors and chief executives of the Company) in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Nature of Interest	Number of shares or underlying shares	Approximate percentage of shareholding interest[1]
Mr. Ren Yong[2][3]	Interest in controlled corporations/Interest of concert parties/Founder of a discretionary trust	2,035,922,965	78.05%
Ms. Li Shimeng[2][3][4]	Interest in controlled corporations/Interest of concert parties/Interest of spouse	2,035,922,965	78.05%
P&H Holdings Group Ltd. ("**P&H Holdings**")[2][3]	Interest in controlled corporations/Interest of concert parties	2,035,922,965	78.05%
Mr. Ren Weidong[2][4]	Interest in controlled corporations/Interest of concert parties	2,035,922,965	78.05%

Name of shareholder	Nature of Interest	Number of shares or underlying shares	Approximate percentage of shareholding interest[1]
Right Wealth Holdings Limited ("**Right Wealth**")[2][4]	Interest in controlled corporations/Interest of concert parties	2,035,922,965	78.05%
Ms. Ren Zhen[2][5]	Interest in controlled corporations/Interest of concert parties	2,035,922,965	78.05%
Ms. Peng Suqin[2][6]	Interest in controlled corporations/Interest of concert parties	2,035,922,965	78.05%
Artking Global Limited ("**Artking**")[7]	Beneficial interest	606,810,031	23.26%
	Interest in controlled Corporations	1,196,009,986	45.85%
	Interest of concert parties	233,102,948	8.94%
Simcere Holding Limited ("**Simcere Holding**")[8]	Interest in controlled Corporations	1,196,009,986	45.85%
	Interest of concert parties	839,912,979	32.20%
Simcere Investments Group ("**Simcere Investments**")[9]	Interest in controlled Corporations	1,196,009,986	45.85%
	Interest of concert parties	839,912,979	32.20%
Simcere Pharmaceutical Holding Limited ("**SPHL**")[10]	Beneficial interest	1,196,009,986	45.85%
	Interest of concert parties	839,912,979	32.20%
Excel Good Group Limited ("**EGG**")[2][11]	Beneficial interest	112,141,578	4.30%
	Interest in controlled Corporation	120,961,370	4.64%
	Interest of concert parties	1,802,820,017	69.11%
Fortune Fountain Investment Limited ("**FFI**")[12]	Beneficial interest	120,961,370	4.64%
	Interest of concert parties	1,914,961,595	73.41%

Notes:

(1) The calculation is based on the total number of 2,608,641,618 issued shares of the Company as at December 31, 2020.

(2) The Ultimate Controlling Shareholders collectively and indirectly hold 2,035,922,965 Shares, including (i) 606,810,031 Shares and 1,196,009,986 Shares directly held by Artking and SPHL, respectively, both of which are companies controlled by the Company's Ultimate Controlling Shareholders; and (ii) 112,141,578 Shares and 120,961,370 Shares directly held by EGG and FFI, respectively, both of which are companies controlled by Mr. Ren Jinsheng. As the Company's Ultimate Controlling Shareholders are deemed to be persons acting in concert under the Takeovers Code, each of them is deemed to be interested in the Shares held by each other by virtue of the SFO.

(3) Mr. Ren Yong, son of Mr. Ren Jinsheng and spouse of Ms. Li Shimeng, is the settlor of the P&H Family Trust, which holds the entire equity interest in P&H Holdings through P&H Family Trust. Mr. Ren Yong, Ms. Li Shimeng and P&H Holdings are the Company's Ultimate Controlling Shareholders and are deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(4) Mr. Ren Weidong is the brother of Mr. Ren Jinsheng and holds the entire equity interest in Right Wealth. Mr. Ren Weidong and Right Wealth are the Company's Ultimate Controlling Shareholders and are deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(5) Ms. Ren Zhen is the sister of Mr. Ren Jinsheng. She is one of the Company's Ultimate Controlling Shareholders and is deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(6) Ms. Peng Suqin is the mother of Mr. Ren Yong. She is one of the Company's Ultimate Controlling Shareholders and is deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(7) Artking directly holds 606,810,031 Shares and indirectly holds 1,429,112,934 Shares, including (i) 1,196,009,986 Shares directly held by SPHL, a controlled corporation of Artking, and (ii) an aggregate of 233,102,948 Shares directly held by EGG and FFI, both of which are companies controlled by Mr. Ren Jinsheng and are deemed to be acting in concert with Artking under the Takeovers Code. Therefore, Artking is deemed to be interested in the Shares held by SPHL, EGG and FFI by virtue of the SFO.

(8) Simcere Holding indirectly holds 2,035,922,965 Shares, including (i) 1,196,009,986 Shares directly held by SPHL, a controlled corporation of Simcere Holding, and (ii) an aggregate of 839,912,979 Shares, which comprises of 606,810,031 Shares directly held by Artking, a company controlled by the Company's Ultimate Controlling Shareholders, and 233,102,948 Shares directly held by EGG and FFI, both of which are companies controlled by Mr. Ren Jinsheng. Artking, EGG and FFI are deemed to be acting in concert with Simcere Holding under the Takeovers Code. Therefore, Simcere Holding is deemed to be interested in the Shares held by SPHL, Artking, EGG and FFI by virtue of the SFO.

(9) Simcere Investments indirectly holds 2,035,922,965 Shares, including (i) 1,196,009,986 Shares directly held by SPHL, a controlled corporation of Simcere Investments, and (ii) an aggregate of 839,912,979 Shares, which comprises of 606,810,031 Shares directly held by Artking, a company controlled by the Company's Ultimate Controlling Shareholders, and 233,102,948 Shares directly held by EGG and FFI, both of which are companies controlled by Mr. Ren Jinsheng. Artking, EGG and FFI are deemed to be acting in concert with Simcere Investments under the Takeovers Code. Therefore, Simcere Investments is deemed to be interested in the Shares held by SPHL, Artking, EGG and FFI by virtue of the SFO.

(10) SPHL directly holds 1,196,009,986 Shares and indirectly holds an aggregate of 839,912,979 Shares, including 606,810,031 Shares directly held by Artking, a company controlled by the Company's Ultimate Controlling Shareholders, and an aggregate of 233,102,948 Shares directly held by EGG and FFI, both of which are companies controlled by Mr. Ren Jinsheng. Artking, EGG and FFI are deemed to be acting in concert with SPHL under the Takeovers Code. Therefore, SPHL is deemed to be interested in the Shares held by Artking, EGG and FFI by virtue of the SFO.

(11) EGG directly holds 112,141,578 Shares and indirectly hold 1,923,781,387 Shares, including (i) 120,961,370 Shares directly held by FFI, a controlled corporation of EGG and ultimately controlled by Mr. Ren Jinsheng, and (ii) an aggregate of 1,802,820,017 Shares directly held by SPHL and Artking, both of which are deemed to be acting in concert with EGG under the Takeovers Code. Therefore, EGG is deemed to be interested in the Shares held by FFI, SPHL and Artking by virtue of the SFO.

(12) FFI directly holds 120,961,370 Shares and indirectly hold an aggregate of 1,914,961,595 Shares directly held by SPHL, Artking and EGG, all of which are deemed to be acting in concert with FFI under the Takeovers Code. Therefore, FFI is deemed to be interested in the Shares held by SPHL, Artking and EGG by virtue of the SFO.

SUFFICIENT PUBLIC FLOAT

In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange has granted the Company a waiver and accepted a lower public float of 15.45% of the Company's issued share capital. From the Listing Date to the date of this Annual Report, according to the public information obtainable by the Company and to the knowledge of the Directors, the Company has maintained the minimum public float to the extent permitted by the Stock Exchange.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at December 31, 2020, the Group did not have other plans for material investments and capital assets.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, June 25, 2021. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the members' eligibility to attend and vote at the AGM, the Group's register of members will be closed from Tuesday, June 22, 2021 to Friday, June 25, 2021, both days inclusive, during which no transfer of share will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Group shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Group's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, June 21, 2021.

In order to determine the entitlement of shareholders to the proposed final dividend, the register of members of the Group will be closed from Friday, July 2, 2021, to Tuesday, July 6, 2021 (both days inclusive), during which no transfer of shares will be registered. All transfer documents together with the relevant share certificates must be lodged with the Group's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 pm on Wednesday, June 30, 2021.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices adopted by the Company are set out in the section of "Corporate Governance Report" of this Annual Report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed the financial reporting processes, risk management and internal control systems of the Group and the consolidated financial statements of the Group for the year ended December 31, 2020, and is of the opinion that these statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosure has been made.

AUDITOR

The consolidated financial statements for the year ended December 31, 2020 have been audited by KPMG, which will retire at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution on the re-appointment of KPMG as the auditor of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board
Mr. REN Jinsheng *(Executive Director, Chairman and Chief Executive Officer)*

March 25, 2021

Corporate Governance Report

The Board is pleased to present the corporate governance report, for the purpose of inclusion in the annual report of the Company for the year ended December 31, 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining and promoting stringent corporate governance. The principle of the Group's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operation are conducted in accordance with applicable laws and regulations, to enhance the transparency of the Board, and to strength accountability to all shareholders. The Group's corporate governance practices are based on the principles and code provisions prescribed in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Save as disclosed in this report, the Group has complied with the code provisions contained in the CG Code during the period from the Listing Date to December 31, 2020 (the "**Relevant Period**").

Corporate Governance Functions

The Board is collectively responsible for performing the corporate governance functions set out in Code Provision D.3.1 of the CG Code, including at least the following:

- to formulate and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to formulate, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the CG Code and disclosure in the annual report.

For the year ended December 31, 2020, the Board has reviewed the Company's policies and practices on corporate governance.

Compliance with the Model Code for Securities Transactions by Directors

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the Group's code of conduct regarding the Directors' securities transactions. Having made specific enquiry of all the Directors of the Group, all the Directors confirmed that they have strictly complied with the Model Code since the Listing Date and up to December 31, 2020.

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

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

Delegation of Management Functions

The major powers and functions of the Board include, but are not limited to, convening the general meetings, reporting its work at the general meetings, implementing the resolutions passed at the general meetings, considering and approving the operating plans and investment plans of the Company, formulating the Company's strategic development plans, formulating profit distribution plans and plans on making up losses, and exercising other powers and functions as conferred by the Articles of Association of the Company (the "**Articles of Association**").

All Directors have full and timely access to all the information of the Company and advices from the joint company secretaries (the "**Joint Company Secretaries**") and senior management of the Company and may, where appropriate, request to seek independent professional advice at the Company's expenses for discharging their duties to the Company.

The Board is responsible for making decisions on strategic plans, major investment decisions and other significant operational issues of the Company, while responsibilities for implementing decisions of the Board, day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and tasks are subject to regular review. Prior approvals shall be obtained from the Board for any major transaction.

Composition of the Board

As at December 31, 2020, the Board comprised eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors. The list of members of the Board and their positions are set out below.

Executive Directors:
Mr. REN Jinsheng *(Chairman and Chief Executive Officer)*
Mr. ZHANG Cheng *(Chief Operating Officer) (Resigned on March 31, 2021)*
Mr. WAN Yushan *(Chief Financial Officer)*
Mr. TANG Renhong *(Senior Vice President) (Appointed as Executive Vice President on March 31, 2021)*

Non-executive Director:
Mr. ZHAO John Huan

Independent Non-executive Directors:
Mr. SONG Ruilin
Mr. WANG Jianguo
Mr. WANG Xinhua

Biography of each Director has been set out in the section headed "Biographies of Directors and Senior Management" in this annual report.

All Directors, including non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Directors of the Company.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and performed by different individuals.

As of December 31, 2020, the roles of Chairman and Chief Executive Officer of the Company were not separated and Mr. REN Jinsheng currently performs these two roles. Mr. REN is the founder of the Group, the Chairman of the Board and the Chief Executive Officer of the Company. He has been primarily responsible for developing overall corporate business strategies and business operation of the Group and making significant business and operational decisions of the Group. Directors consider that vesting the roles of both the Chairman of the Board and the Chief Executive Officer of the Company in Mr. REN is beneficial to the business prospects of the Group by ensuring consistent leadership to the Group as well as prompt and effective decision making and implementation. In addition, Directors believe that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) any decision to be made by the Board requires approval by at least a majority of Directors; (ii) Mr. REN and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions for the Company accordingly; (iii) the balance of power and authority is ensured by the operations of the Board, which consists of four executive Directors (including Mr. REN), one non-executive Director and three independent non-executive Directors, and has a fairly strong independence element; and (iv) the overall strategic and other key business, financial, and operational policies of the Company are made collectively after thorough discussion at both Board and senior management levels.

Independent Non-executive Directors

The Board has been complying with the Rules 3.10 (1) and 3.10 (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, according to Rule 3.10A of the Listing Rules, independent non-executive Directors must represent at least one-third of the Board. During the Relevant Period, the Company had three independent non-executive Directors, representing three-eighths of the Board; therefore, the Company has complied with the relevant requirements.

According to Rule 3.13 of the Listing Rules, the independent non-executive Directors have made confirmations to the Company regarding their independence during the Relevant Period. Based on the confirmations of the independent non-executive Directors, the Company considers each of them to be independent during the Relevant Period.

Appointment and Re-election of Directors

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

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association.

Each of the executive Directors, Mr. REN, Mr. ZHANG Cheng, Mr. WAN Yushan and Mr. TANG Renhong, has entered into a service contract with the Company on October 8, 2020. The term of respective service contract is initially three years from the Listing Date. The service contract is subject to renewal pursuant to the Articles of Association and applicable laws, rules and regulations.

Each of the non-executive Director Mr. ZHAO John Huan and the independent non-executive Directors, Mr. SONG Ruilin, Mr. WANG Xinhua and Mr. WANG Jianguo, has entered into an appointment letter with the Company on October 8, 2020. The term of respective appointment letter is initially three years from the Listing Date. The appointment letter is subject to renewal pursuant to the Articles of Association and applicable laws, rules and regulations.

Pursuant to Article 110 of the Articles of Association, without prejudice to the power of the Company in general meeting in accordance with any of the provisions of the Articles of Association to appoint any person to be a Director, the Board shall have power, exercisable at any time and from time to time, to appoint any other person as a Director, either to fill a casual vacancy or as an addition to the Board, provided that the number of Directors so appointed shall not exceed the maximum number (if any) determined pursuant to the Articles of Association. Any Directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for reelection, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.

Pursuant to Article 111 (a) of the Articles of Association, subject to the provisions of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but greater than one-third, shall retire from office by rotation. Subject to the provisions of the Ordinance, the Listing Rules and the Articles of Association, the Directors to retire in every year shall be those who have been longest in office since their last election, and as between persons who became Directors on the same day, the Directors to retire shall (unless they otherwise agree between themselves) be determined by lot. Every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

Pursuant to Article 111 (a) of the Articles of Association, Mr. REN Jinsheng, Mr. WAN Yushan and Mr. TANG Renhong will retire at the annual general meeting and, being eligible, offer themselves for re-election.

Board Meetings and General Meeting

For the year ended December 31, 2020, the Company convened a total of 3 Board meetings. As the shares of the Company were listed on the Stock Exchange on October 27, 2020, for the year ended December 31, 2020, the code provisions relating to the number of Board meetings convened are not applicable to the Company. Commencing from January 1, 2021, the Company will fully comply with the requirements under code provision A.1.1 of the CG Code by convening Board meetings at least four times a year at approximately quarterly intervals.

For the year ended December 31, 2020, the Company convened an extraordinary general meeting on May 13, 2020, but did not convene any annual general meeting, instead, it had the relevant resolutions approved in written forms by the shareholders in lieu of an annual general meeting in accordance with Article 80 of the Articles of Association and sections 548 and 610 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"). As the shares of the Company were listed on the Stock Exchange on October 27, 2020, the Company did not convene any general meeting during the Relevant Period.

The attendance of the above meetings by each Director is as follows:

Name of the Director	No. of board meetings attended in person/by proxy/convened	No. of extraordinary general meetings attended/convened
Executive Directors:		
Mr. REN Jinsheng	3/0/3	1/1
Mr. ZHANG Cheng	3/0/3	1/1
Mr. WAN Yushan	3/0/3	1/1
Mr. TANG Renhong	3/0/3	1/1
Non-executive Director:		
Mr. ZHAO John Huan	2/1/3	1/1
Independent non-executive Directors:		
Mr. SONG Ruilin	2/1/3	1/1
Mr. WANG Jianguo	3/0/3	1/1
Mr. WANG Xinhua	2/1/3	1/1

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings are kept by the joint company secretaries of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is convened. Minutes of the Board meetings are open for inspection by Directors. All Directors shall obtain information related to the Board resolutions in a comprehensive and timely manner, and may seek independent professional advice at the Company's expense after making reasonable request to the Board.

Training and Continuous Professional Development of Directors

Each newly appointed director shall be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills.

During the Relevant Period, all directors have received directors' training in writing or by attending lectures. Directors' training is mainly about (i) Chapter 13 of the Listing Rules – Continuing Obligations; (ii) market misconduct; (iii) guidelines for shareholders of Hong Kong listed companies; (iv) Chapter 14 of the Listing Rules – Notifiable Transactions; (v) Chapter 14A of the Listing Rules – Connected Transactions; (vi) Appendix 27 to the Listing Rules – Environmental, Social and Governance Reporting Guide; and (vii) Appendix 14 to the Listing Rules – Corporate Governance Code and Corporate Governance Report.

Name of the Director	Attending or participating in relevant seminars/ reading relevant materials
Executive Directors:	
Mr. REN Jinsheng	√
Mr. ZHANG Cheng	√
Mr. WAN Yushan	√
Mr. TANG Renhong	√
Non-executive Director:	
Mr. ZHAO John Huan	√
Independent non-executive Directors:	
Mr. SONG Ruilin	√
Mr. WANG Jianguo	√
Mr. WANG Xinhua	√

COMMITTEES UNDER THE BOARD OF DIRECTORS

Audit Committee

The Group established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, review and oversee the existing and potential risks of the Group and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of 3 members, all of which are independent non-executive Directors, being Mr. WANG Xinhua, Mr. SONG Ruilin and Mr. WANG Jianguo. The chairperson of the Audit Committee is Mr. WANG Xinhua. Mr. WANG Xinhua possesses the appropriate professional qualifications and accounting and related financial management expertise.

In accordance with the written terms of reference of the Audit Committee, it should convene at least two meetings in each fiscal year. As the shares of the Company were listed on the Main Board of the Stock Exchange on October 27, 2020, the Audit Committee did not convene any meeting during the year ended December 31, 2020.

The Audit Committee convened a meeting on March 25, 2021 to review the annual financial results, significant internal audit matters and reappoint the external auditor. The audited annual results of the Group for the year ended December 31, 2020 have been reviewed by the Audit Committee, which is of the opinion that the preparation of the relevant financial statements complies with the applicable accounting standards and requirements and that adequate disclosures have been made. Members of the Audit Committee have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters including the review of the annual results and the consolidated financial statements of the Group for the year ended December 31, 2020.

Remuneration and Appraisal Committee

In accordance with the CG Code, the Company has established a Remuneration and Appraisal Committee (the "**Remuneration and Appraisal Committee**") with written terms of reference. The primary duties of the Remuneration and Appraisal Committee are to establish, review and make recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, determine the terms of the specific remuneration package of each executive Director and senior management and review and approve remuneration by reference to corporate goals and objectives resolved by our Directors from time-to-time.

The Remuneration and Appraisal Committee consists of 3 members, including two independent non-executive Directors and one executive Director, being Mr. WANG Jianguo, Mr. WANG Xinhua and Mr. REN Jinsheng. The chairperson of the Remuneration and Appraisal Committee is Mr. WANG Jianguo.

As the shares of the Company were listed on the Main Board of the Stock Exchange on October 27, 2020, the Remuneration and Appraisal Committee did not convene any meeting during the year ended December 31, 2020.

The Remuneration and Appraisal Committee convened a meeting on March 25, 2021 to consider and make recommendations to the Board on the remuneration and other benefits payable by the Company to the Directors and senior management and other related matters.

Pursuant to Code B.1.5 of the CG Code, the following table sets forth the total remuneration (excluding equity-settled share-based expenses) of the Directors and members of the senior management categorized by remuneration group for the year ended December 31, 2020:

Group	Remuneration (RMB)	Number of Directors	Number of Members of Senior Management	Total Number of Individuals
1	0-1,000,000	4	1	5
2	1,000,001-1,500,000	0	1	1
3	1,500,001-2,000,000	1	2	3
4	3,000,001-3,500,000	1	1	2
5	4,000,001-4,500,000	1	0	1
6	6,000,001-6,500,000	1	0	1
7	6,500,001-7,000,000	0	1	1

Further details of the Directors' remuneration and the five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules are set out in notes 8 and 9 to the financial statements.

