



# 2021

ANNUAL  
REPORT



Pharma  
绿叶制药

**Luye Pharma Group Ltd.**

**绿叶制药集团有限公司**

*(Incorporated in Bermuda with limited liability)*

Stock Code: 2186

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# COMPANY OVERVIEW

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fastest growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe, Japan and other emerging countries or regions, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets.

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in the year of 2021. The Group's sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,780 distributors that collectively enabled the Group to sell its products to over 19,330 hospitals, which comprised approximately 2,230 or approximately 87.0% of all Class III hospitals, approximately 5,600 or approximately 66.0% of all Class II hospitals and approximately 11,500 or approximately 57.0% of all Class I and other hospitals and medical institutions, in the PRC in the year of 2021. For international markets, the business of the Group covers 80 countries or regions including the U.S., countries in the European Union ("EU"), Japan, Association of Southeast Asian Nations ("ASEAN"), Latin America, Gulf Cooperation Council ("GCC") region and other emerging countries or regions. The Group also has strong sales partnerships with more than 50 partners throughout the world.

The Group's R&D activities are organised around four platforms in the chemical drug sector — long acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. The Group has expanded its R&D capability to biological sector supported by Boan Biotech's three cutting-edge platforms, namely Human Antibody Transgenic Mouse and Phage Display Technology, Bispecific T-cell Engager Technology and ADC Technology Platform. The Group balances clinical development risks by strategically allocating its resources between proprietary formulations of proven compounds and new chemical entities as well as biosimilars and novel antibodies. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development.

As at 31 December 2021, the Group's R&D team consisted of 824 employees, including 73 Ph.D. degree holders and 438 master's degree holders in medical, pharmaceutical and other related areas. As at 31 December 2021, the Group had been granted 239 patents and had 90 pending patent applications in the PRC, as well as 612 patents and 126 pending patent applications overseas.

As at 31 December 2021, the Group had 30 pipeline product candidates in the PRC in various stages of development. These candidates included 12 oncology products, 12 CNS products and 6 other products.

The Group had 12 pipeline product candidates in the U.S., Europe and Japan in various stages of development.

# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. LIU Dian Bo  
*(Executive Chairman and Chief Executive Officer)*  
Mr. YANG Rong Bing *(Vice Executive Chairman)*  
Mr. YUAN Hui Xian  
Ms. ZHU Yuan Yuan

### Non-executive Directors

Mr. SONG Rui Lin  
Mr. SUN Xin

### Independent Non-executive Directors

Mr. ZHANG Hua Qiao  
Professor LO Yuk Lam  
Mr. LEUNG Man Kit  
Mr. CHOY Sze Chung Jojo

## Company Secretary

Ms. LEE Mei Yi

## Authorized Representatives

Mr. YANG Rong Bing  
Ms. ZHU Yuan Yuan

## Audit Committee

Mr. LEUNG Man Kit *(Chairman)*  
Mr. ZHANG Hua Qiao  
Professor LO Yuk Lam

## Remuneration Committee

Mr. CHOY Sze Chung Jojo *(Chairman)*  
Mr. ZHANG Hua Qiao  
Professor LO Yuk Lam

## Nomination Committee

Professor LO Yuk Lam *(Chairman)*  
Mr. ZHANG Hua Qiao  
Mr. CHOY Sze Chung Jojo

## Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## Head Office and Principal Places of Business in the People's Republic of China

No. 15 Chuang Ye Road  
High-tech Industrial Development Zone  
Yantai, Shandong  
264003  
People's Republic of China

22/F, Gubei International Fortune Center II  
Hongqiao Road 1438  
Changning District Shanghai  
People's Republic of China

## Principal Place of Business in Hong Kong

Unit 3207, 32/F, Champion Tower  
3 Garden Road  
Central  
Hong Kong

# CORPORATE INFORMATION

## Principal Share Registrar and Transfer Office

Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Legal Advisers

Allen & Overy  
9/F, Three Exchange Square  
Central  
Hong Kong

Conyers Dill & Pearman  
2901 One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

## Auditor

Ernst & Young  
Certified Public Accountants  
Registered Public Interest Entity Auditor  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

## Stock Code

2186

## Company's Website

[www.luye.cn](http://www.luye.cn)

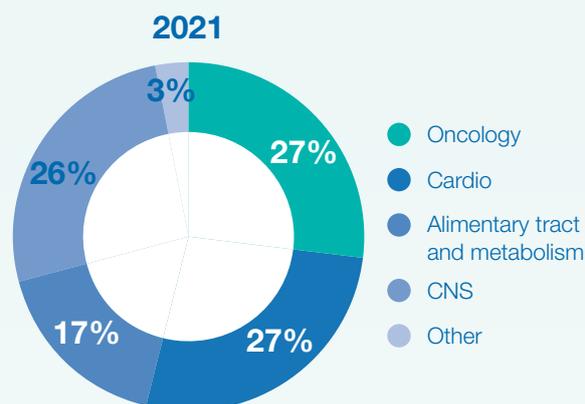
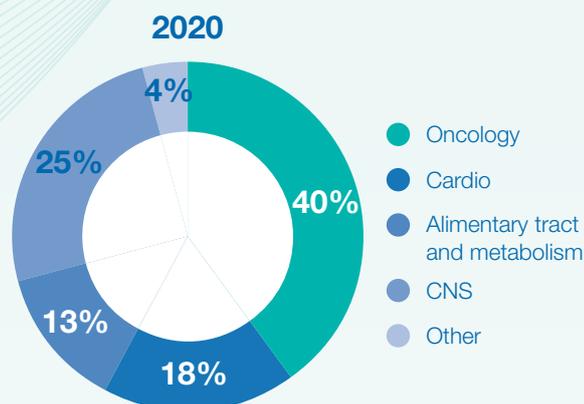
## Principal Bankers

Bank of China Limited  
China Everbright Bank  
Industrial and Commercial Bank of China Limited  
Citibank (China) Limited

# FINANCIAL HIGHLIGHTS

- Revenue decreased by RMB339.4 million or 6.1% to RMB5,200.2 million, as compared to the year ended 31 December 2020.
- EBITDA decreased by RMB970.2 million or 51.7% to RMB906.9 million, as compared to the year ended 31 December 2020.
- Gross profit decreased by RMB593.9 million or 14.9% to RMB3,396.7 million, as compared to the year ended 31 December 2020, and gross profit margin was 65.3%.
- Net profit decreased by RMB848.1 million or 120.6% to RMB-144.8 million, as compared to the year ended 31 December 2020.
- Profit attributable to shareholders decreased by RMB841.0 million or 119.0% to RMB-134.4 million, as compared to the year ended 31 December 2020.
- Research and development expenses decreased by RMB106.7 million or 13.5% to RMB683.2 million, as compared to the year ended 31 December 2020. Total research and development costs were RMB1,476.4 million (2020: RMB1,258.1 million) of which RMB793.3 million (2020: RMB468.3 million) was capitalised.
- Earnings per share was RMB-3.90 cents compared to RMB22.17 cents for the year ended 31 December 2020.
- No dividend was proposed by the Board for the year ended 31 December 2021.