Nomination Committee

In accordance with the CG Code, the Company has established a Nomination Committee (the "**Nomination Committee**") with written terms of reference. The primary duties of the Nomination Committee are to review the structure, size and composition of our Board and senior management on a regular basis and make recommendations to our Board regarding any proposed changes to the composition of our Board and senior management, identify, select or make recommendations to our Board on the selection of individuals nominated for directorship and senior management members, ensure the diversity of our Board and senior management members, assess the independence of our independent non-executive Directors and make recommendations to our Board on relevant matters relating to the appointment, reappointment and removal of our Directors and senior management members and succession planning for our Directors and senior management members.

The Nomination Committee consists of 3 members, including two independent non-executive Directors and one executive Director, being Mr. SONG Ruilin, Mr. WANG Jianguo and Mr. REN Jinsheng. The chairperson of the Nomination Committee is Mr. SONG Ruilin.

As the shares of the Company were listed on the Main Board of the Stock Exchange on October 27, 2020, the Nomination Committee did not convene any meeting during the year ended December 31, 2020.

The Nomination Committee convened a meeting on March 25, 2021 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and make recommendations to the Board on re-election of the retiring directors.

Strategy Committee

The Company has established a Strategy Committee with written terms of reference in compliance with the requirements under the Listing Rules.

The Strategy Committee consists of three members, including one executive Director, one non-executive Director and one independent non-executive Director, being Mr. REN Jinsheng, Mr. ZHAO John Huan and Mr. WANG Jianguo. The chairperson of the Strategy Committee is Mr. REN Jinsheng.

The primary duties of the Strategy Committee are to review and make suggestions in respect of the strategic directions, development proposals, annual operation plans, investment proposals, major investments, financing and capital injection, expansion of business and any major reorganization or restructuring proposal of our Company.

As the shares of the Company were listed on the Main Board of the Stock Exchange on October 27, 2020, the Strategy Committee did not convene any meeting during the year ended December 31, 2020.

The Strategy Committee convened a meeting on March 25, 2021 to consider amending the terms of reference of the Strategy Committee by incorporating responsibilities for the environmental, social and governance matters.

DIRECTORS NOMINATION POLICY

In accordance with the Company's director nomination policy, the Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorship:

(i) Skills, experience and expertise: The candidate should possess the skills, knowledge, experience and expertise which are relevant to the operations of the Company and its subsidiaries;

(ii) Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board diversity policy of the Company;

(iii) Commitment: The candidate should be able to devote sufficient time to attend Board meetings and participate in induction, trainings and other Board associated activities. In particular, if the proposed candidate will be nominated as an independent non-executive Director and will be holding his/her seventh (or more) listed company directorship, the Nomination Committee should consider the reason given by the candidate for being able to devote sufficient time to the Board and Board Committee meetings;

(iv) Standing: The candidate must satisfy the Board and the Stock Exchange that he/she has the character, experience and integrity to serve as a Director, and is able to demonstrate a standard of competence commensurate with the relevant position as a Director;

(v) Independence: For the candidate who is proposed as an independent non-executive Director, he or she must satisfy all the independence requirements as set out in Rule 3.13 of the Listing Rules. Where appropriate, the Nomination Committee shall also evaluate the education, qualifications and experience of the candidates in a holistic manner to consider whether they possess appropriate professional qualifications, accounting or related financial management expertise to act as independent non-executive Directors.

The Nomination Committee will recommend to the Board for the appointment of directors (including independent non-executive Directors) in accordance with the following nomination procedures:

(i) If the Nomination Committee determines that additional appointment or replacement of the Director(s) is required, the Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate;

(ii) The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by the Shareholders of the Group as a nominee for election to the Board and the appointment or re-appointment of Directors and succession planning for Directors is subject to the approval of the Board;

(iii) On making recommendation, the Nomination Committee may submit the candidate's personal profile and a proposal to the Board for consideration. In order to be a valid proposal, the proposal must clearly indicate the nominating intention and the candidate's consent to be nominated and the personal profile must incorporate and/or accompanied by the full particulars of the candidate that are required to be disclosed under the Listing Rules, including the information and/or confirmation required under Rule 13.51(2) of the Listing Rules. If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time;

(iv) The Board shall observe its Board diversity policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving Board diversity; and

(v) Each proposed new appointment, election or re-election of a Director shall be assessed and/or considered against the criteria and qualifications set out in the nomination policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

The Nomination Committee is responsible for monitoring the implementation of the Directors nomination policy and reviewing this policy from time to time as appropriate to ensure its effectiveness.

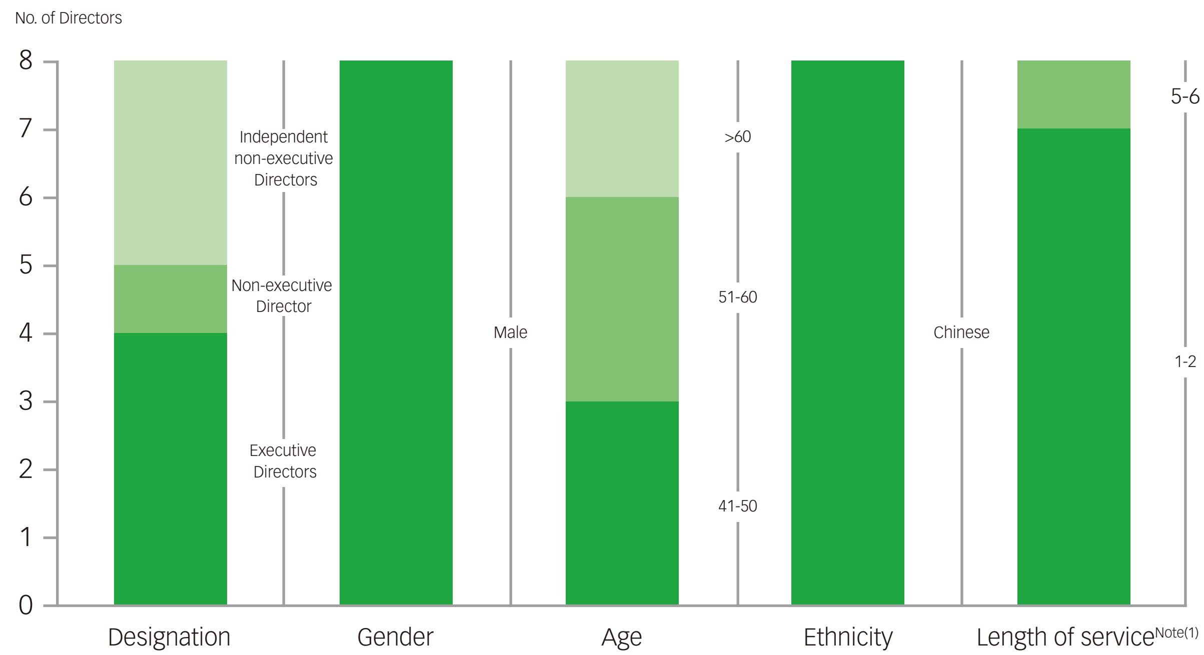
BOARD DIVERSITY POLICY

The Company has adopted a Board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to the Company's business growth. The selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merits and contributions that the selected candidates will bring to the Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, business operation, accounting and financial management, pharmaceutical research and development. They obtained degrees in various majors, including in economics, business administration, law, accounting and pharmacy. The Company has three independent non-executive Directors with different industry backgrounds, representing more than one-third of the Board. In addition, our Board has a wide range of age, ranging from 41 years old to 65 years old. While the Company recognizes that the gender diversity at the Board level can be improved given its current composition of all-male directors, the Company has taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to our Board and the management levels. Going forward, our Company will consider the possibility of nominating female senior management to the Board or appointing a female independent non-executive Director who has the necessary skills and experience. In particular, the Company plans to appoint a female Director by the end of 2022 and target to achieve 20% female representation in the Board within five years following the Listing, subject to Directors (i) being satisfied with the competence and experience of the relevant candidates after a comprehensive review process based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interest of our Company and our Shareholders as a whole when deliberating on the appointment. To develop a pipeline of potential female successors to the Board, our Company will (i) ensure that there is gender diversity when recruiting staff at mid to senior levels; and (ii) engage more resources in training female staff with the aim of promoting them to be members of our senior management or the Board.

The Nomination Committee is responsible for ensuring the diversity of our Board. The Nomination Committee will monitor the implementation of the diversity policy and review the Board diversity policy from time to time to ensure its continued effectiveness.

The table below set forth the diversity profile of the Board as at December 31, 2020:



Note:

(1) The length of service is calculated from the date of appointment of the Director(s) by the Company to December 31, 2020

COMPANY SECRETARIES

Mr. BAO Jun, the secretary to the Board and a Joint Company Secretary of the Company, and Ms. FENG Jie, a Joint Company Secretary are responsible for making recommendations and proposals to the Board on issues related to corporate governance, and ensuring that Board policies and procedures as well as applicable laws, rules and regulations are strictly followed.

In order to maintain sound corporate governance and to ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also appointed Ms. FENG Jie and Ms. MAK Po Man Cherie of SWCS Corporate Services Group (Hong Kong) Limited, as the Company's Joint Company Secretaries, to assist Mr. BAO Jun in discharging the duties of a company secretary. Mr. BAO Jun has attended trainings on, among other things, laws and regulations, Listing Rules, director and Board secretaries' duties, rules on information disclosure, rules on connected transactions, notifiable transactions, equity management of securities companies, directors' and supervisors' securities dealings, disclosure of interests, market misconduct and the implementation of relevant internal policies.

Mr. BAO Jun, Ms. FENG Jie and Ms. MAK Po Man Cherie have all confirmed that they received not less than 15 hours of relevant professional training during the year ended December 31, 2020.

DIVIDEND POLICY

The Company currently does not have a formal dividend policy or a fixed dividend distribution ratio. Our Board may declare dividends in the future after taking into account our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Ordinance, including the approval of our Shareholders.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

LIABILITY INSURANCE FOR DIRECTORS AND SENIOR MANAGEMENT

The Company has maintained insurance for all the directors and senior management members to minimum the potential risks which may occur to them during their normal performance of duties.

RESPONSIBILITIES OF THE DIRECTORS FOR FINANCIAL STATEMENTS

The Directors confirm their responsibility for preparing the financial statements of the Company for the year ended December 31, 2020.

The Directors are not aware of any material uncertainties involving events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the Company's independent auditor regarding its reporting responsibilities on the financial statements is included in the Independent Auditor's Report on pages 61 to 67 of this annual report.

AUDITORS' REMUNERATION

For the year ended December 31, 2020, the Company appointed KPMG as its independent auditors. The total fees paid/payable for audit and non-audit services provided by the Group's independent auditors for the year ended December 31, 2020, excluding disbursements made on behalf of the Company, are as follows:

Service provided	Fees paid/payable (RMB'000)
Audit service	3,820
Non-audit service[note]	4,520

Note: Non-audit service mainly refers to listing-related services, continuing connected transaction review services and taxation advising services, among which the non-audit services in respect of initial public offering accounted for RMB4,300,000.

RISK MANAGEMENT AND INTERNAL CONTROL

The overall objectives of the Group's risk management are to ensure that risks are controlled within an acceptable limits appropriate to the overall objectives, to ensure compliance with relevant laws and regulations, to ensure the implementation of the Group's relevant rules and regulations and major measures taken to achieve business objectives, to ensure the effectiveness of management, to improve the efficiency and effectiveness of business activities, to reduce uncertainty in achieving business objectives, to ensure that a crisis management plan is in place for subsequent management upon occurrence of various significant risks and to ensure that the Company is free of significant loss arising from catastrophic risks or human error. Our risk management system follows the principles of comprehensiveness, prudence, independence, effectiveness and timeliness to ensure the optimized use of the system.

The Group's risk management process consists of five steps: risk identification, risk assessment, risk analysis, risk control and risk reporting. Our internal audit function is performed by the compliance audit department, which reports directly to the Audit Committee. The Group has separately set an audit department directly reporting to the compliance audit department, which conducts routine random audits and special audits in accordance with the regulations of each business functions of the Company. In respect of regular random audits, the compliance audit department prepares the audit plan for the coming year on a annual basis, and carries out the relevant works as per the scheduled timetable. In addition to the regular audits, the compliance audit department also conducts special audits from time to time based on particular reports and issues identified during the regular random audits. Notices would be issued and notified, in different levels, in respect of the issues identified during the regular random audits and special audits by the compliance audit department depending on the seriousness of the incidents.

Each business entities of the Group is responsible for identifying, assessing and managing the risks within its scope of business. They will develop their respective internal control system for effective risk management and develop action plans to manage the risks catering for the risks identified and assessed.

Management is responsible for monitoring the Group's risk management and internal control activities and holds regular meetings with the business entities to ensure that key risks have been properly managed and newly identified or evolving risks have been identified.

The Board is responsible for examining and reviewing the adequacy and effectiveness of the Group's risk management and internal control systems, reviewing the annual report and taking advice from the Audit Committee.

The Group has engaged an independent third party to conduct annual review on the internal control system of the Group and make recommendations for rectification and management. Besides, the internal control and compliance related departments will also monitor the internal operations of the Group from time to time.

The Board has reviewed the effectiveness of the risk management and internal control system for the year ended December 31, 2020 and obtained management's confirmation on the effectiveness of the risk management and internal control system of the Company. The Board is also of the opinion that there is neither material failure of risk control, nor has it identified any major weakness in risk control. The Company has strictly complied with the requirements under the Corporate Governance Code in relation to risk management and internal control, and the Board assesses that the Company's risk management and internal control system is effective and adequate.

The Board acknowledges that it is accountable for the risk management and internal control systems and has the responsibility to review the effectiveness of such systems. These systems are designed to manage, not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance that there will be no material misrepresentation or loss.

The Company is aware of its responsibilities under the SFO and the Listing Rules with respect to the procedures and internal controls over the handling and dissemination of inside information, and the overriding principle is that if some information is determined as inside information, it should be announced as soon as reasonably practicable and handled with close regard to applicable laws and regulations.

SHAREHOLDERS' RIGHTS

According to the Articles of Association and the Companies Ordinance, Shareholders of the Company may: (i) move a requisition to move a resolution at the AGM; (ii) requisition to convene an extraordinary general meeting (the "**EGM**"); and (iii) propose a person for election as a Director at a general meeting.

Requisition to Move a Resolution at an AGM

The Company holds a general meeting as its AGM every year. In accordance with section 615 of the Companies Ordinance, a requisition to move a resolution at the AGM may be submitted by any number of Shareholders representing not less than one-fortieth (1/40th) of the total voting rights of all Shareholders having the right to vote on that resolution at the AGM, or not less than 50 Shareholders having the right to vote on that resolution at the AGM. The requisition must identify the resolution and must be signed by all the requisitionists. The requisition must be deposited at the Registered Office (as defined below), for the attention of the Joint Company Secretaries, not later than 6 weeks before the AGM to which the request relates, or if later, when the Notice of AGM is dispatched.

Requisition to Convene an EGM

Shareholders holding not less than one-twentieth (1/20th) of the total voting rights of all the members having a right to vote at general meetings of the Company can deposit a requisition to convene an EGM pursuant to sections 566 to 568 of the Companies Ordinance. The requisition must state the general nature of the business to be dealt with at the meeting, and must be signed by the requisitionists. The requisition must be deposited at our Registered Office for the attention of the Joint Company Secretaries.

Proposing a Person for Election as a Director at a General Meeting

If a Shareholder wishes to propose a person for election as a Director at a general meeting, he/she must give a written notice to that effect to the Joint Company Secretaries. The written notice must include the personal information of the person proposed for election as a Director as required by Rule 13.51(2) of the Listing Rules and be signed by such Shareholder and the person proposed for election as a Director indicating his/her willingness to be appointed or re-appointed and consent of publication of his/her personal information. Such notice shall be given within the period (or a longer period as may be determined by the Directors from time to time) commencing no earlier than the day after the despatch of the notice of such meeting and ending no later than seven days prior to the date appointed for such meeting. Such details and procedures are available in our website.

For requesting the Company to circulate to Shareholders a statement with respect to a matter mentioned in a proposed resolution or any other business to be dealt with at a general meeting, Shareholders are requested to follow the requirements and procedures as set out in section 580 of the Companies Ordinance.

Procedure in relation to Raising Enquiry and Concerns with the Board

Shareholders of the Company wishing to make any enquiry to the Board may do so in writing to the Company since verbal or anonymous ones would not generally be dealt with by the Company.

For the avoidance of doubt, Shareholder(s) must deposit the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the below address and provide their full names, contact details and identification in order to give effect to such requisition, notice or statement, or enquiry. Shareholders' information may be disclosed as required by law.

Contact details

Address: 43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong ("**Registered Office**") (for the attention of the Joint Company Secretaries)
Email: ir@simcere.com

For any enquiry concerning our Shares, Shareholders are advised to directly check with our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. The contact details of Computershare Hong Kong Investor Services Limited are as follows:

Computershare Hong Kong Investor Services Limited
Address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Tel: +852 2862 8555
Website: www.computershare.com/hk/contact

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through AGMs and other EGMs. At the AGM, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

AMENDMENTS TO ARTICLES OF ASSOCIATION

There is no change in the Articles of Association of the Company during the Relevant Period.

Biographies of Directors and Senior Management

Biographical details of the Directors and the senior management of the Company are updated as of the latest meeting of the Board held on April 15, 2021.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. REN Jinsheng (任晉生), aged 58, is the founder, an executive Director, the chairman of the Board and the chief executive officer of the Company. He is primarily responsible for the overall corporate and business strategies, business operation and making significant business and operational decisions of the Group.

With more than 30 years of industry experience, Mr. Ren has gained in-depth understanding of the pharmaceutical industry and acquired rich management experience. At the very beginning of the Group's operations, Mr. Ren became the general manager of Jiangsu Simcere at the time of its establishment in March 1995, and has subsequently been the chairman of the board and the chief executive officer of the Group. On November 19, 2019, Mr. Ren was officially appointed as the chairman of the Board, an executive Director and the chief executive officer of the Company. Mr. Ren also has been the chairman of the board of various subsidiaries within the Group, including but not limited to Jiangsu Simcere since April 2004, Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) ("**Hainan Simcere**") since April 2001, Simcere Pharmaceutical Co., Ltd. (先聲藥業有限公司) ("**Simcere Pharmaceutical**") since February 2003 and Shandong Simcere Biopharmaceutical Co., Ltd. (山東先聲生物製藥有限公司) ("**Shandong Simcere**") since July 2009. Prior to the foundation of the Group, Mr. Ren served as the manager of the new special drugs business department of Jiangsu Pharmaceutical Industry Co., Ltd. (江蘇省醫藥工業有限公司) from November 1992 to March 1995. Prior to that, Mr. Ren worked at Qidong Pharmaceutical Factory ((啟東製藥廠), now known as Gaitianli Pharmaceutical Holding Group Pharmaceutical Co., Ltd. (蓋天力醫藥控股集團製藥股份有限公司)) from February 1982 to November 1992. In addition, Mr. Ren is currently the president of the China Pharmaceutical Innovation Promotion Association (中國醫藥創新促進會) for the year from 2020 to 2021.

Mr. Ren graduated with a college diploma in traditional Chinese pharmacology from Nanjing University of Chinese Medicine (南京中醫藥大學) (formerly known as Nanjing College of Chinese Medicine (南京中醫學院)) in January 1982. He also graduated with a master's degree in business administration from Nanjing Normal University (南京師範大學) in December 1996. Mr. Ren was certified as a researcher (natural science series) and a senior economist by Jiangsu Human Resources and Social Security Department (江蘇省人力資源與社會保障廳) in January 2020 and November 2010, respectively.

Over the years, Mr. Ren has received many awards and accolades acknowledging his contributions and accomplishments in the pharmaceutical industry, examples of which are set out below:

Honor/Award	Awarding Body	Timing of granting the award
Top 10 leaders in China's pharmaceutical industry (中國醫藥行業十大領軍人物)	National Federation of Industry and Commerce Pharmaceutical Merchants Association (全國工商業聯合會醫藥商協會)	May 2016
First prize of the Science and Technology Award of Hainan Province (海南省科學技術一等獎)	The People's Government of Hainan Province (海南省人民政府)	December 2014; January 2005

Honor/Award	Awarding Body	Timing of granting the award
Special Government Allowances (政府特殊津貼)	State Council (國務院)	March 2011
Jiangsu Innovation and Entrepreneurship Talent Award (江蘇創新創業人才獎)	Jiangsu Committee of the Communist Party of China (中共江蘇省委); The People's Government of Jiangsu Province (江蘇省人民政府)	June 2010
National Labor Medal (全國五一勞動獎章)	All-China Federation of Trade Unions (中華全國總工會)	April 2007
Second prize of National Science and Technology Progress Award (國家科學技術進步二等獎)	State Council (國務院)	November 2005

Mr. WAN Yushan (萬玉山), aged 50, is an executive Director and the chief financial officer of the Company. He is primarily responsible for the financial and legal management and formulating financial strategies of the Group.

Mr. Wan has 20 years of experience with the Group where he has accumulated knowledge and skills required in the financial management of the Group. Mr. Wan joined the Group in May 2000 and has assumed various positions successively since then, including the financial controller, general manager of financial department, vice president and chief financial officer. On November 19, 2019, Mr. Wan was officially appointed as an executive Director and the chief financial officer of the Company. He has also been the director of several subsidiaries of the Company including, among others, Hainan Simcere since July 2011, Shandong Simcere since August 2017 and Simcere Pharmaceutical since July 2017.

Mr. Wan graduated with a bachelor's degree in biochemistry from Nanjing University (南京大學) in June 1992. He also graduated with a master's degree in management (majoring in accounting) from Nanjing University in June 1999. Mr. Wan was admitted as a non-practicing member of JiangSu Institute Certified Public Accountants (江蘇省註冊會計師協會) in November 2009.

Mr. TANG Renhong (唐任宏), aged 41, is an executive Director and the executive vice president of the Company. He is primarily responsible for the overall management of Shanghai R&D Center and management of the pre-clinical R&D of innovative pharmaceuticals of the Group.

Mr. Tang has nearly 12 years of experience in pharmaceutical research and development and management of pharmaceutical companies. Mr. Tang joined the Group acting as the vice president in May 2019. He was officially appointed as an executive Director and the vice president of the Company on November 19, 2019 and further appointed as the senior vice president and the executive vice president of the Company on June 1, 2020 and March 31, 2021, respectively. Prior to that, he served as the vice general manager of Shanghai Shengdi Pharmaceutical Co., Ltd. (上海盛迪醫藥有限公司) from September 2017 to May 2019. From September 2013 to August 2017, Mr. Tang worked as the associate director of China Innovation Center of Astrazeneca Investment (China) Co., Ltd. (阿斯利康投資(中國)有限公司). Before that, he worked at the Novo Nordisk Research Centre China (諾和諾德中國研究發展中心) from June 2009 to September 2013 with the last position there being the head of department. At the beginning of his career, he was a postdoctoral researcher at the University of California, San Francisco from April 2007 to May 2009.

Mr. Tang graduated with a bachelor's degree in biotechnology from Shanghai Jiao Tong University (上海交通大學) in July 2002. He also obtained a Ph.D. in molecular cell biology from Nanyang Technological University in April 2007.

NON-EXECUTIVE DIRECTOR

Mr. ZHAO John Huan (趙令歡), aged 58, is a non-executive Director of the Company. He is primarily responsible for providing strategic advice on corporate operation and development of the Group.

Mr. Zhao joined the Group in November 2019 and has been a non-executive Director since then. Mr. Zhao is currently the chairman and CEO of Hony Capital and has gained rich knowledge of corporate management with senior management positions at a number of public companies including as a non-executive director of Legend Holdings Corporation (stock code: 3396.HK) since January 2020 and as a non-executive director of Eros STX Global Corporation (stock code: ESGC.NYSE) since July 2020, an executive director and the chairman of the board of Goldstream Investment Limited (stock code: 1328.HK) since December 2018, a non-executive director of ENN Ecological Holdings Co., Ltd. (新奧生態控股股份有限公司) (stock code: 600803.SH) since December 2017, an executive director and the chairman of the board of Best Food Holding Company Limited (stock code: 1488.HK) since August 2016, a non-executive director of Shanghai Jin Jiang International Hotels Co., Ltd. (上海錦江國際酒店股份有限公司) (stock code: 600754.SH) since September 2015, a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. (中聯重科股份有限公司) (stock code: 1157.HK, 000157.SZ) since June 2015, a non-executive director of Lenovo Group Limited (stock code: 992.HK) since November 2011, and a non-executive director of China Glass Holdings Limited (stock code: 3300.HK) since January 2005.

Mr. Zhao graduated with a bachelor's degree in physics from Nanjing University in July 1984. He also obtained dual master's degrees of electronic engineering and physics from Northern Illinois University in the United States in May 1990 and December 1990, respectively, and a master of business administration degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States in June 1996.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SONG Ruilin (宋瑞霖), aged 58, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. Song has extensive experience in the pharmaceutical industry. Mr. Song joined the Group in November 2019. He has held positions in a number of public companies, including an independent non-executive director of Mediwelcome Healthcare Service and Technology Inc. (麥迪衛康健康醫療服務科技有限公司) (stock code: 2659.HK) since December 2020, an independent non-executive director of Jacobio Pharmaceuticals Group Co., Ltd. (加科思藥業集團有限公司) (stock code: 1167.HK) since December 2020, an independent non-executive director of Shanghai Henlius Biotech, Inc. (上海復宏漢霖生物技術股份有限公司) (stock code: 2696.HK) since September 2019, an independent director of Boya Biopharmaceutical Group Co., Ltd. (博雅生物製藥集團股份有限公司) (stock code: 300294.SZ) from March 2017 to January 2021, an independent director of Tibet Aim Pharm. Inc. (西藏易明西雅醫藥科技股份有限公司) (stock code: 002826.SZ) since August 2015, an independent director of Shanxi Zhendong Pharmaceutical Co., Ltd. (山西振東製藥股份有限公司) (stock code: 300158.SZ) since June 2015, an independent director of Zhejiang Jolly Pharmaceutical Co., Ltd. (浙江佐力藥業股份有限公司) (stock code: 300181.SZ) from July 2009 to January 2014 and an independent director of Jointown Pharmaceutical Group Co., Ltd. (九州通醫藥集團股份有限公司) (stock code: 600998.SH) from November 2008 to November 2014.

Mr. Song is currently the executive president of PhIRDA (中國醫藥創新促進會) (formerly named as China Pharmaceutical Industry Research and Development Association (中國醫藥工業科研開發促進會)). Mr. Song also works as Director of Chinese Pharmaceutical Association (CPA) and a member of the Biotech Advisory Panel of the Stock Exchange among other important social positions.

Since 2007, Mr. Song has been dedicated to the research of China's pharmaceutical policies, especially the policies for pharmaceutical innovation. Prior to that, he worked in the Legislative Affairs Office of the State Council of China, mainly engaged in the legislative review and research of health and medicine for a number of years.

Mr. Song graduated with a bachelor's degree in law from China University of Political Science and Law (中國政法大學) in July 1985. He also graduated with a degree of master of business administration from China Europe International Business School (中歐國際商學院) in November 2004 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University (中國藥科大學) in December 2018.

Mr. WANG Jianguo (汪建國), aged 60, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. Wang has almost 30 years of experience in corporate management. He joined the Group in November 2019, and meanwhile, he has been an independent non-executive director of Honma Golf Limited (stock code: 6858.HK) since September 2016. Mr. Wang also has been the chairman of the board of Five Star Holdings Group Co., Ltd. (五星控股集團有限公司) since February 2009. Before that, Mr. Wang was the vice president of the Asia-Pacific Region for Best Buy Co., Inc. (stock code: BBY.NY), an American multinational consumer electronics corporation. He founded Jiangsu Five Star Appliance Co., Ltd. (江蘇五星電器有限公司) in 1998 and was its president and the chairman of the board until February 2009. From 1992 to 1998, Mr. Wang held various positions at Jiangsu Wujiaohua Corporation (江蘇五交化總公司) with his last position there being the general manager.

Mr. Wang is currently the vice chairman of Jiangsu General Chamber of Commerce (江蘇省總商會) and was awarded the Service Industry Professional Special Contribution Award (服務業專業人才特別貢獻獎) by Jiangsu Provincial People's Government in October 2014. Mr. Wang was granted the Outstanding Achievement Award (傑出成就獎) by the China Chain Store & Franchise Association (中國連鎖經營協會) in November 2012. He was elected as the Model Worker of the National Business System (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the PRC in 2007. Mr. Wang has been the sponsor of Hupan University (湖畔大學) since September 2015.

Mr. Wang graduated from the Australian National University, in July 2004 with a degree of executive master of business administration. He also completed the program of doctor of business administration from Shanghai Jiao Tong University in July 2018.

Mr. WANG Xinhua (王新華), aged 65, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. Wang has almost 45 years of experience in accounting and financial management. Mr. Wang joined the Group in November 2019. He has been an independent non-executive director of China Tobacco International (HK) Company Limited (stock code: 6055.HK) since December 2018, an independent director of China Petroleum Engineering Corporation (中國石油集團工程股份有限公司) (stock code: 600339.SH) since September 2017 and an independent director of Xinjiang Zhongtai Chemical Co., Ltd. (新疆中泰化學股份有限公司) (stock code: 002092.SZ) since January 2017. In addition, Mr. Wang served as an independent director of Guizhou Yibai Pharmaceutical Co., Ltd. (貴州益佰製藥股份有限公司) (stock code: 600594.SH) from September 2016 to September 2019 and Guizhou Jiulian Industrial Explosive Material Development Co., Ltd. (貴州久聯民爆器材發展股份有限公司) (stock code: 002037.SZ) (now renamed as Poly Union Chemical Holding Group Co., Ltd. (保利聯合化工控股集團股份有限公司)) from March 2016 to December 2019. Prior to that, Mr. Wang served as the chief financial officer of China Petroleum & Chemical Corporation (中國石油化工股份有限公司) (stock code: 386.HK and 600028.SH) from May 2009 to December 2015. From November 2004 to April 2009, he served as a director of the financial planning department of China Petrochemical Corporation (中國石化集團公司).

Mr. Wang graduated from Northeastern University (東北大學) in July 1996 after completing his undergraduate course in management engineering through long distance learning. He was as a senior accountant at professor level (教授級高級會計師) granted by Sinopec Group in January 2004.

Biographies of Directors and Senior Management

SENIOR MANAGEMENT[(1)(2)]

The members of the senior management team and details of each of their experience are as follows:

Mr. Kevin Oliver, aged 51, joined the Group in March 2020 and was appointed as a senior vice president of the Company on March 31, 2021, primarily responsible for the global business development of the Group.

Mr. Oliver has nearly 30 years of experience in the pharmaceutical industry, including 16 years of experience in the introduction and acquisition of business development projects. Mr. Oliver was responsible for target discovery and verification in Merck, Sharp & Dohme, Ltd. from September 1990 to March 2005. From March 2005 to December 2010, he was a negotiation manager, deputy director and senior director of Merck & Co., Inc., responsible for global business development and external research/licensing and target acquisition. From December 2010 to July 2014, he was an executive director of Merck & Co., Inc., responsible for the out-licensing and asset divestiture of global projects. Prior to joining the Group, he was responsible for global business development and licensing/M&A and alliance management in Alcon, Inc. (Novartis AG.) as the global leader of BD&L External Alliances since July 2014.

Mr. Oliver graduated with a bachelor's degree in immunology from King's College London in July 1990 and a Ph.D. in pathology from Cambridge University in September 1995.

Mr. CHENG Xianghua (程向華), aged 44, is a vice president of the Company. He is primarily responsible for the management of human resources, staff training and marketing of the Group.

Mr. Cheng has almost 20 years of experience with the Group where he gained rich experience in the management of the pharmaceutical industry. Mr. Cheng joined the Group in June 2000 and has held various positions within the Group since then, including the sales representative, manager, business director, general manager of business department, president assistant, and vice president, successively. Mr. Cheng has also been the chairman of the board of Oy Simcere Europe Ltd. since June 2019, a director of Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. (蕪湖先聲中人藥業有限公司) since July 2017, a director of Shanghai Simcere Pharmaceutical Co., Ltd. (上海先聲藥業有限公司) since January 2017, a director of Simcere Pharmaceutical since April 2020 and a director of Hainan Simcere since May 2020. In addition, Mr. Cheng served as a director of Xuancheng Menovo Pharmaceutical Co., Ltd. (宣城美諾華藥業有限公司) from July 2019 to September 2020.

Mr. Cheng graduated with a college diploma in pharmaceutical marketing from Anhui University of Chinese Medicine (安徽中醫藥大學) in July 1999.

Mr. QIAN Haibo (錢海波), aged 58, is a vice president of the Company. He is primarily responsible for the investment business department and the business development in Hong Kong of the Company.

Notes:

(1) Mr. WANG Pin resigned as the chief science officer of the Company with effect from April 15, 2021.

(2) Mr. WANG Peng resigned as a senior vice president of the Company with effect from March 31, 2021 but remained as a vice director of the Group's national key laboratory of translational medicine and innovative pharmaceuticals.

Mr. Qian has held senior management positions for almost 26 years within the Group. Mr. Qian joined the Group in November 1994 and served successively as a department manager, director and assistant to general manager until May 2005. In December 2005, he became the secretary to the board of the Group and served in this position during the period when the Group listed on the NYSE. He successively served as the general manager and a director of the Company from October 2018 to November 2019. He has been a vice president of the Group since January 2013, and was officially appointed as the vice president of the Company on November 19, 2019. In addition, he also has been the director of Jiangsu Simcere since February 2011. Mr. Qian has held directorships in several other companies, including Nanjing Bioheng Biotech Co., Ltd. (南京北恒生物科技有限公司) from June 2018 to March 2021, Beijing Yude Future Holdings Co., Ltd. (北京玉德未來控股有限公司) from November 2015 and Hainan Simcere BioSciKin Technology Development Co., Ltd. (海南先聲百家匯科技發展有限公司) since September 2014.

Mr. Qian graduated with a bachelor's degree in law from Nanjing Normal University in June 1986. He obtained a degree of master of business administration from Nanjing University in December 2002 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University in June 2007. Mr. Qian was certified as a senior economist at researcher level by Nanjing Office of Work Title (Professional Qualification) Work Leading Group (南京市職稱(職業資格)工作領導小組辦公室) in September 2008.

Mr. SHI Ruiwen (史瑞文), aged 55, joined the Group in November 2017 and was appointed as a vice president of the Company on March 31, 2021, primarily responsible for the pharmaceutical business of the Company and the management of the Hainan Research Institute.

Mr. Shi has nearly 31 years of experience in pharmaceutical research and development and production management. From March 1990 to August 1996, he served as an assistant researcher and an associate researcher in the Institute of Biomedical Engineering of Chinese Academy of Medical Sciences (中國醫學科學院生物醫學工程研究所). From August 1996 to August 1997, as a visiting scholar, he made an academic visit and research in the medical school of Kumamoto University. From August 2002 to September 2003, he served in Mannkind Corporation as a research and development scientist of the preparation and medicine administration science department. He was a senior scientist of the medicine administration system and medicine preparation development department of Bausch + Lomb Inc. from September 2003 to September 2005, and a senior scientist in the preparation and early development department of ALZA Corporation, a subsidiary of Johnson & Johnson from October 2005 to August 2007. From August 2007 to October 2017, he served as a senior scientist, a senior scientist (deputy director level) and a deputy director in the preparation and medicine administration department of Allergan Inc..

Mr. Shi joined the Group in November 2017. He served as the senior director of the pharmaceutical business department of the Group and the chief engineer of Simcere Pharmaceutical from November 2017 to December 2018. From December 2018 to August 2019, he served as the executive director of the pharmaceutical business department of the Group and the vice dean of Nanjing Research Institute (南京研究院). From August 2019 to August 2020, he served as the general manager of Simcere Pharmaceutical. Since November 2019, he has served as the vice president of the Group.

Mr. Shi graduated with a bachelor's degree and a master's degree in Polymer chemistry and Materials from Tianjin University (天津大學) in September 1987 and March 1990, respectively. Mr. Shi also obtained a Ph.D. in pharmacology from the University of British Columbia in July 2002.

Mr. WANG Feng (王峰), aged 38, joined the Group in June 2007 and was appointed as a vice president of the Company on March 31, 2021, primarily responsible for the management of the medical and marketing departments of the Company.

Mr. Wang has nearly 14 years of experience within the Group. He joined the Group in June 2007 and held various positions in the Group, including as a product manager of the marketing department from June 2007 to September 2010, a senior product manager of marketing department from September 2010 to August 2013, a product director of marketing department from August 2013 to January 2016, a general manager of the marketing department from January 2016 to August 2017, a senior director of pharmaceutical business department of the Group from August 2017 to January 2018, a senior director of regulations science department from January 2018 to December 2018, an executive director of regulations and intellectual property department (formerly known as the regulations science department) from December 2018 to May 2019, and a vice dean of Nanjing Research Institute from May 2019 to September 2020. Mr. Wang was appointed as vice president of the Group in September 2020.

Mr. Wang graduated from China Pharmaceutical University (中國藥科大學) with a bachelor's degree in bioengineering in July 2004, a master's degree in microbiology and biochemistry in June 2007 and a Ph. D. in social management pharmacy in 2018.

JOINT COMPANY SECRETARIES

Mr. BAO Jun (鮑軍), aged 38, was appointed as one of the joint company secretaries of the Company on May 13, 2020, which took effect on June 10, 2020.

Mr. Bao has almost 17 years of experience with the Group. He joined the Group in July 2004 and held several positions successively within the Group, including as a project engineer of biomedicine department from July 2004 to July 2005, the business development manager from July 2007 to May 2009, the product manager from May 2009 to January 2011, the district manager and regional manager from January 2011 to July 2017, the sales director form July 2017 to May 2019 and the executive director of strategic development since May 2019. In June 2020, Mr. Bao was further appointed as the secretary to the Board of the Company.

Mr. Bao graduated with a bachelor's degree in biotechnology from Anhui Medical University (安徽醫科大學) in June 2004. He also obtained a degree of master of business administration from Nanjing University in March 2013. Mr. Bao is currently a Ph.D. candidate in biological engineering since September 2020 in Southeast University.

Ms. FENG Jie (馮潔), aged 35, was appointed as one of the joint company secretaries of the Company on May 13, 2020, which took effect on June 10, 2020.

Ms. Feng joined the Group in July 2010 and served as an assistant of board affairs to the board office from July 2010 to March 2014. After that, Ms. Feng successively worked as a project manager of the business development department and the senior project manager from March 2014 to May 2019 and has been a securities affairs representative of the Group since May 2019.

Ms. Feng was admitted as the associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom in November 2018. She graduated with a bachelor's degree in engineering from the National Life Science and Technology Talent Training Base (國家生命科學與技術人才培養基地) and a master's degree in social and administrative pharmacy from China Pharmaceutical University in July 2008 and June 2010, respectively. She also obtained a master of corporate governance degree from the Open University of Hong Kong (香港公開大學) in August 2018.

Ms. MAK Po Man Cherie (麥寶文) was appointed as one of the joint company secretaries of the Company on September 17, 2020, which took effect on the same day.

Ms. Mak is the vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has worked for various professional firms and listed companies in Hong Kong, with over 16 years of experience in the fields of audit, accounting, corporate finance, compliance and corporate secretarial. Ms. Mak obtained a Master of Corporate Governance degree from The Hong Kong Polytechnic University in 2017. She has been admitted as an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom in 2017, a member of the Hong Kong Institute of Certified Public Accountants in 2003 and a fellow member of the Association of Chartered Certified Accountants in 2006.

Independent Auditor's Report

KPMG

to the members of Simcere Pharmaceutical Group Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Simcere Pharmaceutical Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 68 to 163, which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 December 31, 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("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 judgement, 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 MATTERS (Continued)

Revenue Recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 90 and 91.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of pharmaceutical products to the distributors and fee charged for provision of promotion service. The Group enters into framework distribution agreements with all distributors which specify the terms of sales relating to pricing, goods acceptance and return, as well as credit terms. The Group's distribution agreements do not permit sales returns except for where the products are defective, which is subject to approval by the Group's quality control team. For the promotion service, the Group renews the promotion service contracts entered into with pharmaceutical manufacturers annually which specifies the products to be promoted, the promotion period and intended activities. Revenue from the sale of pharmaceutical products is recognised at the point in time when the customer takes possession of and accepts the products. Promotion income is recognised when the Group satisfies its promise to arrange for the pharmaceutical products to be provided by supplier to the customer. We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting a sample of framework distribution agreements, purchase order and promotion service contracts with key customers to identify terms and conditions relating to goods or service acceptance and the right of return and assessing the Group's policies in respect of the timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • inspecting goods acceptance records or promotion service reconciliation records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end date had been recognised in the appropriate financial period on the basis of the terms set out in the framework distribution agreements; • inspecting underlying documentation like reconciliation records, the list of dispatched but not accepted products for manual journal entries and adjustments relating to revenue recorded during the year which were considered to be material or met other specific risk-based criteria; and • inspecting actual sales returns and credit notes recorded after the financial year end and evaluating whether the related adjustments to revenue had been recorded in the appropriate financial period.

KEY AUDIT MATTERS (Continued)

Loss allowances for trade receivables

Refer to note 22 to the consolidated financial statements and the accounting policies on pages 83 to 85.

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2020, the gross amount of the Group's trade receivables totaled RMB1,522,578,000, against which a loss allowance of RMB20,841,000 for expected credit losses (ECL) was recorded. The Group's trade receivables mainly arose from sales of pharmaceutical products. The Group measures the loss allowance at an amount equal to the lifetime ECL of the trade receivables based on estimated loss rates for each category of trade receivables grouped according to the shared credit risk characteristics. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers, current market conditions and forward-looking information. Such assessment involves significant management judgement and estimation. We identified the expected credit loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by the management, including the basis of segmentation of the accounts receivable based on credit risk characteristics of customers and the historical default data in management's estimated loss rates; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and • re-performing the calculation of the loss allowance as at December 31, 2020 based on the Group's credit loss allowance policies.