	2017 RMB Million Restated	2018 RMB Million Restated	2019 RMB Million Restated	2020 RMB Million	2021 RMB Million
Revenue	3,814.8	5,172.5	6,357.9	5,539.6	<b>5,200.2</b>
Gross profit	2,963.4	4,049.4	4,879.2	3,990.6	<b>3,396.7</b>
EBITDA	1,273.0	1,893.1	2,385.1	1,877.1	<b>906.9</b>
Net profit	827.5	1,204.9	1,354.1	703.3	<b>(144.8)</b>
Profit attributable to owners of the Parent	909.6	1,202.2	1,396.2	706.6	<b>(134.4)</b>
Total assets	10,876.3	17,702.9	19,407.7	20,630.6	<b>22,582.1</b>
Total liabilities	4,191.1	10,082.6	10,487.3	12,531.6	<b>13,468.2</b>
Equity	6,685.2	7,620.3	8,920.4	8,099.0	<b>9,113.9</b>



# CHAIRMAN'S STATEMENT

Dear shareholders,

I would like to report the annual performance of Luye Pharma as at and for the year ended 31 December 2021, as well as present a brief outlook of the Group in 2022.

As an international pharmaceutical enterprise, Luye Pharma is committed to the research, production and marketing of innovative drugs. Its business covers more than 80 countries and regions worldwide. The Group focuses on its core strength therapeutic areas of CNS, oncology and cardio-vascular, and is committed to providing high-quality innovative drugs to patients worldwide.

In 2021, in spite of the resistance to the growth of the Group's performance brought by severe pandemic, industry environment and business challenges, we have been sticking to creating value for our customers, keeping to innovation strategy, improving the management quality and constantly investing in the future. In actively facing the internal and external challenges, the Group's businesses developed steadily, with an operating income of RMB5.2 billion during the reporting period. Also, the Group has accumulated steadily, and gained many significant achievements in terms of independent innovation and commercialization.

**R&D of New Drugs:** Focusing on the three technical platforms of “novel formulations”, “biological antibodies” and “new therapeutic entity/new chemical entity”, the Group has achieved breakthroughs in various key technologies, and the transformation of independent innovation achievements has gained remarkable results: Three new products-Rykindo<sup>®</sup>, Boyounuo<sup>®</sup> and Rivastigmine Transdermal Patch were approved; Seven projects-LY03005, goserelin acetate sustained-release microspheres for injection (LY01005), Prolia (LY06006/BA6101), etc. are in the stage of listing review; Nine projects are in phase III clinical/critical trials. The Group continues to increase investment in innovative R&D and efficiently promotes the R&D process of key projects. The total R&D investment was nearly RMB1.5 billion during the reporting period, which was a substantial increase over the previous year.

**Commercialization:** During the reporting period, the successive listing of various new products invigorated the Group's performance growth. By virtue of the commercial advantages and resources accumulated by the Group for many years, the Group has rapidly promoted these new products to achieve a number of business milestones in a short period of time, and accelerated the value transformation of innovation achievements via domestic and overseas authorized cooperation. In addition, the existing core products keep showing great vitality, and continue to exert their strength in market coverage and medical insurance access.

Along with the continuous advancement of R&D and commercialization, the Group's value ecological chain building has entered a positive cycle, and its ability to cope with uncertainty has been constantly improved. We believe that the accumulation and efforts in the past years will lay a solid foundation for future breakthrough growth in all respects. We are very confident that the Group will achieve a new round of rapid growth in the next three years.

As the Group officially enters the “harvest period” of self-developed products, it is expected that 10 new products will be listed successively in the next two years. Our established strong R&D system, R&D platform and R&D pipeline, and constantly improving global commercialization system will be our long-term and sustainable core competitiveness, which will make sufficient preparations for the realization of the value of our upcoming more innovative achievements and the rapid growth in China and the international dual-cycle market system.

# CHAIRMAN'S STATEMENT

The year of 2022 will be a crucial period for the Group to break through. We will adhere to the strategy of “innovation” and “internationalization”, focus on the core therapeutic areas, accelerate the clinical and listing progress of key research projects, and take multiple measures to constantly deepen the global commercialization system and operational capacity. With more innovative products to be listed gradually, the Group will usher a new level of high-quality growth in Chinese and international markets, and make more value for patients, shareholders and society.

Finally, on behalf of Luye Pharma Group Ltd., I would like to express my sincere gratitude to all shareholders for their support.

**LIU Dian Bo**  
*Executive Chairman*  
**Luye Pharma Group Ltd.**

29 March 2022

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fastest growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe, Japan and other emerging countries or regions, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. During the year ended 31 December 2021, the Group's business was influenced by the pandemic of coronavirus disease 2019 ("COVID-19") and global economic fluctuations but still maintained stability. The Group recorded a decrease in revenue of 6.1% in the year of 2021 as compared to that of 2020. The Group continually invests in research and development ("R&D") to maintain its competitiveness, and has a robust product pipeline including 30 pipeline product candidates in the PRC and 12 pipeline product candidates in the U.S., Europe and Japan as at 31 December 2021.

## Market Positioning

In China, the Group's key products are competitively positioned in four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, oncology-related pharmaceutical products constituted the largest market in China for pharmaceutical products in the year of 2021. The Group's portfolio of oncology products includes Lipusu, CMNa and Boyounuo. Lipusu is the first and only paclitaxel liposome product approved for sale globally as of 31 December 2021. CMNa is a Class I New Chemical Drug and the only China National Medical Products Administration ("NMPA", formerly known as the China Food and Drug Administration) approved sensitiser for cancer radiotherapy in China. Boyounuo is an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin independently developed by Shandong Boan Biotechnology Co., Ltd. ("Boan Biotech"), a subsidiary of the Company. IQVIA data showed that cardiovascular system-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in the year of 2021. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular natural medicine for the treatment of hypercholesterolaemia and the fourth largest vasoprotective pharmaceutical product in China in the year of 2021, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in the year of 2021. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in the year of 2021. IQVIA data showed that central nervous system-related pharmaceutical products constituted the fifth largest market for pharmaceutical products in the PRC in the year of 2021. The Group's portfolio of CNS products includes Seroquel and Rykindo. The Group's key product Seroquel was the sixth largest product in schizophrenia therapeutic area and the largest quetiapine product in terms of sales in the PRC in the year of 2021. Rykindo was the only Risperidone Microspheres for Injection for sale in China as of 31 December 2021.

For international markets, the Group's products are mainly positioned in CNS therapeutic area, including Seroquel, Seroquel XR, Rivastigmine once-daily transdermal patch, Rivastigmine Multi-Day Transdermal Patch ("Rivastigmine MD" or "LY30410"), Fentanyl patches and Buprenorphine patches.

For the year ended 31 December 2021, the Group's revenue from cardiovascular system products increased by 42.1% to RMB1,427.3 million. Revenue from alimentary tract and metabolism products increased by 22.5% to RMB898.5 million. Revenue from CNS products decreased by 5.5% to RMB1,323.8 million. Revenue from oncology products decreased by 36.7% to RMB1,414.1 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Key Products

The Company believes that the Group's nine key products are competitively positioned for high prevalence medical conditions that are expected to grow or maintain stably globally.