KEY AUDIT MATTERS (Continued)

Fair value measurement for investments with no quoted market prices in active markets
Refer to note 36(e) to the consolidated financial statements and the accounting policies on pages 79 and 80.

The Key Audit Matter	How the matter was addressed in our audit
The Group made investments in a wide variety of investment funds and companies in healthcare sector to broaden the access to potential R&D collaboration opportunities. Those qualified investments are accounted for as financial assets at fair value through profit or loss ("FVPL") or financial assets at fair value through other comprehensive income ("FVOCI") under IFRS 9 Financial Instruments. At December 31, 2020, the fair value of unlisted investments with no quoted market prices in active markets is RMB1,262,124,000, which were classified under the fair value hierarchy as level 3. The fair value of these investments with no quoted market prices in active markets are determined based on valuation techniques which require significant unobservable inputs. The investment funds have been valued based on valuations performed by the investment fund managers as at December 31, 2020. Investments in companies were assessed by the management primarily based on independent valuation reports prepared by a firm of qualified external valuers or recent market transactions. We identified the fair value measurement for these investments at reporting date as a key audit matter because judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof.	Our audit procedures to assess the fair value of investments with no quoted market prices in active markets included the following: • obtaining an understanding of and assessing the design and implementation of key internal controls relating to fair value measurement for investments with no quoted market prices on active markets; • obtaining confirmations directly from the investment fund managers to confirm the existence and the valuation of the Group's investments in the funds; • comparing the net asset value of each fund as reported in the most recently available audited financial statements to the investment fund managers' original estimates of the investment valuation and assessing whether this has resulted in any material valuation adjustment; • for investment in companies, obtaining and inspecting the valuation assessment prepared by the external valuers engaged by the management and on which the assessment of the fair values of the Group's financial assets was based; • assessing the external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity; • with the assistance of our internal valuation specialists, on a sample basis, discussing with the external valuers, without the presence of management, and assessing their valuation methodologies in estimating the fair values of unlisted equity securities; assessing the key assumptions and critical judgements adopted and significant unobservable inputs used which impacted the valuation by comparing them with market data; • assessing whether the recent market transactions used by management to establish the fair value of investments are appropriate; and • assessing the reasonableness of the disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Ting Yuen.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

March 25, 2021

Consolidated Statements of Profit or Loss

For the year ended December 31, 2020

(Expressed in Renminbi)

	NOTE	**2020 RMB'000**	2019 RMB'000
Revenue	4	**4,508,720**	5,036,658
Cost of sales		**(899,927)**	(888,486)
Gross profit		**3,608,793**	4,148,172
Other revenue	5(a)	**114,964**	91,507
Other net gain	5(b)	**326,924**	15,941
Research and development costs		**(1,141,996)**	(716,412)
Selling and distribution expenses		**(1,570,373)**	(2,016,222)
Administrative and other operating expenses		**(411,476)**	(351,676)
Profit from operations		**926,836**	1,171,310
Finance income	6(a)	**26,248**	34,724
Finance costs	6(a)	**(133,729)**	(115,955)
Net finance costs		**(107,481)**	(81,231)
Share of losses of associates	16	**(13,874)**	(8,129)
Share of losses of a joint venture	17	**(393)**	(135)
Profit before taxation	6	**805,088**	1,081,815
Income tax	7	**(140,801)**	(78,191)
Profit for the year		**664,287**	1,003,624
Attributable to:			
Equity shareholders of the Company		**669,534**	1,003,624
Non-controlling interest		**(5,247)**	–
Profit for the year		**664,287**	1,003,624
Earnings per share	11		
Basic and diluted (RMB)		**0.28**	0.43

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2020

(Expressed in Renminbi)

	NOTE	2020 RMB'000	2019 RMB'000
Profit for the year		**664,287**	1,003,624
Other comprehensive income for the year (after tax adjustments)	10		
Items that will not be reclassified to profit or loss:			
Financial assets at fair value through other comprehensive income (FVOCI) – net movement in fair value reserves (non-recycling), net of tax		**211,287**	(8,070)
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of entities with functional currencies other than Renminbi ("RMB")		**(94,954)**	5,119
Other comprehensive income for the year		**116,333**	(2,951)
Total comprehensive income for the year		**780,620**	1,000,673
Attributable to:			
Equity shareholders of the Company		**785,867**	1,000,673
Non-controlling interest		**(5,247)**	–
Total comprehensive income for the year		**780,620**	1,000,673

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statements of Financial Position

(Expressed in Renminbi)

	NOTE	**December 31, 2020 RMB'000**	December 31, 2019 RMB'000
Non-current assets			
Property, plant and equipment	12	**2,127,879**	1,869,740
Intangible assets	13	**77,108**	33,768
Goodwill	14	**172,788**	142,474
Interest in associates	16	**211,148**	159,364
Interest in a joint venture	17	**4,672**	5,065
Prepayments and deposits	23	**113,534**	325,090
Financial assets at fair value through other comprehensive income	18	**327,655**	157,189
Financial assets at fair value through profit or loss	19	**1,231,701**	901,841
Deferred tax assets	29(b)	**210,093**	274,698
		4,476,578	3,869,229
Current assets			
Financial assets at fair value through profit or loss	19	**–**	543,938
Trading securities	20	**3,634**	3,058
Inventories	21	**262,673**	248,174
Trade and bills receivables	22	**1,871,012**	1,336,916
Prepayments, deposits and other receivables	23	**120,557**	119,483
Taxation recoverable	29(a)	**21,335**	306
Pledged deposits	24(b)	**917,377**	290,962
Restricted deposits	24(b)	**3**	–
Cash and cash equivalents	24(a)	**3,270,241**	354,804
		6,466,832	2,897,641
Current liabilities			
Bank loans	25	**1,792,940**	1,643,978
Lease liabilities	26	**38,098**	26,206
Trade and bills payables	27	**242,077**	254,851
Other payables and accruals	28	**1,323,343**	1,417,945
Taxation payable	29(a)	**–**	85,525
Provision	30	**100,700**	–
		3,497,158	3,428,505
Net current assets/(liabilities)		**2,969,674**	(530,864)
Total assets less current liabilities		**7,446,252**	3,338,365

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statements of Financial Position (continued)

(Expressed in Renminbi)

	NOTE	December 31, 2020 RMB'000	December 31, 2019 RMB'000
Non-current liabilities			
Bank loans	25	**1,275,550**	1,139,171
Lease liabilities	26	**193,430**	131,601
Deferred income	31	**447,950**	470,525
Deferred tax liabilities	29(b)	**193,598**	116,604
		2,110,528	1,857,901
NET ASSETS		**5,335,724**	1,480,464
CAPITAL AND RESERVES			
Share capital	33	**3,002,871**	210
Reserves	33	**2,298,918**	1,480,254
Total equity attributable to equity shareholders of the Company		**5,301,789**	1,480,464
Non-controlling interest		**33,935**	–
TOTAL EQUITY		**5,335,724**	1,480,464

Approved and authorised for issue by the board of directors on March 25, 2021.

Ren Jinsheng)
) *Directors*
Wan Yushan)

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2020

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company								
	NOTE	Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2019		34	478,913	418,943	28,050	(39,478)	678,672	1,565,134	–	1,565,134
Changes in equity for 2019:										
Profit for the year		–	–	–	–	–	1,003,624	1,003,624	–	1,003,624
Other comprehensive income	10	–	–	–	5,119	(8,070)	–	(2,951)	–	(2,951)
Total comprehensive income		–	–	–	5,119	(8,070)	1,003,624	1,000,673	–	1,000,673
Appropriation of reserve	33(d)(ii)	–	–	77,757	–	–	(77,757)	–	–	–
Appropriation of dividends	33(b)	–	–	–	–	–	(635,070)	(635,070)	–	(635,070)
Ordinary shares issued	33(c)	176	–	–	–	–	–	176	–	176
Disposal of financial assets at fair value through other comprehensive income		–	–	–	–	447	(447)	–	–	–
Equity settled share-based transactions	32	–	14,151	–	–	–	–	14,151	–	14,151
Deemed distribution upon business combination under common control		–	(464,600)	–	–	–	–	(464,600)	–	(464,600)
Balance at December 31, 2019		210	28,464	496,700	33,169	(47,101)	969,022	1,480,464	–	1,480,464

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statements of Changes in Equity (continued)

For the year ended December 31, 2020

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company								
	NOTE	Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2020		210	28,464	496,700	33,169	(47,101)	969,022	1,480,464	-	1,480,464
Changes in equity for 2020:										
Profit for the year		-	-	-	-	-	669,534	669,534	(5,247)	664,287
Other comprehensive income	10	-	-	-	(94,954)	211,287	-	116,333	-	116,333
Total comprehensive income										
Appropriation of reserve	33(d)(ii)	-	-	40,199	-	-	(40,199)	-	-	-
Issue of ordinary shares by initial public offering and over-allotment, net of issuance costs	33(c)	3,002,661	-	-	-	-	-	3,002,661	-	3,002,661
Disposal of financial assets at fair value through other comprehensive income		-	-	-	-	(12,181)	12,181	-	-	-
Equity settled share-based transactions	32	-	32,797	-	-	-	-	32,797	-	32,797
Acquisition of a subsidiary	37	-	-	-	-	-	-	-	39,182	39,182
Balance at December 31, 2020		3,002,871	61,261	536,899	(61,785)	152,005	1,610,538	5,301,789	33,935	5,335,724

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Cash Flow Statements

For the year ended December 31, 2020
(Expressed in Renminbi)

	NOTE	2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations	24(c)	**251,399**	1,037,660
Tax paid	29(a)	**(154,668)**	(264,857)
Net cash generated from operating activities		**96,731**	772,803
Investing activities			
Payment for the acquisition of property, plant and equipment		**(352,841)**	(507,658)
Proceeds from disposal of property, plant and equipment		**936**	3,197
Increase in asset-related government grants		**9,886**	166,538
Proceeds from disposal of financial assets at fair value through other comprehensive income		**77,862**	1,726
Dividend received from financial assets at fair value through profit or loss		**64,012**	1,401
Payment for acquisition of financial assets at fair value through other comprehensive income		**–**	(137,101)
Proceeds from disposal of financial assets measured at fair value through profit or loss		**686,654**	972,980
Payment for acquisition of financial assets measured at fair value through profit or loss		**(103,772)**	(1,272,954)
Acquisition of subsidiaries, net		**1,759**	–
Payment for acquisition of interest in associates		**–**	(149,109)
Proceeds from disposal of interest in associates		**118,418**	–
Payment for acquisition of interest in a joint venture		**–**	(5,200)
Payments of deposits for investment		**–**	(260,351)
Proceeds from trading securities		**51**	47
New loans to related parties		**–**	(416,634)
Repayment of loans to related parties		**–**	900,261
Interest received		**26,118**	109,929
Net cash generated from/(used in) investing activities		**529,083**	(592,928)

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Cash Flow Statements (continued)

For the year ended December 31, 2020

(Expressed in Renminbi)

	NOTE	2020 RMB'000	2019 RMB'000
Financing activities			
Capital element of lease rental paid	24(d)	**(37,485)**	(34,163)
Interest element of lease rental paid	24(d)	**(9,253)**	(7,122)
Proceeds from new bank loans	24(d)	**2,056,618**	2,605,640
Repayment of bank loans	24(d)	**(1,789,365)**	(1,883,549)
Interest paid	24(d)	**(131,925)**	(141,191)
New loans from related parties	24(d)	**35,506**	11,796
Repayment of loans from related parties	24(d)	**(35,506)**	(141,793)
Increase in pledged deposits for banking facilities		**(625,600)**	(90,000)
(Increase)/decrease in cash received under share incentive scheme		**(112,029)**	43,910
Proceeds from issue of ordinary shares by initial public offering	33(c)	**3,119,961**	–
Share issuance costs paid	33(c)	**(117,300)**	–
Capital contribution from equity shareholders of the Company	33(c)	**–**	176
Dividends paid to equity shareholders of the Company	33(b)	**–**	(912,054)
Deemed distribution upon the reorganization and business combination under common control		**–**	(464,600)
Net cash generated from/(used in) financing activities		**2,353,622**	(1,012,950)
Net increase/(decrease) in cash and cash equivalents		**2,979,436**	(833,075)
Cash and cash equivalents at the beginning of the year	24(a)	**354,804**	1,187,647
Effect of foreign exchange rate changes		**(63,999)**	232
Cash and cash equivalents at the end of the year	24(a)	**3,270,241**	354,804
Significant non-cash investing and financing activities			
Net settlement of amounts due from and due to related parties		**–**	119,170

The notes on pages 76 to 163 form part of these financial statements.

1 GENERAL INFORMATION

Simcere Pharmaceutical Group Limited (the "Company") was incorporated in Hong Kong on November 30, 2015 as a limited liability company with its registered office at 43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on October 27, 2020. The Company is an investment holding company. The Company and its subsidiaries (together, "the Group") are principally engaged in the research and development, manufacturing and sales of pharmaceutical products as well as rendering promotion service of pharmaceutical products that are not manufactured by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements of the Group for the year ended December 31, 2020 comprise the Company and its subsidiaries and the Group's interest in associates and a joint venture.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies as set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKFRS 16, Covid 19- Related Rent Concessions

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interest

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interest represents the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interest and the equity shareholders of the Company. Loans from holders of non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interest (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates and a joint venture

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)(ii)). Any the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the consolidated statements of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statements of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and the associates or the joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

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 that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(g)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and a joint venture, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 36(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(u)(iv)).

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other investments in debt and equity securities (Continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in Note 2(u)(vi).

(h) Property, plant and equipment

Property, plant and equipment are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value). Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life
Leasehold land (see Note 2(j))	over the period of leases
Plant and buildings	5–20 years or remaining lease terms
Machinery and equipment	3–10 years
Furniture, fixtures and office equipment	3–5 years
Motor vehicles	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents properties under construction and machinery and equipment pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 2(k)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation polices specified above.

No depreciation is provided in respect of construction in progress.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads. Other development expenditure is recognized as an expense in the period in which it is incurred.

Intangible assets that are acquired through business combination are stated at cost (the acquisition date fair value) less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful life
Developed technology	10–16 years
Good Supply Practice ("GSP") licenses	3–5 years
Product trademarks	6–10 years

The developed technology and product trademarks of the Group are associated with different products arising from various business combinations and acquisitions from third parties. The useful lives of developed technology and product trademarks are estimated based on the remaining period of economic benefits to be derived from the respective products to be produced relying on the acquired developed technology and product trademarks. The Group estimates the period of economic benefits to be derived from the respective products based on the expected time period required for a pharmaceutical drug development from its discovery to commercialization and other factors, including the patent protection period, the historical life of similar products, the characteristics of such technologies, their update frequency and market requirement and competition. Based on such assessment, the Group considers that the maximum economic useful life of developed technology and product trademarks held by the Group is 16 years. As the different products have different commercialization commencement dates, acquisition dates by the Group and the expected lifespan of economic benefits, the remaining useful life of the Group's developed technology and product trademarks varies at a range of 10–16 and 6–10 years, respectively.

The useful lives of GSP licenses are estimated based on the remaining valid period of the GSP licenses.

Both the period and method of amortization are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(h) and 2(k)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group presents right-of-use assets in 'property, plant and equipment' and presents 'lease liabilities' separately in the consolidated statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets (Continued)

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with Note 2(u)(iii).

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for expected credit losses (ECLs) on financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties and third parties).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Measurement of ECLs (Continued)

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is twelve months past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Basis of calculation of interest income

Interest income recognized in accordance with Note 2(u)(iv) 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 the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets;

– intangible assets;

– goodwill;

– interest in associates and a joint venture; and

– interest in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress, costs include direct labour and appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(m) Contract liabilities

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see Note 2(u)). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(n)).

(n) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)).

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see Note 2(w)).

(q) Trade and other payables

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to local retirement schemes pursuant to the relevant labour rules and regulations in the jurisdictions in which the Group's subsidiaries located are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(ii) Share-based payments

Restricted shares

The fair value of share-based payment awards (i.e. restricted shares) granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value of the restricted shares is measured at grant date by reference to the market price or the valuer's valuation of the underlying shares. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the restricted shares, the total estimated fair value of the restricted shares is spread over the vesting period, taking into account the probability that the restricted shares will vest.

During the vesting period, the number of restricted shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of restricted shares that vest (with a corresponding adjustment to the capital reserve).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(t) Provisions and contingent liabilities

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Revenue and other income (Continued)

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of pharmaceutical products

Revenue is recognized when the customer takes possession of and accepts the products.

(ii) Promotion service income

Promotion service income is recognized when the Group satisfies its promise to arrange for the pharmaceutical products to be provided by supplier to the customer.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are presented in the consolidated statements of financial position by setting up the grant as deferred income and consequently are effectively recognized in profit or loss on a systematic basis over the useful life of the asset.

(vi) Dividends

Dividend income is recognized when the shareholder's right to receive payment is established.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Translation of foreign currencies

Foreign currency transactions are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

(w) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Key sources of estimation uncertainty

Notes 14, 18, 19, 20, 36(e) and 32 contains information about the assumptions and their risk factors relating to goodwill impairment, fair value of financial assets and fair value of restricted shares granted. Other key sources of estimation uncertainty are as follows:

(i) Impairments of non-financial assets

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(ii) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value. The Group reassesses these estimates annually.

(iii) Impairment of trade and other receivables

The Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortized cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(iv) Depreciation and amortization

Items of property, plant and equipment and intangible assets are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortization expense for future periods are adjusted if there are significant changes from previous estimates.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(v) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognized for temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and deferred tax assets are recognized only if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are research and development, manufacturing and sales of pharmaceutical products as well as rendering promotion service of pharmaceutical products that are not manufactured by the Group.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	2020 RMB'000	2019 RMB'000
Sales of pharmaceutical products	**4,229,788**	4,800,323
Promotion service income	**278,932**	236,335
	4,508,720	5,036,658

The Group's revenue from contracts with customers was recognized at point in time for the year ended December 31, 2020.

The Group's customer base is diversified and nil (2019: nil) customers with whom transactions have exceeded 10% of the Group's revenues for the year ended December 31, 2020. Details of concentrations of credit risk arising from the customers are set out in Note 36(a).

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for goods such that information about revenue expected to be recognized in the future is not disclosed in respect of revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an expected duration of one year or less.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

Operating segments are identified on the basis of internal reports that the Group's most senior executive management reviews regularly in allocating resources to segments and in assessing their performances.

The Group's most senior executive management makes resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

HKFRS 8, Operating Segments, requires identification and disclosure of information about an entity's geographical areas, regardless of the entity's organization (i.e. even if the entity has a single reportable segment). The Group operates within one geographical location because primarily all of its revenue was generated in the PRC and primarily all of its non-current operating assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

5 OTHER REVENUE AND OTHER NET GAIN

(a) Other revenue

	2020 **RMB'000**	2019 RMB'000
Government grants (Note)	**88,647**	65,885
Rental income	**10,029**	15,198
Property management income	**4,847**	3,911
Consulting and technology service income	**3,369**	2,614
Others	**8,072**	3,899
	114,964	91,507

Note:

During the year ended December 31, 2020, the Group received unconditional government grants of RMB54,783,000 (2019: RMB40,568,000) as rewards of the Group's contribution to technology innovation and regional economic development.

During the year ended December 31, 2020, the Group received conditional government grants of RMB9,886,000 (2019: RMB166,538,000) as subsidies for plant relocation and construction and recognized such grants of RMB32,384,000 (2019: RMB10,255,000) in the consolidated statements of profit or loss when related conditions were satisfied. During the year ended December 31, 2020, the Group received conditional government grants of RMB9,620,000 (2019: RMB3,700,000) as encouragement of technology research and development and recognized such type of grants of RMB1,480,000 (2019: RMB15,062,000) in the consolidated statements of profit when related conditions were satisfied.

5 OTHER REVENUE AND OTHER NET GAIN (Continued)

(b) Other net gain

	2020 RMB'000	2019 RMB'000
Net foreign exchange loss	(46,228)	(1,633)
Net loss on disposal of property, plant and equipment	(3,361)	(3,483)
Net realized and unrealized gains on trading securities	627	819
Net realized and unrealized gains on financial assets at fair value through profit or loss	464,309	20,238
Net gain on disposal of interest in associate	8,963	–
Net gain on disposal of a subsidiary	1,552	–
Gain arising from business combination (Note 37)	1,762	–
Provision for penalty (Note 30)	(100,700)	–
	326,924	15,941

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	2020 RMB'000	2019 RMB'000
Interest income from bank deposits	(26,118)	(13,373)
Interest income from loans to related parties	(130)	(21,351)
Finance income	(26,248)	(34,724)
Interest expenses on bank loans	133,559	108,661
Interest expenses on loans from related parties	298	6,606
Interest expenses on lease liabilities	9,253	7,122
Less: borrowing costs capitalized as construction in progress (Note)	(9,381)	(6,434)
Finance costs	133,729	115,955
Net finance costs	107,481	81,231

Note:

The borrowing costs for the year ended December 31, 2020 have been capitalized at rate 4.35% (2019: 4.35%).

6 PROFIT BEFORE TAXATION (Continued)

(b) Staff costs

	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	1,096,326	884,604
Contributions to defined contribution retirement plans (Note)	28,548	49,421
Equity settled share-based payment expenses (Note 32)	32,797	14,151
	1,157,671	948,176

Note:

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement plans administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the plan to fund the retirement benefits of the employees.

The Group's contributions to the defined contribution retirement plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions. The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items

	2020 RMB'000	2019 RMB'000
Cost of inventories recognized as expenses (Note i)	679,972	677,361
Depreciation charge		
– owned property, plant and equipment	158,634	105,818
– right-of-use assets	46,335	41,114
Amortization of intangible assets	17,360	15,577
Research and development costs (Note ii)	1,141,996	716,412
Provision for impairment loss on trade and other receivables	6,735	1,657
Provision for write-down of inventories	20,962	5,745
Auditors' remuneration		
– audit services	3,820	3,100
– non-audit services (Note iii)	4,520	183
Listing expenses	26,653	–

Notes:

(i) Cost of inventories recognized as expenses includes amounts relating to staff costs, depreciation and amortization expenses, provision for write-down of inventories, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

(ii) Research and development costs include amounts relating to staff costs, depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

(iii) During the year ended December 31, 2020, the Group recognized auditors' remuneration for non-audit services in respect of initial public offering of RMB4,300,000, which is also included in the listing expenses disclosed separately above.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

	2020 RMB'000	2019 RMB'000
Current tax		
PRC Corporate Income Tax		
Provision for the year	50,215	197,100
(Over)/under-provision in respect of prior years	(4,158)	609
	46,057	197,709
Deferred tax		
Origination and reversal of temporary differences (Note 29(b))	94,744	(119,518)
Total income tax expense	140,801	78,191

Notes:

(i) Pursuant to the income tax rules and regulations of Hong Kong, the Company and the subsidiary in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the year ended December 31, 2020 and 2019. During the year ended December 31, 2020 and 2019, the Company and the Group's subsidiary in Hong Kong did not have assessable profits which are subject to profit tax in Hong Kong.

(ii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax ("CIT") at a statutory rate of 25%, except for the following specified subsidiaries:

According to the Administrative Measures for Determination of High-Tech Enterprises (Guokefahuo [2016] No. 32), Hainan Simcere Pharmaceutical Co., Ltd. ("Hainan Simcere") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2017 to 2019.

Shandong Simcere Biopharmaceutical Co., Ltd. ("Shandong Simcere") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2017 to 2019.

Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. ("Wuhu Simcere") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2017 to 2019.

Simcere Pharmaceutical Co., Ltd. ("Simcere Pharmaceutical", formerly known as Nanjing Simcere Dongyuan Pharmaceutical Co., Ltd.) obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2018 to 2020.

Hainan Simcere, Shandong Simcere and Wuhu Simcere renewed the qualification in 2020 and was entitled to a preferential income tax rate of 15% from 2020 to 2022.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC tax resident enterprises are levied withholding tax on dividends from their PRC resident investees for intra-group earnings accumulated beginning on January 1, 2008, at 10% (unless reduced by tax treaties or similar arrangements), respectively. Undistributed earnings generated prior to 2008 are exempt from such withholding tax.

Under the arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution). The Group met the beneficial owner requirements in 2020 and 2019 and were entitled to a preferential rate of 5% since 2019.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS (Continued)

(a) Taxation in the consolidated statements of profit or loss represents (Continued):

Notes: (Continued)

(iii) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiaries in the United States were liable to United States federal income tax determined by income ranges and state income tax during the year ended December 31, 2020 and 2019. The Group's subsidiaries in the United States did not have assessable profits during the year ended December 31, 2020 and 2019.

(iv) Pursuant to the income tax rules and regulations of the United Kingdom, the Group's subsidiary in the United Kingdom was liable to the United Kingdom corporation tax at a rate of 19% during the year ended December 31, 2020 and 2019.

(v) Pursuant to the income tax rules and regulations of Finland, the Group's subsidiary in Finland was liable to Finnish income tax at a rate of 20% during the year ended December 31, 2020 and 2019.

(vi) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

(b) Reconciliation between tax expense and profit before taxation at applicable tax rates:

	2020 **RMB'000**	2019 RMB'000
Profit before taxation	**805,088**	1,081,815
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25%	**201,272**	270,454
Tax effect of different tax rates	**(86,254)**	(134,456)
Tax effect of non-deductible expenses (Note)	**32,249**	21,389
Tax effect of non-taxable income	**(5,014)**	(6,340)
Tax effect of tax losses not recognized	**65,904**	6,293
Tax effect of temporary differences not recognized	**5,851**	2,553
Tax effect of bonus deduction for research and development costs	**(72,472)**	(54,169)
Tax effect of change in tax rates	**3,421**	10,630
Tax effect of previously unrecognized tax losses now utilized	**(5,989)**	(152)
Tax effect of previously unrecognized temporary differences now utilized	**(4,034)**	–
Provision/(reversal) of withholding tax on undistributed profits	**10,005**	(38,620)
(Over)/under-provision in prior years	**(4,138)**	609
Actual tax expense	**140,801**	78,191

Note:

Tax effect of non-deductible expenses mainly represented tax effect of equity settled share-based payment expenses, losses on financial assets with capital in nature, expenses incurred by entities without assessable profits and other non-deductible expenses.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments (note) RMB'000	2020 Total RMB'000
Executive directors							
Ren Jinsheng	–	1,494	360	16	1,870	–	1,870
Wan Yushan (appointed on November 19, 2019)	–	1,074	2,962	16	4,052	1,630	5,682
Zhang Cheng (appointed on November 19, 2019)	–	3,417	2,747	28	6,192	3,261	9,453
Tang Renhong (appointed on November 19, 2019)	–	1,717	1,315	36	3,068	2,570	5,638
Non-Executive directors							
Zhao John Huan (appointed on November 19, 2019)	–	–	–	–	–	–	–
Zhang Yi (appointed on November 19, 2019, resigned on June 1, 2020)	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Xinhua (appointed on November 19, 2019)	360	–	–	–	360	–	360
Song Ruilin (appointed on November 19, 2019)	360	–	–	–	360	–	360
Wang Jianguo (appointed on November 19, 2019)	360	–	–	–	360	–	360
	1,080	7,702	7,384	96	16,262	7,461	23,723

8 DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments (note) RMB'000	2019 Total RMB'000
Executive directors							
Ren Jinsheng	–	1,496	360	38	1,894	–	1,894
Wan Yushan (appointed on November 19, 2019)	–	1,032	–	38	1,070	471	1,541
Zhang Cheng (appointed on November 19, 2019)	–	1,374	1,332	11	2,717	815	3,532
Tang Renhong (appointed on November 19, 2019)	–	820	659	32	1,511	643	2,154
Non-Executive directors							
Zhao John Huan (appointed on November 19, 2019)	–	–	–	–	–	–	–
Zhang Yi (appointed on November 19, 2019, resigned on June 1, 2020)	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Xinhua (appointed on November 19, 2019)	30	–	–	–	30	–	30
Song Ruilin (appointed on November 19, 2019)	30	–	–	–	30	–	30
Wang Jianguo (appointed on November 19, 2019)	30	–	–	–	30	–	30
	90	4,722	2,351	119	7,282	1,929	9,211

Mr. Wan Yushan, Mr. Zhang Cheng and Dr. Tang Renhong were appointed as executive directors of the Company on November 19, 2019. All the executive directors are key management personnel of the Group for the year ended December 31, 2020 and their remuneration disclosed above include those for services rendered by them as key management personnel.

Note:

These represent the estimated value of restricted shares granted to the directors under the Company's share incentive scheme. The value of these restricted shares is measured according to the Group's accounting policies for share-based payment transactions and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of restricted shares granted, are disclosed in Note 32.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2019: one) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	7,937	8,544
Discretionary bonuses	2,967	5,012
Retirement scheme contributions	31	103
Share-based payments	5,435	2,095
	16,370	15,754

The emoluments of the two (2019: four) individuals with the highest emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
RMB3,000,001 to RMB3,500,000	–	1
RMB3,500,001 to RMB4,000,000	–	1
RMB4,000,001 to RMB4,500,000	1	1
RMB4,500,001 to RMB5,000,000	–	1
RMB12,000,001 to RMB12,500,000	1	–

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	Exchange differences on translation of financial statements RMB'000	Financial assets at fair value through other comprehensive income – net movement in fair value reserves (non-recycling) RMB'000	Total RMB'000
For the year ended December 31, 2019			
Before-tax amount	5,119	(9,348)	(4,229)
Tax benefit	–	1,278	1,278
Net-of-tax amount	5,119	(8,070)	(2,951)
For the year ended December 31, 2020			
Before-tax amount	(94,954)	248,328	153,374
Tax expense	–	(37,041)	(37,041)
Net-of-tax amount	(94,954)	211,287	116,333

(Expressed in Renminbi)

11 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB669,534,000 (2019: RMB1,003,624,000) and the weighted average of 2,392,638,339 ordinary shares (2019: RMB2,345,117,618 after adjusting the share issue at nominal value pursuant to a written resolution of the board of directors of the Company passed on June 21, 2019) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2020	2019
Ordinary shares at January 1	2,345,117,618	40,000
Effect of shares issued at nominal value (Note i)	–	2,345,077,618
Effect of shares issued by initial public offering (Note 33(c))	47,520,721	–
Weighted average number of ordinary shares at December 31	2,392,638,339	2,345,117,618

Notes:

(i) The number of ordinary shares outstanding before the shares issue at nominal value (Note 33(c)(i)) was adjusted for the proportionate increase in the number of ordinary shares outstanding without a corresponding change in resources, as if the shares issue at nominal value had occurred at the beginning of the earliest period presented.

Diluted earnings per share is equal to basic earnings per share as there were no dilutive potential shares outstanding for the year ended December 31, 2020 and 2019.

12 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold Land RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At January 1, 2019	199,706	625,590	515,241	79,402	34,867	449,220	1,904,026
Additions	22,890	199,897	112,359	18,671	1,385	292,865	648,067
Transfers	–	337,297	118,484	4,479	–	(460,260)	–
Disposals	–	(2,164)	(84,116)	(14,481)	(4,172)	–	(104,933)
At December 31, 2019 and January 1, 2020	222,596	1,160,620	661,968	88,071	32,080	281,825	2,447,160
Business combination (Note 37)	–	–	–	174	–	–	174
Additions	814	149,865	108,703	34,032	2,601	171,216	467,231
Transfers	–	192,546	170,250	23,182	635	(386,613)	–
Disposals	–	(6,630)	(37,369)	(5,156)	(3,196)	–	(52,351)
At December 31, 2020	223,410	1,496,401	903,552	140,303	32,120	66,428	2,862,214
Accumulated depreciation:							
At January 1, 2019	22,335	136,616	285,862	54,729	29,022	–	528,564
Charge for the year	4,141	76,456	54,003	10,543	1,789	–	146,932
Written back on disposals	–	(442)	(79,495)	(13,986)	(4,153)	–	(98,076)
At December 31, 2019 and January 1, 2020	26,476	212,630	260,370	51,286	26,658	–	577,420
Charge for the year	4,645	106,978	69,785	21,532	2,029	–	204,969
Written back on disposals	–	(4,576)	(35,545)	(4,737)	(3,196)	–	(48,054)
At December 31, 2020	31,121	315,032	294,610	68,081	25,491	–	734,335
Net book value:							
At December 31, 2019	196,120	947,990	401,598	36,785	5,422	281,825	1,869,740
At December 31, 2020	192,289	1,181,369	608,942	72,222	6,629	66,428	2,127,879

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

Notes:

(i) As at December 31, 2020, property certificates of certain properties and leasehold land with an aggregate net book value of RMB495,150,000 (2019: RMB349,352,000) is yet to be obtained.

(ii) Certain property, plant and equipment of the Group were pledged as security for bank loans. Details are set out as follows:

	2020 RMB'000	2019 RMB'000
Leasehold land	**14,217**	53,991
Plant and buildings	**157,341**	224,935
Aggregate carrying value of pledged property, plant and equipment	**171,558**	278,926

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2020 RMB'000	2019 RMB'000
Leasehold land	**192,289**	196,120
Plant and buildings	**224,890**	155,374
	417,179	351,494

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold land	**4,645**	4,141
Plant and buildings	**41,690**	36,973
	46,335	41,114
Interest on lease liabilities (Note 6(a))	**9,253**	7,122
Expense relating to short-term leases	**10,581**	7,558

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Right-of-use assets (Continued)

During the year ended December 31, 2020, additions to right-of-use assets was RMB112,020,000 (2019: RMB158,192,000). The additions included the increase of leasehold land of RMB814,000 (2019: RMB22,890,000) during the year ended December 31, 2020 and the remainder primarily related to the capitalized lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 24(e) and 26, respectively.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below.

	Lease liabilities recognised (discounted)		**Potential future lease payments under extension options not included in lease liabilities (undiscounted)**	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Plant and buildings	**128,994**	99,765	**–**	–

13 INTANGIBLE ASSETS

	Developed technology RMB'000	GSP licenses RMB'000	Product trademarks RMB'000	Total RMB'000
Cost:				
At January 1, 2019 and December 31, 2019	246,459	343	4,303	251,105
Business combination (Note 37)	60,700	–	–	60,700
At December 31, 2020	**307,159**	**343**	**4,303**	**311,805**
Accumulated amortization:				
At January 1, 2019	197,114	343	4,303	201,760
Charge for the year	15,577	–	–	15,577
At December 31, 2019 and January 1, 2020	**212,691**	**343**	**4,303**	**217,337**
Charge for the year	**17,360**	**–**	**–**	**17,360**
At December 31, 2020	**230,051**	**343**	**4,303**	**234,697**
Net book value:				
At December 31, 2019	33,768	–	–	33,768
At December 31, 2020	**77,108**	**–**	**–**	**77,108**

The Group's intangible assets as at December 31, 2020 represent developed technology, GSP licenses and product trademarks acquired by the Group in connection with the acquisitions of the Group's major operating subsidiaries in the PRC prior to January 1, 2017.

The addition of the Group's intangible assets during the year ended December 31, 2020 represents developed technology acquired by the Group in connection with the acquisition of a subsidiary BCY Pharm Co., Ltd. Further details of the business combination are set out in Note 37.

The amortization charge for the year is included in "cost of sales" and "research and development costs" in the consolidated statement of profit or loss.

14 GOODWILL

	2020 RMB'000	2019 RMB'000
Balance at the beginning of the year	142,474	142,474
Business combination (Note 37)	30,314	–
Balance at the end of the year	172,788	142,474

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the reportable segment. Goodwill is allocated to the Group's CGU as follows:

	2020 RMB'000	2019 RMB'000
Pharmaceutical business	142,474	142,474
BCY Pharm Co., Ltd. ("BCY")	30,314	–
	172,788	142,474

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management with the final year representing a steady state in the development of the business. Cash flows beyond the period are extrapolated using zero growth rate. The key assumptions used for the value in use calculations are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") growth rate in the projection period. The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the CGU. Budgeted EBITDA growth rate in the projection period was estimated taking into account revenue, gross margins and operating expenses based on past performance and its expectation for market development.

Key assumptions used for value-in-use calculations:

	2020	2019
Pre-tax discount rate		
Pharmaceutical business	14.7%	15.0%
BCY	24.0%	N/A
Budget period		
Pharmaceutical business	5 years	5 years
BCY	10 years	N/A

The estimated recoverable amount of the pharmaceutical business CGU exceeded its carrying amount as at December 31, 2020 by approximately RMB6,156,820,000 (2019: RMB5,705,333,000). The estimated recoverable amount of the BCY CGU exceeded its carrying amount as at December 31, 2020 by approximately RMB47,499,000.

(Expressed in Renminbi)

14 GOODWILL (Continued)

Management performed sensitivity analysis of two key assumptions that could significantly affect the recoverable amount. The following table shows the percentage point by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for carrying amount to equal recoverable amount (in percentage point)

	2020	2019
Pharmaceutical business		
Increase in discount rate	**+15.4%**	+32.7%
Decrease in budgeted EBITDA growth rate (average of next five years)	**–18.7%**	–21.4%
BCY		
Increase in discount rate	**+3.6%**	Not applicable
Decrease in budgeted EBITDA growth rate (average of next ten years)	**–4.1%**	Not applicable

The Group performs annual impairment test on goodwill at the end of the reporting year. The recoverable amount of the CGUs based on the value-in-use calculations is higher than the carrying amount as at December 31, 2020 and 2019. Accordingly, no impairment loss for goodwill has been recognized in the consolidated statements of profit or loss. Also, based on the sensitivity analysis above, the Group concluded that a reasonably possible change in key parameters would not cause the carrying amount of the CGU to exceed its recoverable amount as at December 31, 2020 and 2019.

15 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation and business/date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Jiangsu Simcere Pharmaceutical Technology Co., Ltd. (江蘇先聲醫藥科技有限公司) (Note (a))	The People's Republic of China ("PRC") August 14, 2017	United States Dollar ("USD") 201,500,000	100%	–	Investment holding
Simcere UK Limited	The United Kingdom December 20, 2017	Great Britain Pound ("GBP") 100	100%	–	Pharmaceutical related business development and cooperation
Oy Simcere Europe Ltd.	Finland September 14, 2007	Euro ("EUR") 2,500	100%	–	Pharmaceutical related business development and cooperation

(Expressed in Renminbi)

15 INVESTMENTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and business/date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Simcere Pharmaceutical Co., Ltd. (先聲藥業有限公司) (Note (a))	The PRC September 10, 1998	Chinese Yuan ("RMB") 1,380,287,820	–	100%	Manufacturing and sales of pharmaceutical products
Shanghai Xianyi Investment Management Partnership (Limited Partnership) (上海先益投資管理合夥企業(有限合夥)) (Note (b))	The PRC November 20, 2015	RMB468,000,000	–	100%	Investment holding
Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) (Note (a))	The PRC April 28, 1993	RMB221,110,900	–	100%	Manufacturing and sales of pharmaceutical products
Jiangsu Simcere Biological Pharmaceutical Co., Ltd. (江蘇先聲生物製藥有限公司) (Note (a))	The PRC July 10, 2017	RMB350,000,000	–	100%	Research and development and manufacturing of biopharmaceutical products
Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. (蕪湖先聲中人藥業有限公司) (Note (a))	The PRC September 19, 2008	RMB37,000,000	–	100%	Manufacturing and sales of pharmaceutical products
Simcere (Shanghai) Pharmaceutical Co., Ltd. (先聲(上海)醫藥有限公司) (Note (a))	The PRC December 16, 2011	RMB250,000,000	–	100%	Research and development of pharmaceutical products and property management
Nanjing BioSciKin Biotechnology Development Co., Ltd. (南京百家匯生物科技發展有限公司) (Note (a))	The PRC December 13, 2018	RMB72,910,000	–	100%	Dormant
Simcere International Limited	Hong Kong June 19, 2014	USD10,000,000	–	100%	Pharmaceutical related business development and cooperation
Simcere of America Inc.	The United States January 5, 2011	USD125	–	100%	Pharmaceutical related business development and cooperation and investment holding
Simcere Innovation, Inc.	The United States March 22, 2019	USD1	–	100%	Research and development of biopharmaceutical products

(Expressed in Renminbi)

15 INVESTMENTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and business/date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Jiangsu Simcere Pharmaceutical Co., Ltd. (江蘇先聲藥業有限公司) (Note (a))	The PRC March 28, 1995	RMB168,800,000	–	100%	Sales and distribution of pharmaceutical products and research and development of pharmaceutical products
Shanghai Simcere Pharmaceutical Co., Ltd. (上海先聲藥業有限公司) (Note (a))	The PRC July 20, 2000	RMB154,000,000	–	100%	Sales and distribution of pharmaceutical products
Zigong Yirong Industrial Co., Ltd. (自貢市益榮實業有限公司) (Note (a))	The PRC September 2, 2005	RMB2,380,000	–	100%	Manufacturing of pharmaceutical ingredients
Shandong Simcere Biopharmaceutical Co., Ltd. (山東先聲生物製藥有限公司) (Note (a))	The PRC June 30, 1999	RMB30,128,150	–	100%	Manufacturing and sales of pharmaceutical products
Simcere Biology Medical Technology Co., Ltd. (先聲生物醫藥科技有限公司) (Note (a))	The PRC March 14, 2012	RMB50,000,000	–	100%	Research and development of biopharmaceutical products
BCY Pharm Co., Ltd. (江蘇博創園生物醫藥科技有限公司) (Note (a))	The PRC October 28, 2011	RMB24,500,000	–	52.14%	Research and development of biopharmaceutical products
Simgene Group Limited	The Cayman Islands April 9, 2020	USD1	100%	–	Investment holding
Simgene LLC	The United States April 19, 2019	Not applicable	–	100%	Dormant
Simcere Industrial Co., Limited	Hong Kong August 28, 2017	Hong Kong dollar ("HKD") 1	–	100%	Investment holding
Shanghai Xianjing Biological Technology Co., Ltd. (上海先競生物科技有限公司) (Note (a))	The PRC April 23, 2020	USD nil	–	100%	Investment holding

15 INVESTMENTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and business/date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Shanghai Xianbo Biological Technology Co., Ltd. ("Shanghai Xianbo") (上海先博生物科技有限公司) (Note (a) and (c))	The PRC April 22, 2020	RMB nil	–	100%	Research and development and clinical trial of the cell therapies
Hainan Yaozhen Biology Medical Technology Co., Ltd. (海南耀臻生物醫藥科技有限公司(Note (a))	The PRC December 3, 2020	RMB nil	–	96.5%	Research and development of biopharmaceutical products

Notes:

(a) These entities are limited liability companies established in the PRC. The official names of these entities are in Chinese. The English translation of the company names is for identification purpose only.