### Lipusu® (力撲素®)

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. As of 31 December 2021, Lipusu was the first and only paclitaxel liposome product approved for sale globally. In December 2020, Lipusu has been included in the category B of the new Catalogue of National Reimbursement Drug List ("NRDL"). All indications of Lipusu, including non-small cell lung cancer, ovarian and breast cancer, are reimbursed under the NRDL. The 2020 edition of the NRDL has come into effect in March 2021.

### CMNa® (希美納®)

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only NMPA approved sensitiser for cancer radiotherapy in China. According to NMPA, CMNa was the only glycididazole product available for sale in China in the year of 2021. An study conducted by an independent third party in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

### Boyounuo® (博優諾®)

Boyounuo was approved to the market by NMPA in April 2021. It is an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin® independently developed by Boan Biotech. Avastin® has been approved worldwide for the treatment of non-small cell lung cancer, metastatic colorectal cancer, glioblastoma, renal cell carcinoma, cervical cancer, ovarian cancer and other solid tumors. Its significant efficacy and safety have been widely recognized. According to the data from IQVIA, the sales of Bevacizumab injection in China reached RMB6.22 billion in the year of 2021.

### Xuezhikang® (血脂康®)

Xuezhikang is the Group's proprietary natural medicine derived from red yeast rice indicated for hypercholesterolaemia. According to NMPA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2021. According to IQVIA, the market for lipid-regulating drugs in China was estimated to be approximately RMB4.6 billion in the year of 2021. According to IQVIA, Xuezhikang ranked as the most popular natural medicine for the treatment of hypercholesterolaemia and the fourth most-used lipid-regulating drug in China in the year of 2021.

### Maitongna® (麥通納®)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB3.6 billion in the year of 2021. Maitongna was the best-selling domestically manufactured sodium aescinate product in China in the year of 2021 and ranked as the third most-used vasoprotective pharmaceutical product domestically manufactured in China in the year of 2021.

### Bei Xi® (貝希®)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to NMPA, the Group was the only manufacturer of acarbose in capsule form in the year of 2021. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB1.3 billion in the year of 2021 and Bei Xi ranked as the second most popular oral diabetic medication domestically manufactured in China in the year of 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Rivastigmine Transdermal Patches (the “Rivastigmine Patch”)

The Rivastigmine Patch is rivastigmine in transdermal patches form approved in China, the U.S., Europe and other emerging countries or regions, indicated for mild to moderate dementia of the Alzheimer’s type and dementia due to Parkinson’s disease.

## Seroquel® (思瑞康®) and Seroquel XR® (思瑞康緩釋片®)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical antipsychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the sixth most-used product in schizophrenia therapeutic area and the most-used quetiapine product in the PRC in the year of 2021. In addition to China, Seroquel and Seroquel XR are also marketed by the Group in other 50 developed and emerging countries or regions.

## Rykindo® (瑞欣妥®)

Rykindo was approved to the market by NMPA in January 2021. It is the first innovative formulation developed under the Group’s long acting and extended technology platform that received marketing approval. Rykindo is an extended-release microspheres for injection administered bi-weekly for the treatment of schizophrenia and is the only Risperidone Microspheres for Injection for sale in China as of 31 December 2021. Rykindo can significantly improve the medication compliance issues which are common among patients with schizophrenia in relation to oral antipsychotic drugs, and simplify the treatment regimen. Patients using Rykindo are also expected to have stable clinically effective plasma drug level and can benefit from more convenient clinical treatment. In December 2021, Rykindo has been included in the 2021 edition of the NRDL in China.

## Research and Development

The Group’s R&D activities are organised around four platforms in the chemical drug sector — long acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. The Group has expanded its R&D capability to biological sector supported by Boan Biotech’s three cutting-edge platforms, namely Human Antibody Transgenic Mouse and Phage Display Technology, Bispecific T-cell Engager Technology and ADC Technology Platform. The Group balances clinical development risks by strategically allocating its resources between proprietary formulations of proven compounds and new chemical entities as well as biosimilars and novel antibodies. The Group believes that its R&D capabilities will be the driving force behind the Group’s long-term competitiveness, as well as the Group’s future growth and development. As at 31 December 2021, the Group’s R&D team consisted of 824 employees, including 73 Ph.D. degree holders and 438 master’s degree holders in medical, pharmaceutical and other related areas. As at 31 December 2021, the Group had been granted 239 patents and had 90 pending patent applications in the PRC, as well as 612 patents and 126 pending patent applications overseas.

The Group will continue to invest the products in four strategic therapeutic areas — oncology, CNS, cardiovascular and alimentary tract and metabolism. As at 31 December 2021, the Group had 30 PRC pipeline product candidates in various stages of development. These candidates included 12 oncology products, 12 CNS products and 6 other products. Also, the Group had 12 pipeline product candidates in the U.S., Europe and Japan in various stages of development.

Since January 2021, the Group had 3 new drugs approved to the market including Rykindo (approved in China), Boyounuo (approved in China) and Rivastigmine MD (approved in several European countries). The Group also had 5 new drugs entering New Drug Application (“NDA”) stage in China including LY03005, BA6101, LY01005, LY021702 and LY01017 (Hong Kong).

# MANAGEMENT DISCUSSION AND ANALYSIS

For global R&D progress:

In January 2021, the Group's monthly microspheres injection LY03009 commenced phase I clinical trial in Australia. LY03009 is one of the Group's key CNS product candidates developed on a long acting and extended-release formulation platform, indicated for Parkinson's Disease (PD) and moderate to severe restless legs syndrome (RLS). In January 2022, LY03009 has been approved to initiate clinical trial in the U.S..

In January 2021, the phase I clinical trial of the Rotigotine Extended Release Microspheres for injection (LY03003) has been completed in Japan. LY03003 is one of the Group's key innovative product candidates of CNS developed on a long acting and extended-release formulation platform. The drug is being developed concurrently in the markets of China, the U.S., Europe, Japan and several other countries or regions. It is under phase III clinical trial in China and the U.S.. LY03003 delivers medication by weekly intramuscular injection. This is the first product worldwide to produce long-term Continuous Dopamine Stimulation (CDS).

In May 2021, the Decentralised Registration Procedures ("DCPs") in the EU in relation to the Marketing Authorization Applications ("MAA") for Rivastigmine MD have been completed. Rivastigmine MD is an innovative delivery system drug being developed by the Group for the treatment of mild to moderate dementia associated with Alzheimer's disease. Since the DCPs has been completed on 21 May 2021, the Rivastigmine MD is now eligible for Marketing Authorizations ("MA") by individual member states of the EU involved in the DCPs. In September 2021, the Rivastigmine MD received marketing authorization in the United Kingdom ("UK").

In August 2021, the Group has submitted the investigational new drug ("IND") application for its new CNS drug LY03015 to the Food and Drug Administration ("FDA") of the U.S. LY03015 is an innovative small molecule compound product indicated for the treatment of tardive dyskinesia ("TD") and Huntington's disease ("HD"), developed by the Group. LY03015 is a new generation VMAT2 inhibitor, and can reduce the symptoms of TD and HD by inhibiting the release of presynaptic dopamine ("DA"), preventing the stimulation of supersensitive D2 receptors by DA without blocking D2 receptors in the postsynaptic membrane.