(b) This entity is limited partnership established in the PRC. The official name of the entity is in Chinese. The English translation of the company name is for identification purpose only.

(c) Under the contractual arrangements between the Group and the registered shareholders of Shanghai Xianbo in April 2020, the Group acquired effective control over the financial and operational management and results of Shanghai Xianbo and is entitled to all the economic benefits derived from the operations of Shanghai Xianbo. Therefore, Shanghai Xianbo is a consolidated subsidiary of the Group.

The following table lists out the information relating to BCY Pharm Co., Ltd., the only subsidiary of the Group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	December 31, 2020 RMB'000
NCI percentage	47.86%
Current assets	29,030
Non-current assets	57,102
Current liabilities	(1,063)
Non-current liabilities	(14,163)
Net assets	70,906
Carrying amount of NCI	33,935
Revenue	–
Loss for the period	(10,962)
Total comprehensive income	(10,962)
Loss allocated to NCI	(5,247)
Cash flows from operating activities	(8,931)
Cash flows from investing activities	(96)
Cash flows from financing activities	22,120

(Expressed in Renminbi)

16 INTEREST IN ASSOCIATES

The following list contains the particulars of the Group's associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
Nanjing Bioheng Biotech Co., Ltd. ("Nanjing Bioheng") (Note i)	Incorporated	The PRC	RMB 8,947,296	16%	–	16%	Research and development of biopharmaceutical products
BCY Pharm Co., Ltd. (Note ii)	Incorporated	The PRC	RMB 24,500,000	52%	–	52%	Research and development of biopharmaceutical products
Xuancheng Menovo Pharmaceutical Co., Ltd. ("Xuancheng Menovo") (Note iii)	Incorporated	The PRC	RMB 196,078,500	0%	–	0%	Development and manufacturing of pharmaceutical ingredients
3D Biological Medicines (Shanghai) Co., Ltd. ("3D Medicines") (Note iv)	Incorporated	The PRC	USD 83,088,060	9.6%	–	9.6%	Research and development of biopharmaceutical products

Notes:

(i) In April 2018, the Group acquired 20% of the equity interest in Nanjing Bioheng through capital injection of RMB20,000,000. The investment in Nanjing Bioheng, an innovative biopharmaceutical company focusing on disease treatment and service, enables the Group to have exposure to the development and clinical transformation of new immunotherapy for tumor through local expertise. In January 2019, the proportion of the Group's interest in Nanjing Bioheng has been diluted to 16% due to the new financing obtained by Nanjing Bioheng. The Group has a right to appoint one director to the board of Nanjing Bioheng in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group can cast significant influence on Nanjing Bioheng and consider it is an associate of the Group.

(ii) In July 2019, the Group acquired 33% of the equity interest in BCY Pharm Co., Ltd. from a fellow subsidiary, BioSciKin Precision Medical Holding Group Co., Ltd., at a consideration of RMB33,429,000. The investment in BCY Pharm Co., Ltd., a company engaged in research and development of innovative biopharmaceutical products focusing on treatment of psoriasis, enables the Group to explore commercialization cooperation opportunities in relevant sector.

On April 30, 2020, Nanjing BioSciKin Biotechnology Development Co., Ltd., the Group's wholly owned subsidiary incorporated in the PRC, entered into an agreement with BCY Pharm Co., Ltd. and its shareholders, and acquired additional 19.14% equity interest of BCY Pharm Co., Ltd., through additional capital injection of RMB40,000,000. Upon the completion of the transaction on May 13, 2020, the Group held 52.14% equity interest in BCY Pharm Co., Ltd. and BCY Pharm Co., Ltd. became a subsidiary of the Group.

(iii) In June 2019, the Group acquired 49% of the equity interest in Xuancheng Menovo through capital injection of RMB111,680,000. Xuancheng Menovo, being a subsidiary of Ningbo Menovo Pharmaceutical Co., Ltd., a company listed on the main board of Shanghai Stock Exchange, is a business partner of the Group in development and manufacturing of pharmaceutical ingredients. On July 30, 2020, Simcere Pharmaceutical, the Group's wholly owned subsidiary incorporated in the PRC, entered into a share transfer agreement with a third party partnership established in the PRC, and disposed 49% equity interest of the Group's associate incorporated in the PRC, Xuancheng Menovo, at a cash consideration of RMB118,418,000. The gain on this disposal on interest in associates is RMB8,963,000.

(iv) In December 2019, the Group signed a capital injection agreement with original shareholders of 3D Medicines and 3D Medicines to inject US$40,000,000 capital in exchange of 17.9% of equity interest of 3D Medicines. As of December 31, 2020, the Group injected US$30,000,000 (equivalent to RMB210,351,000) which represents an effective ownership interest of 9.6%. The remaining capital will be injected to 3D Medicines upon the completion of certain conditions as stipulated in the capital injection agreement. 3D Medicines is a company engaged in research and development of innovative biopharmaceutical products and immune-oncology therapies. The investment in 3D Medicines enhances the Group's further exploration and development in the relevant sector. The Group has a right to appoint two directors to the board of 3D Medicines in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group can cast significant influence on 3D Medicines and consider it is an associate of the Group.

16 INTEREST IN ASSOCIATES (Continued)

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Summarized financial information of the material associates, Xuancheng Menovo and 3D Medicines, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements are disclosed below:

	December 31, 2019 RMB'000
Gross amounts of Xuancheng Menovo's	
Current assets	69,087
Non-current assets	382,585
Current liabilities	(136,750)
Non-current liabilities	(120,600)
Equity	194,322
Revenue	9,747
Loss from continuing operations	(8,259)
Other comprehensive income	–
Total comprehensive income	(8,259)
Reconciled to the Group's interest in Xuancheng Menovo	
Gross amounts of net assets of Xuancheng Menovo	194,322
Group's effective interest	49%
Group's share of net assets of Xuancheng Menovo	95,218
Goodwill	13,582
Carrying amount of in the consolidated financial statements	108,800
Group's share of Xuancheng Menovo's	
Loss from continuing operations	(2,880)
Other comprehensive income	–
Total comprehensive income	(2,880)

	December 31, 2020 RMB'000
Group's share of Xuancheng Menovo's	
Gain from continuing operations	**655**
Other comprehensive income	**–**
Total comprehensive income	**655**

16 INTEREST IN ASSOCIATES (Continued)

	December 31, 2020 RMB'000
Gross amounts of 3D Medicines's	
Current assets	498,721
Non-current assets	1,337,423
Current liabilities	(70,894)
Non-current liabilities	(190,705)
Equity	1,574,545
Revenue	277
Loss from continuing operations	(183,234)
Other comprehensive income	–
Total comprehensive income	(183,234)
Reconciled to the Group's interest in 3D Medicines	
Gross amounts of net assets of 3D Medicines	1,574,545
Group's effective interest	9.60%
Group's share of net assets of 3D Medicines	151,100
Goodwill	55,615
Carrying amount of in the consolidated financial statements	206,715
Group's share of 3D Medicines's	
Loss from continuing operations	(15,997)
Other comprehensive income	–
Total comprehensive income	(15,997)
Gain on dilution of interest in 3D Medicines	12,361
	(3,636)

The Group assesses whether this is any objective evidence that its interest in the associates are impaired at the end of each reporting period by considering the associates' business development process, any significant financial difficulty, default or bankruptcy encountered by the associates and adverse change in technological, market, economic or legal environment. Based on the assessment above, the Group concluded that no impairment indicator was identified at the end of each reporting period and no impairment loss of interest in associates is considered necessary to be recognized in the consolidated statements of profit or loss.

16 INTEREST IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material:

	2020 RMB'000	2019 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**4,433**	50,564

	2020 RMB'000	2019 RMB'000
Aggregate amounts of the Group's share of those associates'		
Loss from continuing operations	**(10,893)**	(5,249)
Other comprehensive income	**–**	–
Total comprehensive income	**(10,893)**	(5,249)

17 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture as at December 31, 2020 which is accounted for using equity method in the consolidated financial statements are set out below:

Name of Joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Simnogen Biotech Ltd.	Incorporated	The PRC	USD4,000,000	51%	–	51%	Research and development of innovative pharmaceuticals and vaccine products

In June 2019, the Group acquired 51% of the equity interest in Simnogen Biotech Ltd. from a fellow subsidiary, BioSciKin Precision Medical Holding Group Co., Ltd., at a consideration of RMB5,200,000. Simnogen Biotech Ltd. is mainly engaged in research and development of innovative pharmaceutical and vaccine products. According to the articles of association, no single investor is in a position to control the investors' meeting nor no single director appointed by either investor is in a position to control the board of directors. Therefore, the directors of the Company consider that the Group does not have the ability to use its power over Simnogen Biotech Ltd. to affect its returns through its involvement and deem it to be a joint venture of the Group rather than a subsidiary.

Simnogen Biotech Ltd., the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

17 INTEREST IN A JOINT VENTURE (Continued)

Information of the joint venture that is not individually material:

	December 31, 2020 RMB'000	December 31, 2019 RMB'000
Carrying amount of the joint venture in the consolidated financial statements	4,672	5,065
Amount of the Group's share of the joint venture's		
Loss from continuing operations	(393)	(135)
Other comprehensive income	–	–
Total comprehensive income	(393)	(135)

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Equity securities designated at FVOCI (non-recycling)		
– Listed equity securities	297,232	43,179
– Unlisted equity securities	30,423	114,010
	327,655	157,189

The listed equity securities at FVOCI (non-recycling), represent investment in listed equity securities issued by listed companies incorporated in the United States. The unlisted equity securities at FVOCI (non-recycling), represent investment in unlisted equity interest in private entities incorporated in the PRC and the Cayman Islands. These investments are engaged in research and development of innovative pharmaceutical products.

The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the year ended December 31, 2020 and 2019.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 36(e).

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Financial assets at FVPL – non-current		
– Unlisted investments	**73,603**	64,115
– Unlisted units in investment funds	**1,158,098**	837,726
	1,231,701	901,841
Financial assets at FVPL – current		
– Structured deposits and wealth management products	**–**	543,938
	1,231,701	1,445,779

The Group's non-current balances of financial assets at FVPL represent investments in private entities incorporated in the PRC, the United States, the Cayman Islands and Singapore and units in investment funds incorporated in the PRC, the United States and the Cayman Islands. The Company's non-current balances of financial assets at FVPL represent investments in a private entity incorporated in the United States and units in an investment fund incorporated in the Cayman Islands. These investments are primarily engaged or further invested in the healthcare and pharmaceutical sectors.

The Group's current balances of financial assets at FVPL mainly represent structured deposits and wealth management products issued by various financial institutions in the PRC with a floating return which will be paid together with the principal on the maturity date.

The analysis on the fair value measurement of the Group's above financial assets is disclosed in Note 36(e).

20 TRADING SECURITIES

	2020 RMB'000	2019 RMB'000
Listed equity securities	**3,634**	3,058

The analysis on the fair value measurement of the above financial assets is disclosed in Note 36(e).

21 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	2020 RMB'000	2019 RMB'000
Raw materials	86,649	82,364
Semi-finished goods	39,337	40,070
Finished goods	153,159	131,342
	279,145	253,776
Write down of inventories	(16,472)	(5,602)
	262,673	248,174

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	659,010	671,616
Provision for write-down of inventories	20,962	5,745
	679,972	677,361

All inventories are expected to be recovered within one year.

22 TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	1,522,578	985,117
Bills receivable	369,275	364,585
	1,891,853	1,349,702
Less: loss allowance	(20,841)	(12,786)
	1,871,012	1,336,916

All of the trade and bills receivables are expected to be recovered within one year.

22 TRADE AND BILLS RECEIVABLES (Continued)

Aging analysis

As of the end of the reporting period, the aging analysis of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	1,553,979	1,072,544
Over 3 months but within 12 months	315,238	264,272
Over 12 months	1,795	100
	1,871,012	1,336,916

Trade and bills receivables are due within 30–90 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 36(a).

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Current		
Prepayments for raw materials and expenses	48,453	52,215
Value added tax recoverable	25,280	30,337
Other deposits and receivables	49,651	41,078
	123,384	123,630
Less: loss allowance	(2,827)	(4,147)
	120,557	119,483
Non-current		
Prepayments for property, plant and equipment	63,534	64,739
Deposits for investments	50,000	260,351
	113,534	325,090

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

All of prepayments, deposits and other receivables current balances are expected to be recovered or recognized as expense within one year.

The Group's deposits for investments as at December 31, 2019 represent the amount paid by the Group in connection with the Group's proposing investments with 3D Medicines and a third party company in the PRC which is principally engaged in research and development and application of investigational new drug. During the year ended December 31, 2020, the investment with 3D Medicines was completed. At December 31, 2020, the remaining investment transaction was yet to be completed.

24 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS

(a) Cash and cash equivalents comprise:

	2020 RMB'000	2019 RMB'000
Cash at bank	**3,270,241**	354,760
Cash in hand	**–**	44
	3,270,241	354,804

(b) Pledged deposits and restricted deposits comprise:

	2020 RMB'000	2019 RMB'000
Pledged deposits for		
– issuance of bills payable and letters of credit	**1,777**	962
– banking facilities	**915,600**	290,000
	917,377	290,962

	2020 RMB'000	2019 RMB'000
Restricted deposits for		
– research and development projects	**3**	–

The pledged deposits will be released upon the settlement of the relevant bills payable and letters of credit by the Group or the termination of relevant banking facilities. The restricted deposits will be used for funding certain research and development projects.

24 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(c) Reconciliation of profits before taxation to cash generated from operations

	NOTE	2020 RMB'000	2019 RMB'000
Profit before taxation		805,088	1,081,815
Adjustments for:			
Depreciation of property, plant and equipment	6(c)	204,969	146,932
Amortization of intangible assets	6(c)	17,360	15,577
Net finance costs	6(a)	107,481	81,231
Share of losses of associates	16	13,874	8,129
Share of losses of a joint venture	17	393	135
Net loss on disposal of property, plant and equipment	5(b)	3,361	3,483
Net realized and unrealized gains on trading securities	5(b)	(627)	(819)
Net realized and unrealized gains on financial assets at fair value through profit or loss	5(b)	(464,309)	(20,238)
Gain on disposal of a subsidiary	5(b)	(1,552)	–
Gain on disposal of interest in associates	5(b)	(8,963)	–
Gain arising from business combination	37	(1,762)	–
Equity settled share-based payment expenses	32	32,797	14,151
Increase in provision	30	100,700	–
Impairment loss on trade and other receivables	6(c)	6,735	1,657
Provision for write-down of inventories	6(c)	20,962	5,745
Other revenue from asset-related government grants	5(a)	(32,384)	(10,255)
Foreign exchange loss on bank loans		10,154	997
Operating profit before changes in working capital		814,277	1,328,540
(Increase)/decrease in pledged deposits for issuance of bills payable and letters of credit and restricted deposits		(818)	50,976
Increase in inventories		(35,461)	(20,050)
Increase in trade and bills receivables		(542,151)	(386,394)
Decrease/(increase) in prepayments, deposits and other receivables		1,341	(39,797)
Decrease in trade and bills payables		(13,231)	(52,706)
Increase in other payables and accruals		21,517	174,219
Increase/(decrease) in income-related deferred income		5,925	(17,128)
Cash generated from operations		251,399	1,037,660

24 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(d) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	Bank loans RMB'000 (Note 25)	Loans from related parties RMB'000	Lease liabilities RMB'000 (Note 26)	Total RMB'000
At January 1, 2019	2,057,340	203,852	56,668	2,317,860
Changes from financing cash flows:				
Proceeds from bank loans	2,605,640	–	–	2,605,640
Repayment of bank loans	(1,883,549)	–	–	(1,883,549)
New loans from related parties	–	11,796	–	11,796
Repayment of loans from related parties	–	(141,793)	–	(141,793)
Capital element of lease rentals paid	–	–	(34,163)	(34,163)
Interest element of lease rentals paid	–	–	(7,122)	(7,122)
Interest paid	(105,940)	(35,251)	–	(141,191)
Total changes from financing cash flows	616,151	(165,248)	(41,285)	409,618
Exchange adjustments	997	–	–	997
Other changes:				
Increase in lease liabilities from entering into new leases during the year	–	–	135,302	135,302
Interest expenses (Note 6(a))	102,227	6,606	7,122	115,955
Net settlement of amount due from and due to related parties	–	(45,210)	–	(45,210)
Capitalized borrowing costs (Note 6(a))	6,434	–	–	6,434
Total other changes	108,661	(38,604)	142,424	212,481
At December 31, 2019	2,783,149	–	157,807	2,940,956

24 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(d) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans RMB'000 (Note 25)	Loans from related parties RMB'000	Lease liabilities RMB'000 (Note 26)	Total RMB'000
At January 1, 2020	2,783,149	–	157,807	2,940,956
Changes from financing cash flows:				
Proceeds from bank loans	2,056,618	–	–	2,056,618
Repayment of bank loans	(1,789,365)	–	–	(1,789,365)
New loans from related parties	–	35,506	–	35,506
Repayment of loans from related parties	–	(35,506)	–	(35,506)
Capital element of lease rentals paid	–	–	(37,485)	(37,485)
Interest element of lease rentals paid	–	–	(9,253)	(9,253)
Interest paid	(131,627)	(298)	–	(131,925)
Total changes from financing cash flows	135,626	(298)	(46,738)	88,590
Exchange adjustments	10,154	–	–	10,154
Other changes:				
Increase in lease liabilities from entering into new leases during the year	–	–	111,206	111,206
Interest expenses (Note 6(a))	124,178	298	9,253	133,729
Capitalized borrowing costs (Note 6(a))	9,381	–	–	9,381
Decrease in deferred income related to bank loans	6,002	–	–	6,002
Total other changes	139,561	298	120,459	260,318
At December 31, 2020	3,068,490	–	231,528	3,300,018

24 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS (Continued)

(e) Total cash flow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within operating cash flows	10,581	7,558
Within investing cash flows	814	22,890
Within financing cash flows	46,738	41,285
	58,133	71,733

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Lease rentals paid	57,319	48,843
Increase in leasehold land	814	22,890
	58,133	71,733

25 BANK LOANS

The maturity profile for the interest-bearing bank loans of the Group at the end of each reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Short-term bank loans	1,560,740	1,508,765
Current portion of long-term bank loans	232,200	135,213
Within 1 year or on demand	1,792,940	1,643,978
After 1 year but within 2 years	1,231,450	222,608
After 2 years but within 5 years	44,100	903,902
More than 5 years	–	12,661
	1,275,550	1,139,171
	3,068,490	2,783,149

25 BANK LOANS (Continued)

The bank loans were secured as follows:

	2020 RMB'000	2019 RMB'000
Bank loans		
– Secured	**1,992,450**	1,523,149
– Unsecured	**1,076,040**	1,260,000
	3,068,490	2,783,149

Notes:

(i) The Group's bank loans were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	2020 RMB'000	2019 RMB'000
Leasehold land (Note 12)	**14,217**	53,991
Plants and buildings (Note 12)	**157,341**	224,935
Financial assets at fair value through profit or loss (Note 19)	**–**	400,000
Pledged deposits (Note 24(b))	**915,600**	290,000
	1,087,158	968,926

(ii) Certain bank facilities granted to the Group were guaranteed by Mr. Ren Jinsheng, the ultimate controlling shareholder of the Group, and his spouse Ms. Wang Xi, and Nanjing BioSciKin Technology Development Co., Ltd. at December 31, 2020. This company is controlled by the ultimate controlling shareholder of the Group.