For China R&D progress:

In January 2021, the marketing registration of Risperidone Microspheres for Injection (II) ("LY03004", Rykindo) was approved by NMPA. It was the first innovative formulation developed under the Group's long acting and extended technology platform that received marketing approval. Rykindo/LY03004 is an extended-release microspheres for injection administered bi-weekly for the treatment of schizophrenia.

In March 2021, the clinical trial application of the Group's Class 2 new drug, Ropivacaine Hydrochloride Liposome Suspension Injection ("LY09606"), has received formal acceptance from the CDE. LY09606 is a multivesicular liposome formulation containing Ropivacaine. Its unique multivesicular structure facilitates the sustained release of the encapsulated drug. LY09606, which can be indicated for postoperative analgesia, is the first Ropivacaine multivesicular liposome injection product which has applied for clinical trial approval in China. The high technical barriers and complex processes of multivesicular liposome manufacturing attest to the Group's strengths in key technologies for liposome research, development and manufacturing. In May 2021, LY09606 has obtained approval from CDE to initiate clinical trials.

In March 2021, the Group's Class 1 new drug LPM3480392 injection ("LY03014") commenced enrolment of subjects in phase I clinical trial in China. LY03014 is a small molecule Gi protein biased at mu-opioid receptor agonist, indicated for the treatment of postoperative moderate-to-severe acute pain and breakthrough cancer pain.

# MANAGEMENT DISCUSSION AND ANALYSIS

In March 2021, a phase III clinical trial of the Group's Class 1 new chemical entity (NCE) product Anshufaxine Hydrochloride Extended-release Tablets ("LY03005") in the treatment of Major Depressive Disorder (MDD) in China met the predefined endpoints. LY03005 is a new antidepressant agent developed by the new therapeutic entity/new chemical entity (NTE/NCE) technology platform of the Group. Studies reveal that Anshufaxine is a serotonin (5-HT)-norepinephrine (NE)-dopamine (DA) reuptake inhibitor (SNDRI). In June 2021, the marketing authorization application of LY03005 has been accepted by CDE. In March 2022, LY03005 has been approved by the CDE to initiate phase III clinical trial for the treatment of generalized anxiety disorder.

In September 2021, the innovative formulation Goserelin Acetate Extended-release Microspheres for Injection ("LY01005") completed phase III clinical trial for the treatment of prostate cancer in China. LY01005 is the Group's monthly extended release microspheres for intramuscular formulation of goserelin acetate, a gonadotropin-releasing hormone agonist, using the Group's microspheres technology platform. As a first-line drug for the treatment of prostate cancer, the only dosage form of goserelin currently on the market is a subcutaneous implant. LY01005, through innovative microsphere technology, can effectively reduce the adverse reactions at the injection site, improve the patient's medication experience, reduce the difficulty of nursing, and improve the patient's tolerance and compliance, which is more beneficial for the therapeutic effect of the drug and has obvious clinical advantages. In December 2021, the marketing authorization application for LY01005 has been accepted by CDE for the treatment of prostate cancer in China. Concurrently with this application, the Group is also undertaking phase III clinical trials for LY01005 for treatment of breast cancer in China.

In September 2021, LY03015 has obtained the approval from CDE to initiate clinical trial in China.

In October 2021, LY03009 has obtained the approval from CDE to initiate clinical trial in China.

In January 2022, the marketing authorization application for the Group's analgesic product under development, oxycodone and naloxone extended-release tablets ("LY021702"), has been accepted by CDE in China. LY021702 is the first oxycodone and naloxone extended release tablet product that has high technical barriers developed by a Chinese company. It consists of oxycodone hydrochloride, a strong opioid receptor agonist, and naloxone hydrochloride, an opioid antagonist, for the treatment of moderate to severe chronic pain that cannot be effectively controlled by non-opioids, with pain relief lasting up to 12 hours. It has a deterrent feature regarding opioid abuse and can relieve gastrointestinal adverse effects such as opioid-induced constipation.

In March 2022, the Group has submitted a NDA for Lurbinectedin (LY01017) for injection, a product of the Group licensed in from Pharma Mar, S.A. ("PharmaMar") in Hong Kong, China, for the treatment of adult patients with metastatic small cell lung cancer ("SCLC") with disease progression on or after receiving platinum-based chemotherapy. To date, Lurbinectedin has received the accelerated approval in the U.S., and provisional marketing approval in Australia, the United Arab Emirates, Canada, and Singapore.

For Boan Biotech:

In January 2021, all subjects under the phase I clinical trial in China for LY-CovMab completed enrolment with LY-CovMab. LY-CovMab is an innovative biological antibody product indicated for COVID-19, developed by Boan Biotech. Severe acute respiratory syndrome coronavirus 2 (SARS-CoV2) is the virus that causes COVID-19. LY-CovMab is a fully human monoclonal neutralizing antibody, which showed good effects for both therapeutic and prophylactic venues against SARS-CoV-2 infection. In May 2021, LY-CovMab completed phase I clinical trial in China. The results indicated that LY-CovMab has a good safety and tolerability profile. According to the results of in vitro virus neutralization activity and human serum drug concentration at different blood collection time points in phase I clinical trials, preliminary results showed that LY-CovMab is able to inhibit infections of Alpha, Delta, Gamma and Lambda strains. In August 2021, LY-CovMab has been approved by the CDE to initiate phase II clinical trial in China.

# MANAGEMENT DISCUSSION AND ANALYSIS

In January 2021, the last dosing for all subjects in phase III clinical of Boan Biotech's recombinant anti-RANKL fully human monoclonal antibody injection (Denosumab injection, Prolia<sup>®</sup> biosimilar, "LY06006/BA6101") in China has been completed. In October 2021, the marketing authorization application for BA6101 has been accepted by CDE in China. In the meanwhile, the Denosumab Injections (Prolia<sup>®</sup> biosimilar, BA6101/Xgeva<sup>®</sup> biosimilar, BA1102) are undergoing phase I clinical trials in Europe.

In February 2021, the recombinant human vascular endothelial growth factor receptor antibody fusion protein ophthalmic injection (Aflibercept intraocular injection solution, Eylea<sup>®</sup> biosimilar, "LY09004") of Boan Biotech completed the first patient dosing in phase III clinical trial in China.

In February 2021, the clinical trial application of Nivolumab injection ("BA1104") of Boan Biotech has been formally accepted by the CDE in China. BA1104 is the first applied biosimilar to OPDIVO<sup>®</sup> according to Registration Classification 3.3 of Biological Product. In May 2021, BA1104 has obtained the approval from NMPA to initiate clinical trials.

In May 2021, the marketing registration in relation to the Bevacizumab injection (Boyounuo) product of Boan Biotech has been approved by NMPA for the treatment of advanced, metastatic or recurrent non-small cell lung cancer and metastatic colorectal cancer. It is the first antibody drug developed by Boan Biotech which received marketing approval. In July 2021, Boyounuo has been approved by NMPA for the treatment of recurrent glioblastoma. In February 2022, Boyounuo has been approved by NMPA for the treatment of epithelial ovarian, fallopian tube or primary peritoneal cancer, and cervical cancer.

In September 2021, the Dulaglutide injection ("BA5101") of Boan Biotech has obtained the approval from CDE to initiate clinical trial in China. As the biosimilar to Trulicity<sup>®</sup>, BA5101 injection is indicated for glycemic control in adults with type 2 diabetes mellitus.

In October 2021, BA1105, an innovative antibody discovered and developed by Boan Biotech, has obtained the approval from CDE to initiate clinical trial in China. BA1105 is a recombinant antiClaudin 18.2 fully human IgG1 monoclonal antibody, which introduces amino acid site-directed mutations through the Fc region to enhance the ADCC effect. Enhanced ADCC effect can improve the tumor-killing efficacy of BA1105, so this product has potential to become the best targeted drug for the similar treatment of metastatic pancreatic cancer, advanced gastric cancer and adenocarcinoma of the esophagogastric junction and other potentially beneficial cancers.

In December 2021, BA1201, an innovative antibody discovered and developed by Boan Biotech, has obtained the approval from CDE to initiate clinical trial in China. BA1201 is an anti-PD-L1/TGF- $\beta$  bispecific antibody fusion protein for the treatment of advanced solid tumors and other indications. BA1201 can not only inhibit PD-L1/PD-1 signaling pathway but also inhibit TGF- $\beta$ /TGF- $\beta$ RII signaling pathway, which can eliminate immunosuppression and restore the immune system to target tumor cells for killing, making it more potent than anti-PD-L1 monoclonal antibodies.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Third parties' investment in Boan Biotech

As disclosed in the Company's announcements dated 28 December 2020, 4 January 2021, 18 January 2021, 26 January 2021, 26 August 2021, 13 September 2021 and 30 September 2021, Boan Biotech received a total of RMB1,087.5 million from more than 20 reputable Chinese and international investors during the year ended 31 December 2021, demonstrating their belief in the company's research and innovation strength and their confidence in its potentials. Such investments will help Boan Biotech accelerate the clinical development of its innovative antibody and biosimilar products, enhancing competitive strengths and facilitating rapid, stable growth. Upon completion of these third parties' investments, the Group held approximately 72.3% equity interest in Boan Biotech. The capital raised has been allocated or utilised to finance Boan Biotech's principal business, including but not limited to its R&D activities and to fund its daily operations.

## Sales, Marketing and Distribution

For global market:

The business of the Group covers 80 countries or regions including the U.S., countries in the EU, Japan, ASEAN, Latin America, GCC region and other emerging countries or regions. The Group also has strong sales partnerships with more than 50 partners throughout the world.

In March 2021, the Group has granted Italfarmaco Group ("Italfarmaco") the exclusive rights to commercialize Rivastigmine MD in Germany, Italy, Portugal and Greece. Italfarmaco will also have a preferential right to market Rivastigmine MD in Chile and Vietnam. Italfarmaco is required to make an upfront payment to the Group upon the signing of the relevant agreement as well as additional payments when certain sales milestones are achieved. The Group is also eligible to receive royalties from Italfarmaco.

In August 2021, the Group has entered into an agreement with Zuellig Pharma, a leading healthcare service group in Asia, under which the Company has agreed to grant Zuellig Pharma exclusive rights to distribute Seroquel (quetiapine fumarate, immediate release) and Seroquel XR (extended release formulation) in Malaysia and Brunei.

In September 2021, the Group has granted ESTEVE Pharmaceuticals S.A. ("ESTEVE") the exclusive rights to commercialize Rivastigmine MD in Spain.

In November 2021, the Group has granted Zambon Switzerland ("Zambon") the exclusive rights to commercialize Rivastigmine MD in Switzerland.

# MANAGEMENT DISCUSSION AND ANALYSIS

For China market:

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in the year of 2021. The Group's sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,780 distributors that collectively enabled the Group to sell its products to over 19,330 hospitals, which comprised approximately 2,230 or approximately 87.0% of all Class III hospitals, approximately 5,600 or approximately 66.0% of all Class II hospitals and approximately 11,500 or approximately 57.0% of all Class I and other hospitals and medical institutions, in the PRC in the year of 2021. The Group believes that its sales and marketing model and extensive coverage of hospitals and other medical institutions represent a significant competitive advantage and a culmination of both academic promotions by the Group's in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

In December 2020, Lipusu, being the Group's paclitaxel formulation with innovative liposome delivery system, has been included in the category B of the new Catalogue of NRDL. All indication of Lipusu, including non-small cell lungs Cancer, ovarian and breast cancer, are reimbursed under the NRDL. The 2020 edition of the NRDL has come into effect in March 2021.

In May 2021, Boan Biotech granted AstraZeneca the exclusive promotion rights in relation to Boyounuo ("LY01008", Bevacizumab injection) in the county markets of several provinces, cities and autonomous regions in mainland China. Under the abovementioned partnership, Boan Biotech and AstraZeneca will work closely together, playing to the strengths of each other, to consolidate and expand the business and market coverage of Boyounuo and enable more patients to benefit from the drug in China.

In December 2021, Rykindo has been included in the 2021 edition of the NRDL. This drug, an intramuscular injection administered once every two weeks, is used to treat clear positive or negative symptoms of acute and chronic schizophrenia as well as various other psychotic disorders. It can alleviate the affective symptoms associated with schizophrenia.

## Business Collaborations

In February 2021, the Group granted Towa Pharmaceutical Co., Ltd. ("Towa") the exclusive right to develop and commercialize a new drug, Rivastigmine MD in Japan. Towa will make an upfront payment to the Group upon signing of the relevant agreement, and will make further payments to the Group upon achievement of certain development, regulatory and sales milestones in relation to Rivastigmine MD. Towa will also make royalty payments on the sales Rivastigmine MD to the Group. In addition, Rivastigmine MD, as a new drug, is expected to enter into phase III clinical trials in Japan and Towa will bear all costs and expenses related to clinical studies and registration purposes in Japan.

As mentioned above, the Group has granted Italfarmaco the exclusive rights to commercialize Rivastigmine MD in Germany, Italy, Portugal and Greece in March 2021. Italfarmaco will also have a preferential right to market Rivastigmine MD in Chile and Vietnam. The Group has granted Esteve the exclusive rights to commercialize the Rivastigmin MD in Spain in September 2021. The Group has also granted Zambon the exclusive rights to commercialize the Rivastigmin MD in Switzerland in November 2021. Boan Biotech has granted AstraZeneca the exclusive promotion rights of Boyounuo in the county markets of several provinces, cities and autonomous regions in mainland China in May 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

In December 2021, the Group has granted Changchun GeneScience Pharmaceutical Co., Ltd. exclusive commercialization rights of Rivastigmine Transdermal Patches in mainland China. The Group will receive an upfront payment of RMB70 million, and the total payment of this agreement is up to RMB216 million.