	2020 RMB'000	2019 RMB'000
Guarantees and pledges to banks for granting banking facilities	**547,800**	783,500

26 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each reporting period:

	2020		2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	38,098	46,533	26,206	32,505
After 1 year but within 2 years	38,751	45,630	26,696	31,801
After 2 years but within 5 years	100,547	112,019	86,135	94,068
After 5 years	54,132	58,033	18,770	19,369
	193,430	215,682	131,601	145,238
	231,528	262,215	157,807	177,743
Less: total future interest expenses		(30,687)		(19,936)
Present value of lease liabilities		231,528		157,807

27 TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	115,462	93,165
Bills payable	126,615	161,686
	242,077	254,851

27 TRADE AND BILLS PAYABLES (Continued)

As of the end of the reporting period, the aging analysis of trade and bills payables, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	191,610	172,961
3 to 12 months	48,617	79,838
Over 12 months	1,850	2,052
	242,077	254,851

All of the trade and bills payables are expected to be settled within one year or repayable on demand.

28 OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Accrued expenses (Note i)	719,708	782,754
Contract liabilities (Note ii)	18,762	16,675
Payable for employee reimbursements	139,552	83,558
Payables for staff related costs	235,162	191,223
Payables for purchase of property, plant and equipment	58,469	66,020
Cash received under share incentive scheme	–	112,029
Other tax payables	60,950	60,099
Others	90,740	105,587
	1,323,343	1,417,945

All of the other payables and accruals are expected to be settled within one year or repayable on demand.

Notes:

(i) Accrued expenses primarily comprise marketing and promotion expenses, research and development costs and other expenses.

(ii) Contract liabilities represent customers' advances received for goods that have not yet been transferred to the customers.

29 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	85,219	81,067
Provision for PRC Corporate Income Tax for the year	50,215	197,100
Effect of PRC withholding tax on dividends	–	71,300
Effect of PRC Corporate Income Tax on disposal of financial assets at fair value through other comprehensive income	2,057	–
(Over)/under-provision in respect of prior years	(4,158)	609
Tax paid	(154,668)	(264,857)
At the end of the year	(21,335)	85,219
Represented by:		
Taxation recoverable	(21,335)	(306)
Taxation payable	–	85,525
	(21,335)	85,219

(b) Deferred tax assets and liabilities recognized represents:

(i) The components of deferred tax assets recognized in the consolidated statements of financial position and the movements during the year are as follows:

	Provision for asset impairment RMB'000	Unrealized profits on inventories RMB'000	Deductible tax losses RMB'000	Depreciation of property, plant and equipment RMB'000	Fair value change of financial assets RMB'000	Government grants RMB'000	Accrued expenses RMB'000	Other temporary differences RMB'000	Total RMB'000
At January 1, 2019	4,611	37,594	15,439	3,453	16,390	9,641	106,224	4,975	198,327
Recognized in profit or loss	(234)	72,829	(3,429)	(1,153)	9,165	59,733	(3,862)	(2,230)	130,819
Recognized in other comprehensive income	–	–	–	–	1,278	–	–	–	1,278
At December 31, 2019 and January 1, 2020	4,377	110,423	12,010	2,300	26,833	69,374	102,362	2,745	330,424
Recognized in profit or loss	5,252	(14,988)	34,290	(665)	(15,941)	(874)	(148)	2,829	9,755
Recognized in other comprehensive income	–	–	–	–	(6,528)	–	–	–	(6,528)
At December 31, 2020	9,629	95,435	46,300	1,635	4,364	68,500	102,214	5,574	333,651

29 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognized represents: (Continued)

(ii) The components of deferred tax liabilities recognized in the consolidated statements of financial position and the movements during the year are as follows:

	Fair value adjustment arising from business combination RMB'000	Depreciation of property, plant and equipment RMB'000	Fair value change of financial assets RMB'000	Undistributed profits RMB'000	Other temporary differences RMB'000	Total RMB'000
At January 1, 2019	10,825	23,301	14,513	182,008	1,619	232,266
Recognized in profit or loss	(2,014)	36,608	15,525	(38,620)	(198)	11,301
Effect of PRC withholding tax on dividends	–	–	–	(71,300)	–	(71,300)
Exchange adjustment	–	–	63	–	–	63
At December 31, 2019 and January 1, 2020	**8,811**	**59,909**	**30,101**	**72,088**	**1,421**	**172,330**
Business combination (Note 37)	**15,175**	**–**	**–**	**–**	**–**	**15,175**
Recognized in profit or loss	**(6,363)**	**18,247**	**83,267**	**10,005**	**(657)**	**104,499**
Recognized in other comprehensive income	**–**	**–**	**28,456**	**–**	**–**	**28,456**
Exchange adjustment	**–**	**–**	**(3,304)**	**–**	**–**	**(3,304)**
At December 31, 2020	**17,623**	**78,156**	**138,520**	**82,093**	**764**	**317,156**

(iii) Reconciliation to the consolidated statements of financial position:

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognized in the consolidated statements of financial position	**210,093**	274,698
Net deferred tax liabilities recognized in the consolidated statements of financial position	**(193,598)**	(116,604)
	16,495	158,094

29 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(s), the Group did not recognize deferred tax assets of RMB88,703,000 (2019: RMB25,978,000), in respect of cumulative tax losses RMB372,838,000 (2019: RMB107,236,000) as at December 31, 2020. The Group did not recognize deferred tax assets of RMB44,445,000 (2019: RMB49,849,000), in respect of cumulative time differences RMB163,409,000 (2019: RMB177,557,000) as at December 31, 2020. It was not probable that future taxable profits against which the losses and time differences can be utilized will be available in the relevant tax jurisdiction and entities.

(d) Deferred tax liabilities not recognized

For the year ended December 31, 2020, the Group did not recognize deferred tax liabilities of RMB21,535,000 (2019: RMB35,394,000), in respect of distributable profits of the Group's PRC subsidiaries amounted to RMB430,702,000 (2019: RMB707,874,000), as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that certain portion of the undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future in accordance with the Group's dividend policy. As at December 31, 2020, the deferred tax liabilities not recognized in respect of distributable profits of the Group's PRC subsidiaries is RMB56,929,000 (2019: RMB35,394,000).

30 PROVISION

Provision for the year ended December 31, 2020

	RMB'000
At January 1, 2020	–
Provision made during the year	100,700
At December 31, 2020	100,700

On September 11, 2020, the Group received an investigation notice from State Administration for Market Regulation of the PRC (the "SAMR") in respect of the alleged claim of abuse of a dominant market position in connection with an exclusive supply arrangement of raw materials with an overseas third party supplier. On January 22, 2021, the Group were imposed a penalty of RMB100,700,000 by SAMR for the results from this investigation. The Group made full provision for this matter for the year ended December 31, 2020.

31 DEFERRED INCOME

As at December 31, 2020, deferred income represented unamortized conditional government grants amounting to RMB447,950,000 (2019: RMB470,525,000) for plant relocation and construction and encouragement of technology research and development.

Deferred income is recognized as income upon the satisfaction of acceptance standards, completion of the relocation or amortized over the useful life of the related property, plant and equipment upon the completion of the construction.

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Pre-IPO Share Incentive Scheme

On July 31, 2014, the board of directors of the Company's immediate parent company, SPHL, adopted the Restricted Share Incentive Scheme (the "Pre-IPO Share Incentive Scheme") and would grant up to 5,583,613 restricted shares of SPHL on March 31, 2015, April 30, 2016 and April 30, 2018 in tranches. The restricted shares were granted to the directors and employees of the Company and its subsidiaries (the "Participants") at a price of RMB20 or at nil price per each restricted share. Each restricted share gives the holder a right to receive one ordinary share of SPHL pursuant to the conditions provided for under the Pre-IPO Share Incentive Scheme at the end of the respective vesting period. If the performance conditions or service conditions are not fulfilled and the corresponding tranche of restricted shares granted cannot be vested, the unvested restricted shares will be repurchased and the grant price paid by the Participants will be repaid to the Participants.

On December 10, 2015, in connection with the Pre-IPO Share Incentive Scheme, Excel Management Company Limited ("Excel Management"), as the trustee, executed a declaration of trust, pursuant to which it was established to hold shares of SPHL, for the benefit of the Participants of the Pre-IPO Share Incentive Scheme. On July 8, 2016, SPHL allotted and issued 5,583,613 shares to Excel Management, through ArtKing Global Limited, a company controlled by the ultimate controlling shareholder of the Group. Such 5,583,613 shares of SPHL held by Excel Management was for the purpose of the Pre-IPO Share Incentive Scheme.

As part of the reorganization, on June 21, 2019, the Company allotted and issued 54,719,407 ordinary shares to Excel Management to enable that Excel Management's shareholding in the Company, whether directly or indirectly, will not be diluted as a result of allotment of ordinary shares to other equity shareholders of the Company.

During 2015 and 2016, 507,500 restricted shares, which were forfeited subsequent to the respective grant dates due to not achieving relevant service conditions, were repurchased at the grant price by SPHL through Excel Management.

On October 1, 2019, the board of directors of SPHL, approved a new grant of 1,023,000 restricted shares, of which 507,500 restricted shares were previously repurchased by SPHL through Excel Management and the remaining 515,500 restricted shares were held by Mr. Ren Jinsheng through Excel Management. The restricted shares were granted to the Participants at a price of RMB50 per each restricted share or at nil price. Each restricted share gives the holder a right to receive the underlying ordinary share held by Excel Management pursuant to the conditions provided for under the Pre-IPO Share Incentive Scheme at the end of the respective vesting period.

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) The terms and conditions of the grants are as follows:

	Number of Restricted shares	Vesting period	Price per restricted share RMB
Restricted shares granted to directors and employees:			
– on March 31, 2015	1,605,613	March 31, 2015 – March 31, 2017	Nil
– on March 31, 2015	1,662,500	March 31, 2015 – March 31, 2017	20
– on March 31, 2015	30,000	March 31, 2015 – April 30, 2018	Nil
– on March 31, 2015	1,264,500	March 31, 2015 – April 30, 2018	20
– on March 31, 2015	61,500	March 31, 2015 – November 30, 2018	20
– on March 31, 2015	30,000	March 31, 2015 – April 30, 2020	Nil
– on March 31, 2015	707,500	March 31, 2015 – April 30, 2020	20
– on April 30, 2016	66,500	April 30, 2016 – April 30, 2018	20
– on April 30, 2018	155,500	April 30, 2018 – April 30, 2020	20
– on October 1, 2019	180,000	October 1, 2019 – December 31, 2021	Nil
– on October 1, 2019	843,000	October 1, 2019 – December 31, 2021	50

Vesting of the restricted shares is conditional upon the operating performance of the Group and the service conditions of the Participants. There were no market conditions associated with the restricted shares.

(b) A summary of restricted shares outstanding for the year ended December 31, 2020 and 2019:

	2020		2019	
	Weighted average grant-date fair value RMB	**Number of restricted shares '000**	Weighted average grant-date fair value RMB	Number of restricted shares '000
Balance at the beginning of the year	**51.42**	**1,916**	17.42	893
Grant during the year	**–**	**–**	81.10	1,023
Vested during the year	**17.42**	**(893)**	–	–
Forfeited during the year	**79.65**	**(136)**	–	–
Balance at the end of the year	**81.32**	**887**	51.42	1,916

As at December 31, 2020, the average remaining vesting period of the restricted shares granted under the Pre-IPO Share Incentive Scheme was 1 year (2019: 1.22 years).

(Expressed in Renminbi)

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of restricted shares granted

The grant-date fair values of each restricted shares granted are set out below:

	Grant price of each restricted share		
Grant date	**RMB50**	**RMB20**	**RMB nil**
March 31, 2015	Not applicable	RMB11.81	RMB31.81
April 30, 2016	Not applicable	RMB16.38	Not applicable
April 30, 2018	Not applicable	RMB40.16	Not applicable
October 1, 2019	RMB72.30	Not applicable	RMB122.30

The grant-date fair value of the restricted shares granted is measured at the difference between the fair value of the underlying ordinary shares and the grant price at the respective grant dates.

Share-based payment expense of RMB32,797,000 (2019: RMB14,151,000) is recognized as staff costs in the consolidated statements of profit or loss for the year ended December 31, 2020.

As at December 31, 2020, RMB Nil (2019: RMB112,029,000) was received from the Participants on behalf of SPHL and recorded under "Other payables and accruals" in the consolidated statements of financial position.

33 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

			Reserves			
	NOTE	Share capital RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at January 1, 2019		34	2,085,626	(4,289)	7,316	2,088,687
Changes in equity for 2019:						
Profit and total comprehensive income for the year		–	–	1,568	662,796	664,364
Ordinary shares issued	33(c)	176	–	–	–	176
Appropriation of dividends	33(b)	–	–	–	(635,070)	(635,070)
Balance at December 31, 2019 and January 1, 2020		**210**	**2,085,626**	**(2,721)**	**35,042**	**2,118,157**
Changes in equity for 2020:						
Issue of ordinary shares by initial public offering and over-allotment, net of issuance costs		**3,002,661**	**–**	**–**	**–**	**3,002,661**
Profit and total comprehensive income for the year		**–**	**–**	**(93,460)**	**(131,306)**	**(224,766)**
Balance at December 31, 2020		**3,002,871**	**2,085,626**	**(96,181)**	**(96,264)**	**4,896,052**

(b) Dividends

(i) Dividend payable to equity shareholders of the Company attribute to the year:

	2020 RMB'000	2019 RMB'000
Dividends proposed after the end of the reporting period of RMB0.15 per ordinary share	**391,296**	–

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

33 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends (Continued)

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial years, declared and approved during the year:

	2020 RMB'000	2019 RMB'000
Dividends in respect of previous financial years declared and approved	**–**	635,070

(c) Share capital

	NOTE	Number of Shares	HKD
Ordinary shares, issued and fully paid:			
At January 1, 2019		40,000	40,000
Ordinary shares issued	(i)	2,345,077,618	194,512
At December 31, 2019 and January 1, 2020		**2,345,117,618**	**234,512**
Issues of ordinary shares by initial public offering	(ii)	**263,524,000**	**3,474,545,000**
At December 31, 2020		**2,608,641,618**	**3,474,779,512**

Notes:

(i) Pursuant to a written resolution of the board of directors of the Company passed on June 21, 2019, the share capital of the Company increased from HKD40,000 (RMB34,000 equivalent) to HKD234,512 (RMB210,000 equivalent) by the creation of additional 2,345,077,618 ordinary shares at nominal value.

(ii) On 27 October 2020, the Company issued 260,569,000 shares at an offer price of HKD13.70 per share by way of public offering to Hong Kong and overseas investors. Net proceeds from these issues amounted to HKD3,435,111,000 (RMB2,968,578,000 equivalent) (after offsetting costs directly attributable to the issue of shares of HKD134,684,000), which were recorded in share capital.

On 18 November 2020, pursuant to the partly exercise of the over-allotment option by the joint global coordinators of the initial public offering, the Company allotted and issued an additional 2,955,000 shares at the offer price of HKD13.70 per share. The additional net proceeds from the exercise of over-allotment option amounted to HKD39,434,000 (RMB34,083,000 equivalent) (after offsetting costs directly attributable to the issue of shares of HKD1,050,000), which were recorded in share capital.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

33 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) Other reserve

Other reserve primarily represented: (i) the paid-in capital of Simcere Pharmaceutical and Hainan Simcere prior to the transactions in June and August 2017 respectively, during the course of the reorganization under common control; (ii) the difference between the carrying value of the net assets acquired and the consideration paid for the acquisition of subsidiaries and non-controlling interests prior to the January 1, 2017 and during the course of the reorganization under common control; (iii) the accumulated share based compensation for the unexercised share options, which were cancelled upon the privatization of the former holding company of the Group's substantial operating business, Simcere Investments Group (formerly known as Simcere Pharmaceutical Group); and (iv) the portion of the grant date fair value of restricted shares granted by SPHL to the directors of the Company and employees of the Group that has been recognized in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii).

(ii) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(v).

(iv) Fair value reserves (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see Note 2(g)).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintaining a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

33 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management (Continued)

The Group monitors its capital structure on the basis of an adjusted net gearing ratio. For this purpose, the Group defines net debt as total current and non-current bank loans, loans from related parties and lease liabilities less cash and cash equivalents and pledged deposits. The Group defines capital as including all components of equity.

The Group's adjusted net debt to capital ratio are as follows:

	2020 RMB'000	2019 RMB'000
Current liabilities:		
Bank loans	1,792,940	1,643,978
Lease liabilities	38,098	26,206
	1,831,038	1,670,184
Non-current liabilities:		
Bank loans	1,275,550	1,139,171
Lease liabilities	193,430	131,601
	1,468,980	1,270,772
Total borrowings	3,300,018	2,940,956
Add: Proposed dividends	391,296	–
Less: Cash and cash equivalents	(3,270,241)	(354,804)
Pledged and restricted deposits	(917,380)	(290,962)
Adjusted net debt (Note (a))	–	2,295,190
Total equity	5,335,724	1,480,464
Less: Proposed dividends	(391,296)	–
Adjusted capital	4,944,428	1,480,464
Adjusted net debt to capital ratio	0%	155%

(a) Net debt is zero when the amount of cash and cash equivalent and pledged deposits of the Group is higher than gross debt.

34 CAPITAL COMMITMENTS

Capital commitments outstanding at the respective year end not provided for in the consolidated financial statements are as follows:

	2020 RMB'000	2019 RMB'000
Contracted for	**127,910**	285,066
Represented by:		
Construction of plant and buildings	**113,096**	219,672
Acquisition of machinery and equipment	**14,814**	65,394
	127,910	285,066

35 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9 is as follows:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	**30,708**	18,637
Contributions to defined contribution retirement plans	**176**	257
Equity settled share-based payment expenses	**14,503**	4,214
	45,387	23,108

Total remuneration is included in "staff costs" (see Note 6(b)).

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Names and relationships of the related parties that had other material transactions with the Group:

Name of related party	Relationship
Mr. Ren Jinsheng	Ultimate controlling shareholder of the Group
Ms. Wang Xi	The spouse of the ultimate controlling shareholder of the Group
Simcere Pharmaceutical Holding Limited	Immediate parent of the Group
Xuancheng Menovo Pharmaceutical Co., Ltd.	Associate of the Group
BCY Pharm Co., Ltd.	Associate of the Group
Jiangsu Simcare Pharmaceutical Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Simcare Jiangsu Pharmaceutical Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Beijing Sanroad Biological Products Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Fuantang Pharmaceutical Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Jiangsu Yoai Technology Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Beijing Xiangxiang Wuxian Technology Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
BioSciKin Precision Medical Holding Group Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Medway Culture Media Co. Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Asset Management Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Simcere Medical Diagnostics Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Nanjing BioSciKin Pharmaceutical Industrial Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Hainan Simcere BioSciKin Technology Development Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Shanghai BioSciKin Investment Management Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Technology Development Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Names and relationships of the related parties that had other material transactions with the Group: (Continued)

Name of related party	Relationship
Jiangsu Pharmaceutical Industrial Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
State Good Group Limited	Controlled by the ultimate controlling shareholder of the Group
Simcere Investments Group	Controlled by the ultimate controlling shareholder of the Group
Simcere Industrial Co., Limited	Controlled by the ultimate controlling shareholder of the Group
Nanjing Xiansheng Medical Laboratory Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
3D Biological Medicines (Shanghai) Co., Ltd.	Associate of the Group
Jiangsu Medical Industry Research Institute Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Shanghai Youxu Medical Equipment Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group

(c) Guarantees issued by related parties

	2020 **RMB'000**	2019 RMB'000
Guarantees and pledges to banks for granting banking facilities	**547,800**	783,500

At December 31, 2020 and 2019, certain bank facilities granted to the Group in Note 25 were guaranteed by Mr. Ren Jinsheng, the ultimate controlling shareholder of the Group, and his spouse, Ms. Wang Xi, and Nanjing BioSciKin Technology Development Co., Ltd.. This company is controlled by the ultimate controlling shareholder of the Group.