In February 2022, the Group has entered into an agreement with Chengdu Biostar Pharmaceutical Co., Ltd., a wholly-owned subsidiary of Beijing Biostar Pharmaceutical Co., Ltd. (“Biostar”) in relation to their collaboration in the promotion of natural microbial small molecule anti-tumor drug and national class 1 new drug 優替帝® (generic name: Utidelone injection) in 26 provinces in mainland China. Utidelone injection, the first epothilone antitumor innovative drug in China independently developed by Biostar, was approved by NMPA in 2021 for the treatment of recurrent or metastatic advanced breast cancer, and has been included in the “Chinese Society of Clinical Oncology (中國臨床腫瘤學會) (“CSCO”) Guidelines for the Diagnosis and Treatment of Breast Cancer (2021 Edition)” (“CSCO Guidelines”) and “Guidelines for Clinical Diagnosis and Treatment of Advanced Breast Cancer in China (2020 Edition)”. In addition, clinical studies related to multiple new indications of Utidelone injection are also in progress, involving the treatment of various advanced solid tumors such as non-small cell lung cancer, digestive tract tumors, gynecological tumors, and head and neck tumors.

## Manufacturing

For the year ended 31 December 2021, the Group has been working on establishing a global quality control and quality assurance system as well as information platform to ensure the successful integration of the Group’s global manufacturing facility system. The manufacturing facility of LY01008 (Boyounuo) has successfully passed the inspection by NMPA. The manufacturing site for transdermal patches in Miesbach, Germany, maintained full capacity and met all customer demands in 2021 despite the COVID-19 related constraints on supply chain & logistics in many countries around where customers or suppliers reside. Customer audits during 2021 were performed with very few exceptions remotely and underlined the compliance with GMP standards. Several new customers were on-boarded during the reporting period and their products were launched in accordance with the timelines required by the customers.

## Industry Policy Risk

### Volume-based Procurement (“VBP”)

In the past two years, Chinese medical insurance policy had undergone substantial changes. The National Healthcare Security Administration (“NHSA”) of China has organised several rounds of VBP. In the round of “4+7” VBP, 25 drugs won the bid with an average price cut of 51.0%. In the first round of national VBP in the “Alliance area”, the 25 products cut price 24.0% on average compared with the first round of “4+7” VBP. While in the second round of national VBP in 31 provinces and cities in January 2020, another 32 drugs won the bid with an average price cut of 55.0%.

The Group’s major product Bei Xi was included in the second round of national VBP with a price cut of approximately 60.0%. Even if the sales volume will significantly increase, there would still be an uncertainty in relation to its sales value growth.

In the third round of national VBP organised in August 2020, there are 56 products on the procurement list. Quetiapine fumarate, immediate release was included in the list and the Group’s product Seroquel, as the originator, did not win the bidding. Three generic products won the bidding with a price cut of approximately 60.0%.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the fourth round of national VBP in February 2021, there are 45 products on the procurement list. Quetiapine extended release formulation was included in the list and the Group's product Seroquel XR, as the originator, did not win the bidding. Three generic products won the bidding with a price cut of approximately 60.0%.

In the fifth round of national VBP in June 2021, there are 62 products on the procurement list. The Group's products were not included in this round of procurement.

With the further advancement of medical reform, VBP is expected to become the core task of NHSA. It is generally believed that the drug VBP is expected to be fully implemented and become the standard practice in China.

## National Reimbursement Drug List Adjustment

For the NRDL, a yearly dynamic adjustment has becoming the new normal. Hundreds of exclusive products have been included in the NRDL by the negotiation with NHSA in the past two years. In 2019, exclusive products successfully included in the NRDL by the negotiation had an average price cut of 60.7%. In 2020, exclusive products successfully included in the NRDL by the negotiation had an average price cut of 50.6%. Lipusu has been included in the 2020 edition of the NRDL with a price cut of 67%. Even if the sales volume will significantly increase, there would still be an uncertainty in relation to its sales value growth. In 2021, exclusive products successfully included in the NRDL by the negotiation had an average price cut of 61.7%.

## Outlook

In the year of 2021, the Group's business was influenced by the Chinese medical insurance policy, market factors as well as the pandemic of COVID-19, and has recorded a decrease in revenue of 6.1% according to the IQVIA.

Since it is a highly competitive industry, inevitably all the pharmaceutical companies are facing intense competition from other market participants. Furthermore, the industry is highly constrained by the government policy, which may cause great uncertainty during the pharmaceutical companies' developments. In recent years, policies such as VBP and NRDL have been creating significant impacts to the industry.

However, the Group continued to introduce measures to enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency. In addition, the Group intends to further strengthen its R&D capabilities and develop its pipeline product candidates.

In December 2020, Lipusu, being the Group's paclitaxel formulation with innovative liposome delivery system, has been included in the category B of the new Catalogue of NRDL. All indications of Lipusu, including non-small cell lungs Cancer, ovarian and breast cancer, are reimbursed under the NRDL. The inclusion of Lipusu in the NRDL demonstrates that NHSA recognizes, among other factors, the clinical value, patients benefit and novelty of Lipusu. This will also allow more patients to be able to afford Lipusu, increase its penetration into the relevant indications, and provide momentum to its long-term growth.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group has also made significant efforts on the academic studies of the marketed products. The Group's major product Lipusu has been recommended under the CSCO Guidelines on diagnosis and treatment of breast cancer for first-line rescue chemotherapy for Her2-negative advanced breast cancer and also as a first-line drug on diagnosis and treatment of primary lung cancer. The Group believes that the inclusion of Lipusu in the CSCO Guidelines represents a high recognition of its clinical value, which will significantly increase its penetration into the relevant indications.

In January 2021, the marketing registration of Risperidone Microspheres for Injection (II) ("LY03004", Rykindo) has been approved by NMPA. It is the first innovative formulation developed under the Group's long acting and extended technology platform that received marketing approval. Rykindo is an extended-release microspheres for injection administered bi-weekly for the treatment of schizophrenia.

Compared to orally administered antipsychotics, long-acting formulations do not require daily administration, and are thus better received by patients and could lower the sense of self-stigmatization associated with their diseases. Patients are also less unlikely to skip drug administration, and face a lower risk of drug overdose with long-acting drugs. Patients using long-acting injectables have steady plasma drug levels and will not suffer an immediate relapse when drugs are not administered in a timely manner due to a slower drop of plasma drug level. Rykindo can significantly improve the medication compliance issues which are common among patients with schizophrenia in relation to oral antipsychotic drugs, and simplify the treatment regimen.

Rykindo also has several advantages over another marketed long-acting injectable drug. For example, unlike the reference drug, there is no need for administration of the oral formulation following the first injection of Rykindo. Furthermore, steady plasma drug levels can be reached much faster with Rykindo than with the reference product. Thus, patients at acute phase who are less compliant and cooperative can benefit from the fast symptom control afforded by Rykindo. After the discontinuation of use, the concentration of Rykindo in human body drops markedly faster than that of the reference drug, making it convenient for doctors to adjust dosage according to patients' conditions. Patients using Rykindo also have stable clinically effective plasma drug level and can benefit from more convenient clinical treatment as a result.

In December 2021, Rykindo has been included in the 2021 edition of the NRDL, which will bring new hope to about 10 million schizophrenia patients in China.

In May 2021, the marketing registration in relation to the Bevacizumab injection ("LY01008", Boyounuo) product of Boan Biotech has been approved by NMPA for the treatment of advanced, metastatic or recurrent non-small cell lung cancer and metastatic colorectal cancer. It is the first antibody drug developed by Boan Biotech which received marketing approval. In July 2021, LY01008 has been approved by NMPA for the treatment of recurrent glioblastoma. In February 2022, Boyounuo has been approved by NMPA for the treatment of epithelial ovarian, fallopian tube or primary peritoneal cancer, and cervical cancer. Boyounuo is an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin independently developed by Boan Biotech. The significant efficacy and safety of Bevacizumab injection have been widely recognized in the world. According to the data from IQVIA, global sales of Bevacizumab injection were USD6.09 billion, and sales in China were RMB3.63 billion in 2020.

In May 2021, Rivastigmine MD is eligible for marketing authorization by individual member states in the EU. In September 2021, the Rivastigmine MD received marketing authorization in the UK.

Rivastigmine MD is a twice-weekly innovative patch formulation of Rivastigmine for the treatment of mild to moderate dementia associated with Alzheimer's disease. The product was developed by the Group on its proprietary transdermal patch platform and is one of the Group's core products in the central nervous system therapeutic field.

# MANAGEMENT DISCUSSION AND ANALYSIS

Rivastigmine is in a class of medicines called cholinesterase inhibitors. Such medicines can improve cognitive functions, such as memory and thinking, by increasing the amount of a certain natural substance in the brain and amplifying the communication channels between nerve cells, which are less active in individuals with mild to moderate Alzheimer's disease. The drug is currently available in the form of tablets and patches.

Rivastigmine MD requires lower frequency of application than the Rivastigmine once-daily patches generally available in the market, enabling it to improve patients' medication adherence. Due to its transdermal route of administration, Rivastigmine MD is convenient for patients who have difficulty in swallowing, and it might have the potential to lower the incidence of gastrointestinal adverse reactions such as nausea and vomiting compared with the oral form. The Group has filed, and has been granted, a portfolio of international patents protecting Rivastigmine MD.

In addition to Rykindo, Boyounuo and Rivastigmine MD, for the past year, the Group has made remarkable progresses in R&D fields. In China, the marketing authorization application of LY03005, BA6101, LY01005 and LY021702 has been accepted by CDE; marketing authorization application of LY01017 has submitted in Hong Kong, China; LY09004 entered into phase III clinical trial; LYCovMab entered into phase II clinical trial; LY03014, LY09606, BA1104, BA5101, BA1105, LY03009 and BA1201 entered into phase I clinical trial. Internationally, LY03003 completed phase I clinical trial in Japan; LY03009 commenced phase I clinical trial in Australia; LY03009 has been approved to initiate clinical trial in the U.S.; LY03015 has submitted the IND application in the U.S.

For sales and distribution of oncology products, with the Lipusu included in the NRDL, the Group will deepen the penetration of market coverage into lower-tier hospitals. In addition, Utidelone injection will synergize with the Group's existing resources and advantages in the field of oncology to benefit more patients, and is also expected to enhance the Group's product portfolio in complement with its anti-tumor products, accelerating the Group's layout and development in this field. For sales and distribution of CNS products, the Group has built a CNS sales team of over 110 representatives. With the market synergy of Seroquel and Seroquel XR, Rykindo approved to be marketed and included in the latest NRDL in China will become the Group's new growth points. For global markets, the Group will continuously search regional partners. The Group's Rivastigmine MD has been approved in EU and UK market, it will contribute to the growth of the Group's global sales.

Boan Biotech has also established a sales and marketing team to commercialize Boyounuo in the principal markets of China. In the meanwhile, Boan Biotech granted AstraZeneca the exclusive promotion rights of Boyounuo in the county markets of several provinces, cities and autonomous regions in mainland China in May 2021. Boan Biotech and AstraZeneca will work closely together, playing to the strengths of each other, to consolidate and expand the business and market coverage of Boyounuo and enable more patients to benefit from the drug in China. Additionally, Boan Biotech has developed more than 10 innovative antibody products with international intellectual property protection and biosimilar products. Its diversified products will also contribute to the long term growth of the Group.

Looking forward to the whole year, significant changes have taken place for the macro-economic environment. The resurgence of COVID-19, the global economic fluctuations and policy changes have brought new challenges to the daily operation of the industry. Facing these challenges, the Group needs to further improve the management efficiency and place additional efforts to the R&D of key products, speeding up the launch of the pipeline product candidates. Externally, the Group will keep penetrating into the domestic and international markets and actively seek for cooperation opportunities with third parties to ensure the business maintains high-quality and healthy growth.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### Revenue

For the year ended 31 December 2021, the Group's revenue amounted to approximately RMB5,200.2 million, as compared to RMB5,539.6 million for the year ended 31 December 2020, representing a decrease of approximately RMB339.4 million, or 6.1%. The decrease was mainly attributable to a decrease of sales from certain products as further elaborated below.

For the year ended 31 December 2021, the Group's revenue from sales of oncology products decreased to RMB1,414.1 million, as compared to RMB2,235.2 million for the year ended 31 December 2020, representing a decrease of approximately RMB821.1 million, or 36.7%, primarily attributable to the decrease in average selling price of various key oncology products of the Group.

For the year ended 31 December 2021, revenue from sales of cardiovascular system products increased to RMB1,427.3 million, as compared to RMB1,004.5 million for the year ended 31 December 2020, representing an increase of approximately RMB422.8 million, or 42.1%, primarily attributable to the increase in sales volume of various cardiovascular system products of the Group.

For the year ended 31 December 2021, revenue from sales of alimentary tract and metabolism products increased to RMB898.5 million, as compared to RMB733.4 million for the year ended 31 December 2020, representing an increase of approximately RMB165.1 million, or 22.5%, primarily attributable to the increase in sales volume of various other alimentary tract and metabolism products of the Group.

For the year ended 31 December 2021, revenue from CNS products decreased to RMB1,323.8 million, as compared to RMB1,401.5 million for the year ended 31 December 2020, representing a decrease of approximately RMB77.7 million or 5.5%.

For the year ended 31 December 2021, revenue from sales of other products decreased to RMB136.6 million, as compared to RMB165.1 million for the year ended 31 December 2020, representing a decrease of approximately RMB28.5 million, or 17.3%, primarily attributable to the decrease in sales volume of various other products of the Group.

### Cost of Sales

The Group's cost of sales increased from RMB1,549.0 million for the year ended 31 December 2020 to approximately RMB1,803.5 million for the year ended 31 December 2021, which accounted for approximately 34.7% of the Group's total revenue for the same year. The Group's increase in cost of sales margin was mainly attributable to the decrease in average selling price of few of the Group's key products for the year ended 31 December 2021, as compared to year 2020.