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Other significant related party transactions

The Group had following transactions with related parties:

	2020 RMB'000	2019 RMB'000
Purchase of goods		
Jiangsu Simcare Pharmaceutical Co., Ltd.	9,437	7,292
Simcare Jiangsu Pharmaceutical Co., Ltd.	180	665
Jiangsu Yoai Technology Co., Ltd.	479	367
Beijing Xiangxiang Wuxian Technology Co., Ltd.	–	9
Xuancheng Menovo Pharmaceutical Co., Ltd.	570	753
	10,666	9,086
Purchase of services		
BioSciKin Precision Medical Holding Group Co., Ltd.	71	9
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	64	–
Nanjing Medway Culture Media Co. Ltd.	1,005	1,075
Nanjing Xiansheng Medical Laboratory Co., Ltd.	1,785	–
Nanjing BioSciKin Asset Management Co., Ltd.	–	1
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	480
	2,925	1,565
Sales of goods		
Jiangsu Simcare Pharmaceutical Co., Ltd.	15,504	9,099
Simcare Jiangsu Pharmaceutical Co., Ltd.	2,961	1,549
	18,465	10,648
Rendering of services		
BioSciKin Precision Medical Holding Group Co., Ltd.	47	87
Beijing Sanroad Biological Products Co., Ltd.	46,821	42,618
Jiangsu Simcere Medical Diagnostics Co., Ltd.	410	488
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	883	–
	48,161	43,193

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Other significant related party transactions (Continued)

	2020 RMB'000	2019 RMB'000
Acquisition of equity interest in subsidiaries under common control, an associate, a joint venture and other investments		
BioSciKin Precision Medical Holding Group Co., Ltd.	–	649,412
	–	649,412
Receiving rental, property management and other related services		
Nanjing BioSciKin Technology Development Co., Ltd.	–	2,942
BioSciKin Precision Medical Holding Group Co., Ltd.	48,449	52,096
Nanjing BioSciKin Asset Management Co., Ltd.	2,719	3,221
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	704	750
	51,872	59,009
Providing rental, property management and other related services		
Shanghai Youxu Medical Equipment Co., Ltd.	24	–
3D Biological Medicines (Shanghai) Co., Ltd.	860	–
	884	–
Purchase of property, plant and equipment		
BioSciKin Precision Medical Holding Group Co., Ltd.	–	21
	–	21
Payments made on behalf of the Group		
BioSciKin Precision Medical Holding Group Co., Ltd.	–	2,117
Jiangsu Medical Industry Research Institute Co., Ltd.	845	–
Jiangsu Pharmaceutical Industrial Co., Ltd.	1,461	16
	2,306	2,133

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Other significant related party transactions (Continued)

	2020 RMB'000	2019 RMB'000
Payments made on behalf of related parties		
Simcare Jiangsu Pharmaceutical Co., Ltd.	–	357
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	1,160
Simcere Pharmaceutical Holding Limited	–	390
	–	1,907
Government grants received on behalf of a related party		
Nanjing BioSciKin Technology Development Co., Ltd.	–	175,063
Advance to an associate		
BCY Pharm Co., Ltd.	–	4,000
Cash received under share incentive scheme		
Simcere Pharmaceutical Holding Limited	–	44,300
New loans from related parties		
Simcere Pharmaceutical Holding Limited	35,506	11,791
State Good Group Limited	–	5
	35,506	11,796
Interest expenses on loans from related parties		
Simcere Pharmaceutical Holding Limited	298	1,901
State Good Group Limited	–	2,160
Nanjing BioSciKin Technology Development Co., Ltd.	–	2,545
	298	6,606
New loans to related parties		
BioSciKin Precision Medical Holding Group Co., Ltd.	–	227,615
Simcere Pharmaceutical Holding Limited	–	189,013
Simcere Industrial Co., Limited	–	6
	–	416,634

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Other significant related party transactions (Continued)

	2020 RMB'000	2019 RMB'000
Interest income on loans to related parties		
BCY Pharm Co., Ltd.	130	–
Simcere Pharmaceutical Holding Limited	–	3,816
BioSciKin Precision Medical Holding Group Co., Ltd.	–	9,639
Shanghai BioSciKin Investment Management Co., Ltd.	–	7,896
	130	21,351

(e) Significant related party balances

The Group had following trade in nature balances with related parties:

Trade in nature:

	2020 RMB'000	2019 RMB'000
Trade receivables (Note 22)		
Jiangsu Simcare Pharmaceutical Co., Ltd.	3,074	620
Simcare Jiangsu Pharmaceutical Co., Ltd.	1,086	66
Beijing Sanroad Biological Products Co., Ltd.	4,533	8,736
Jiangsu Simcere Medical Diagnostics Co., Ltd.	36	439
3D Biological Medicines (Shanghai) Co., Ltd.	278	–
Shanghai Youxu Medical Equipment Co., Ltd.	3	–
	9,010	9,861
Prepayments, deposits and other receivables (Note 23)		
Jiangsu Yoai Technology Co., Ltd.	124	26
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	7	–
Beijing Sanroad Biological Products Co., Ltd.	5,000	5,000
Nanjing BioSciKin Asset Management Co., Ltd.	28	–
Jiangsu Simcare Pharmaceutical Co., Ltd.	195	–
	5,354	5,026

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(e) Significant related party balances (Continued)

	2020 RMB'000	2019 RMB'000
Trade payables (Note 27)		
Jiangsu Simcare Pharmaceutical Co., Ltd.	–	1,637
	–	1,637
Other payables and accruals (Note 28)		
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	–	150
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	480
Simcare Jiangsu Pharmaceutical Co., Ltd.	–	1
Nanjing Medway Culture Media Co. Ltd.	562	213
Jiangsu Simcare Pharmaceutical Co., Ltd.	503	74
Nanjing BioSciKin Asset Management Co., Ltd.	–	135
BioSciKin Precision Medical Holding Group Co., Ltd.	696	10,424
3D Biological Medicines (Shanghai) Co., Ltd.	200	–
	1,961	11,477

The Group had following non-trade in nature balances with related parties:

Non-trade in nature:

	2020 RMB'000	2019 RMB'000
Interest in associates (Note 16)		
BCY Pharm Co., Ltd.	–	4,000
Other payables and accruals (Note 28)		
Simcere Pharmaceutical Holding Limited	–	112,029
Lease liabilities	128,994	121,743

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(f) Leasing arrangements

In 2020, the Group entered into three new leases in respect of certain leasehold properties from related parties of the Group for research and development activities or office use, with lease term of four-and-half-year, five-year and five-year, respectively. The amounts of rent payable by the Group under these leases is RMB571,000, RMB34,000, and RMB8,000, respectively, per month, which was determined with reference to amounts charged by the related parties to third parties. At the commencement date of the lease, the Group recognized a right-of-use asset and a lease liability of RMB30,252,000, RMB1,931,000 and RMB440,000, respectively.

(g) Applicability of the Listing Rules relating to connected transactions

Apart from purchasing of goods from Xuancheng Menovo Pharmaceutical Co., Ltd., providing rental, property management and other related services to 3D Biological Medicines (Shanghai) Co., Ltd. and interest income from loans to BCY Pharm Co., Ltd., the related party transactions mentioned in Note 35 (c)(d) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided under the section "Continuing Connected Transactions" in the Report of Directors.

Providing rental, property management and other related services to Shanghai Youxu Medical Equipment Co., Ltd., purchasing of goods from Jiangsu Simcare Pharmaceutical Co., Ltd., Simcare Jiangsu Pharmaceutical Co., Ltd. and Jiangsu Yoai Technology Co., Ltd., rendering of services to Jiangsu Simcere Medical Diagnostics Co., Ltd and Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd., purchasing of service from Nanjing Medway Culture Media Co. Ltd., receiving guarantee issued by Mr. Ren Jinsheng and his spouse, are continuing connected transactions but are exempted from these disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1) or they are financial assistance under Rule 14A.90.

Apart from these transactions, none of the other related party transactions mentioned in Note 35 fall under the definition of a connected transaction or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents, restricted deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2020, 4% (2019: 5%) of trade receivables were due from the Group's largest customer and 11% (2019: 14%) of trade receivables were due from the Group's five largest customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

	At December 31, 2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.2%	667,170	2,837
Less than 3 months past due	0.4%	671,507	3,649
More than 3 months but less than 12 months past due	3.2%	173,399	5,648
More than 12 months past due	82.9%	10,502	8,707
		1,522,578	20,841

	At December 31, 2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.2%	522,956	1,183
Less than 3 months past due	0.4%	412,020	1,790
More than 3 months but less than 12 months past due	5.6%	37,355	2,074
More than 12 months past due	60.5%	12,786	7,739
		985,117	12,786

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance in respect of trade receivables is as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	12,786	11,998
Impairment loss recognized	8,055	788
At the end of the year	20,841	12,786

The following significant changes in the gross carrying amounts of trade receivables contributed to the change in the loss allowance:

– origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB1,654,000 (2019: a decrease of RMB126,000); and

– change in past due trade receivables resulted in an increase in loss allowance of RMB6,401,000 (2019: RMB914,000).

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	At December 31, 2020					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at December 31, 2020 RMB'000
Bank loans	1,854,521	1,246,393	44,377	–	3,145,291	3,068,490
Lease liabilities	46,533	45,630	112,019	58,033	262,215	231,528
Trade and bills payables	242,077	–	–	–	242,077	242,077
Other payables and accruals	1,323,343	–	–	–	1,323,343	1,323,343
	3,466,474	1,292,023	156,396	58,033	4,972,926	4,865,438

	At December 31, 2019					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at December 31, 2019 RMB'000
Bank loans	1,719,142	246,708	920,729	16,715	2,903,294	2,783,149
Lease liabilities	32,505	31,801	94,068	19,369	177,743	157,807
Trade and bills payables	254,851	–	–	–	254,851	254,851
Other payables and accruals	1,417,945	–	–	–	1,417,945	1,417,945
	3,424,443	278,509	1,014,797	36,084	4,753,833	4,613,752

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below:

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings as at the end of each reporting period:

	2020		2019	
	Effective Interest rate %	**Amount RMB'000**	Effective Interest rate %	Amount RMB'000
Fixed rate borrowings:				
Bank loans	**0.57% – 4.28%**	**2,792,528**	0.37% – 4.90%	2,783,149
Lease liabilities	**3.21% – 4.54%**	**231,528**	4.54%	157,807
	–	**3,024,056**	–	2,940,956
Variable rate borrowings:				
Bank loans	**3M-LIBOR +1.1% – 3M-EURIBOR +0.55%**	**275,962**		–
Total borrowings		**3,300,018**		2,940,956
Fixed rate borrowings as a percentage of total borrowings		**92%**		100%

(ii) Sensitivity analysis

At December 31, 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB2,249,000 (2019: RMB Nil).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2019.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and borrowings which give rise to cash balances and bank loans that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD, EUR, GBP and HKD.

(i) *Exposure to currency risk*

The following table details the Group's exposure as at December 31, 2020 to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in RMB translated using the spot rate of the end of each reporting period. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than RMB into the Group's presentation currency are excluded.

	2020 RMB'000	2019 RMB'000
USD		
Cash and cash equivalents	**9,902**	66
Net exposure	**9,902**	66

	2020 RMB'000	2019 RMB'000
EUR		
Cash and cash equivalents	**27**	967
Bank loans	**(862,486)**	(647,583)
Trade and other receivables	**2,176**	–
Trade and other payables	**(1,969)**	–
Net exposure	**(862,252)**	(646,616)

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk (Continued)

(i) *Exposure to currency risk (Continued)*

	2020 RMB'000	2019 RMB'000
GBP		
Cash and cash equivalents	21	25
Trade and other receivables	3,188	–
Net exposure	3,209	25

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2020		2019	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000
USD	5%	371	5%	2
	(5%)	(371)	(5%)	(2)
EUR	5%	(35,040)	5%	(26,920)
	(5%)	35,040	(5%)	26,920
GBP	5%	136	5%	1
	(5%)	(136)	(5%)	(1)

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at December 31, 2020. The analysis excludes differences that would result from the translation of the financial statements of entities whose functional currency is not RMB. The analysis is performed on the same basis for the year ended December 31, 2019.

(e) Fair value measurement

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

– Level 3 valuations: Fair value measured using significant unobservable inputs.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

Fair value hierarchy (Continued)

Analysis on fair value measurement of derivative financial instruments as at December 31, 2020 are as follows:

	Fair value at December 31, 2020 RMB'000	Fair value measurement at December 31, 2020 categorized into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	297,232	297,232	–	–
– Unlisted equity securities	30,423	–	–	30,423
Financial assets at FVPL				
– Unlisted investments	73,603	–	–	73,603
– Unlisted units in investment funds	1,158,098	–	–	1,158,098
Trading securities				
– Listed equity securities	3,634	3,634	–	–

	Fair value at December 31, 2019 RMB'000	Fair value measurement at December 31, 2019 categorized into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	43,179	43,179	–	–
– Unlisted equity securities	114,010	–	–	114,010
Financial assets at FVPL				
– Unlisted investments	64,115	–	–	64,115
– Unlisted units in investment funds	837,726	–	–	837,726
– Structured deposits and wealth management products	543,938	–	–	543,938
Trading securities				
– Listed equity securities	3,058	3,058	–	–

During the year ended December 31, 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. During the year ended December 31, 2020, there were transfers of amount of RMB296,387,000 (2019: RMB nil), respectively, from Level 3 to Level 1 due to the listing of the equity security. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(Expressed in Renminbi)

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Unlisted equity securities	Valuation multiples (Note i)	Changing trend of medium market multiples of comparable companies
Unlisted investments	Valuation multiples (Note i)	Changing trend of medium market multiples of comparable companies
Unlisted units in investment funds	Net asset value (Note ii)	Net asset value of underlying investments

Notes:

(i) The fair value of certain unlisted investments is determined using valuation multiples adjusted for changing trend of medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at December 31, 2020, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies by 5% would have increased/decreased the Group's profit for the year by RMB4,421,000 (2019: RMB1,874,000).

(ii) The fair value of unlisted units in investment funds is determined referencing net asset value of underlying investments. The fair value measurement is positively correlated to net asset value of underlying investments. As at December 31, 2020, it is estimated that with all other variables held constant, an increase/decrease in net asset value of underlying investments by 5% would have increased/decreased the Group's profit for the year by RMB49,219,000 (2019: RMB35,603,000).

The fair values of unlisted equity securities, unlisted investments and unlisted units in investment funds are determined using the recent comparable transaction price, if available, valuation multiples technique with comparable companies or net asset value of underlying investments. The fair values of the structured deposits and wealth management products have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

Information about Level 3 fair value measurements (Continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	Financial assets at FVOCI RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
As at January 1, 2019	–	1,120,726	1,120,726
Net realized and unrealized gains on financial assets at fair value through profit or loss	–	18,837	18,837
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)	(23,091)	–	(23,091)
Purchases	137,101	1,272,954	1,410,055
Sales and settlements	–	(972,980)	(972,980)
Exchange difference	–	6,242	6,242
As at December 31, 2019 and January 1, 2020	**114,010**	**1,445,779**	**1,559,789**
Net realized and unrealized losses on financial assets at fair value through profit or loss	**–**	**399,959**	**399,959**
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)	**212,800**	**–**	**212,800**
Purchases	**–**	**103,772**	**103,772**
Sales and settlements	**–**	**(686,654)**	**(686,654)**
Exchange difference	**–**	**(31,155)**	**(31,155)**
Transfer into Level 1	**(296,387)**	**–**	**(296,387)**
As at December 31, 2020	**30,423**	**1,231,701**	**1,262,124**

All financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at December 31, 2020.

37 BUSINESS COMBINATION

On April 30, 2020, Nanjing BioSciKin Biotechnology Development Co., Ltd., the Group's wholly owned subsidiary incorporated in the PRC, entered into an agreement with BCY Pharm Co., Ltd. and its shareholders, and acquired additional 19.14% equity interest of BCY Pharm Co., Ltd., through additional capital injection of RMB40,000,000. Upon the completion of the transaction on May 13, 2020, the Group held 52.14% equity interest in BCY Pharm Co., Ltd. and BCY Pharm Co., Ltd. became a subsidiary of the Group.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	Fair value on acquisition RMB'000
Property, plant and equipment	174
Intangible assets	60,700
Prepayments and deposits	150
Prepayments, deposits and other receivables	14,377
Cash and cash equivalents	23,879
Trade and bills payables	(457)
Other payables and accruals	(1,780)
Deferred tax liabilities	(15,175)
Identified net assets	81,868
Less:	
Non-controlling interest, based on proportionate interest in the recognized assets of identified net assets	(39,182)
Group's share of net assets of BCY Pharm Co., Ltd.	42,686

Goodwill arising from the acquisition has been recognized as below:

	RMB'000
Cash consideration through capital injection	40,000
Non-controlling interest, based on proportionate interest in the recognized assets of identified net assets	39,182
Fair value of pre-existing 33% of equity interest in BCY Pharm Co., Ltd.	33,000
Fair value of identifiable net assets	(81,868)
Goodwill	30,314

37 BUSINESS COMBINATION (Continued)

Satisfied by:

	RMB'000
Cash consideration through capital injection	40,000
Carrying amount of interest in BCY Pharm Co., Ltd. prior to business combination	31,238
Gain arising from business combination	1,762
Group's share of net assets of BCY Pharm Co., Ltd.	33,000
Total consideration	73,000

Analysis of the net cash inflow in respect of business combination:

	RMB'000
Cash and cash equivalents acquired	23,879
Less: cash consideration paid through capital injection during the year ended December 31, 2020	(22,120)
Net cash inflow on acquisition	1,759

The fair value of net identifiable assets of BCY Pharm Co., Ltd. is determined by the directors of the Company with reference to the valuation performed by independent valuation firm on the acquisition date.

From the date of acquisition to December 31, 2020, BCY Pharm Co., Ltd. contributed revenue of RMB nil and net loss of RMB10,962,000.

38 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2020 RMB'000	2019 RMB'000
Non-current assets		
Property, plant and equipment	37	320
Interest in subsidiaries	3,067,609	2,100,071
Financial assets at fair value through profit or loss	223,075	226,474
	3,290,721	2,326,865
Current assets		
Other receivables	6,827	87,621
Loans to related parties	82,808	90,951
Cash and cash equivalents	1,915,804	2,385
	2,005,439	180,957
Current liabilities		
Bank loans	179,192	174,522
Loans from related parties	111,074	203,904
Lease liabilities	–	264
Other payables	9,142	2,675
Provisions	100,700	–
Taxation payable	–	8,300
	400,108	389,665
Net current assets/(liabilities)	1,605,331	(208,708)
Total assets less current liabilities	4,896,052	2,118,157
NET ASSETS	4,896,052	2,118,157
CAPITAL AND RESERVES		
Share capital	3,002,871	210
Reserves	1,893,181	2,117,947
TOTAL EQUITY	4,896,052	2,118,157

Approved and authorised for issue by the board of directors on March 25, 2021.

Ren Jinsheng) *Directors*

Wan Yushan)

(Expressed in Renminbi)

39 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 33(b).

(b) On January 18, 2021, Simcere Pharmaceutical entered into a share purchase agreement with the original shareholders of Jiangsu Xinhaikang Pharmaceutical Co., Ltd. ("Jiangsu Xinhaikang") to purchase 51% of its shares. The total consideration of the transaction is RMB58,898,000. The Group is assessing the fair value of assets and liabilities of the Jiangsu Xinhaikang on the completion date.

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2020, the directors of the Company consider the immediate parent of the Group is Simcere Pharmaceutical Holding Limited, a company incorporated in Cayman Islands. The ultimate controlling party of the Group is Mr. Ren Jinsheng, Chairman of the Group. Simcere Pharmaceutical Holding Limited does not produce financial statements available for public use.

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2020

Up to date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance Contracts*, which are not yet effective for the year ended December 31, 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform — Phase 2*	January 1, 2021
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	January 1, 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	January 1, 2022
Amendments to HKAS 37, *Onerous Contracts — Cost of Fulfilling a Contract*	January 1, 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	January 1, 2022
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	January 1, 2023
HKFRS 17, *Insurance contracts*	January 1, 2023
Amendments to HKFRS 4, *Extension of the temporary exemption from applying HKFRS 9*	January 1, 2023
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	No mandatory effective date yet determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

RESULTS

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	**4,508,720**	5,036,658	4,514,204	3,867,908
Cost of sales	**(899,927)**	(888,486)	(771,195)	(586,301)
Gross profit	**3,608,793**	4,148,172	3,743,009	3,281,607
Other revenue	**114,964**	91,507	67,538	70,351
Other net gain	**326,924**	15,941	90,501	(175,939)
Research and development costs	**(1,141,996)**	(716,412)	(447,148)	(212,309)
Selling and distribution expenses	**(1,570,373)**	(2,016,222)	(2,221,757)	(2,155,662)
Administrative and other operating expenses	**(411,476)**	(351,676)	(290,202)	(277,469)
Profit from operations	**926,836**	1,171,310	941,941	530,579
Finance income	**26,248**	34,724	36,253	25,146
Finance costs	**(133,729)**	(115,955)	(47,534)	(58,441)
Net finance costs	**(107,481)**	(81,231)	(11,281)	(33,295)
Share of losses of associates	**(13,874)**	(8,129)	(1,616)	–
Share of losses of a joint venture	**(393)**	(135)	–	–
Profit before taxation	**805,088**	1,081,815	929,044	497,284
Income tax	**(140,801)**	(78,191)	(195,357)	(146,872)
Profit for the year	**664,287**	1,003,624	733,687	350,412

ASSETS AND LIABILITIES

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	**10,943,410**	6,766,870	6,338,335	5,195,018
Total liabilities	**(5,607,686)**	(5,286,406)	(4,773,201)	(3,413,865)
Total equity	**(5,335,724)**	(1,480,464)	(1,565,134)	(1,781,153)