### Gross Profit

For the year ended 31 December 2021, the Group's gross profit decreased to RMB3,396.7 million, as compared to RMB3,990.6 million for the year ended 31 December 2020, representing a decrease of approximately RMB593.9 million, or 14.9%. The gross profit margin of 65.3%, decreased from 72.0% for the year ended 31 December 2020, mainly due to decrease in average selling price of few key products of the Group for the year ended 31 December 2021, as compared to year 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Income and Gains

The Group's other income and gains mainly comprised of government grants, interest income and investment income. For the year ended 31 December 2021, the Group's other income and gains decreased to RMB330.7 million, as compared to RMB403.3 million for the year ended 31 December 2020, representing a decrease of approximately RMB72.6 million, or 18.0%. The decrease was mainly attributable to lower government grant recognised during the year.

## Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the year ended 31 December 2021, the Group's selling and distribution expenses amounted to RMB1,704.8 million, as compared to RMB1,663.9 million for the year ended 31 December 2020, representing an increase of RMB40.9 million, or 2.5%. The increase was mainly attributable to staff cost and conference expenses. On the other hand, as a percentage of revenue, the Group's selling and distribution expenses increased to 32.8% as compared to 30.0% for the year ended 31 December 2020.

## Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2021, the Group's administrative expenses amounted to approximately RMB570.8 million, as compared to RMB521.5 million for the year ended 31 December 2020, representing an increase of approximately RMB49.3 million, or 9.5%. The increase was mainly due to higher staff cost during the year.

## Other Expenses

The Group's other expenses primarily consisted of R&D costs, foreign exchange losses, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the year ended 31 December 2021, the Group's other expenses amounted to approximately RMB1,127.6 million, as compared to RMB844.1 million for the year ended 31 December 2020, representing an increase of approximately RMB283.5 million, or 33.6%. The increase was mainly due to one-off provision for legal claim and offset by slightly lower R&D costs during the year. As disclosed in the announcement of the Company dated 22 October 2021, the Group received an arbitration award in favour of the former distributor of Seroquel for its claim against a subsidiary of the Company. In December 2021, the final amount of the arbitration award was determined to be approximately RMB253.2 million, and considering related interests and arbitration fees, the total provision was approximately RMB273.5 million and the Company accordingly made the aforesaid provision in respect of such amount in its financial statements. The subsidiary has applied to the High Court of Hong Kong for the revocation of such award and as at the date of this annual report, the application has not been heard.

## Finance Costs

For the year ended 31 December 2021, the Group's finance costs amounted to RMB399.5 million, as compared to RMB424.0 million for the year ended 31 December 2020, representing a decrease of approximately RMB24.5 million, or 5.8%. The decrease was mainly due to the lower level of the Group's outstanding bank borrowings for the year ended 31 December 2021 as compared to the corresponding year ended 31 December 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Income Tax Expense

For the year ended 31 December 2021, the Group's income tax expense amounted to RMB70.2 million, as compared to RMB238.9 million for the year ended 31 December 2020, representing a decrease of RMB168.7 million, or 70.6%. The effective tax rate for the year ended 31 December 2021 is -94.2% as compared to 25.4% for the year ended 31 December 2020.

## Net Profit

The Group's net profit for the year ended 31 December 2021 was approximately RMB-144.8 million, as compared to RMB703.3 million for the year ended 31 December 2020, representing a decrease of approximately RMB848.1 million, or 120.6%.

The Group's normalised EBITDA (defined as the EBITDA for the year excluding the equity-settled share award expense, fair value change on contingent consideration payable, fair value adjustment of redemption liabilities on non-controlling interests and provision for legal claim) decreased by RMB596.4 million or 30.6% to RMB1,355.3 million as compared to the year ended 31 December 2020. The Group's normalised net profit decreased by RMB475.8 million or 52.2% to RMB435.0 million as compared to the year ended 31 December 2020. Normalised profit attributable to shareholders decreased by RMB473.8 million or 51.9% to RMB439.0 million as compared to the year ended 31 December 2020. Normalised net profit and profit attributable to shareholders is defined as the net profit and profit attributable to shareholders for the year excluding the equity-settled share award expense, fair value changes on contingent consideration payable, fair value adjustment of redemption liabilities on non-controlling interests, convertible bond interest expense and provision for legal claim.

To supplement our financial information presented in accordance with International Financial Reporting Standards ("IFRS"), we also use the aforementioned normalised items as an additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitates comparisons of operating performance from period to period and company to company by adjusting for potential impacts of non-recurring and certain non-cash items and our management considers these non-IFRS measures to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. These normalised items do not have standardised meanings prescribed by IFRS and may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measure has limitations as an analytical tool, and the shareholders of the Company should not consider it in isolation from, or as substitute for analysis of, or our results of operations as reported under IFRS.

## Liquidity, Financial and Capital Resources

As at 31 December 2021, the Group had net current assets of approximately RMB3,066.5 million, as compared to approximately RMB2,736.3 million as at 31 December 2020. The current ratio of the Group increased slightly to approximately 1.42 as at 31 December 2021 from approximately 1.38 as at 31 December 2020. The increase in net current assets was mainly attributable to higher receivables and slightly lower level of loans and borrowings under the Group's current liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Borrowings and Pledge of Assets

As at 31 December 2021, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB7,620.1 million, as compared to approximately RMB8,170.6 million as at 31 December 2020. Amongst the loans and borrowings, approximately RMB5,263.2 million are repayable within one year, and approximately RMB2,356.9 million are repayable after one year. RMB4,363.9 million of the loans and borrowings of the Group carried interest at fixed interest rate. As at 31 December 2021, the Group's borrowings were primarily denominated in RMB, Euro and U.S. dollars, and the cash and cash equivalents were primarily denominated in RMB, Euro and U.S. dollars.

## Loan Agreement with Covenants Relating to Specific Performance Obligations of the Controlling Shareholder

As disclosed in the announcement of the Company dated 2 August 2018, pursuant to the term of the facility agreement dated 2 August 2018 ("August Facility Agreement") entered into between Luye Pharma Europe AG (formerly known as Luye Pharma Switzerland AG) ("LPEU") and a bank (the "Bank"), the Bank has agreed to grant to LPEU a term loan facility of up to EUR120 million for a term of 60 months from the date of initial utilisation under the August Facility Agreement. Under the August Facility Agreement, in the event that LuYe Pharmaceutical Investment Co., Ltd., a controlling shareholder of the Company, ceases to be (i) the actual controller; or (ii) the first majority/single largest shareholder of the Company, all or any part of the commitments under the August Facility Agreement may be cancelled and all amounts outstanding under the August Facility Agreement may become immediately due and payable. Save as disclosed above, as at 31 December 2021, there were no existing loan agreements entered into by the Group with covenants relating to specific performance of the controlling shareholders of the Company discloseable under Rule 13.21 of the Listing Rules.

## Gearing Ratio

As at 31 December 2021, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to 83.6% from 100.9% as at 31 December 2020. The decrease was primarily due to a decrease in the Group's total borrowings taken during the reporting period.

## Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 31 December 2021. The Directors expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Convertible Bonds

On 9 July 2019, the Company issued 1.50% convertible bonds with an aggregate principal amount of US\$300,000,000. There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK\$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The bonds are redeemable at the option of the bondholders at a 3.75% gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25% of its principal amount together with accrued but unpaid interest thereon. The bonds carry interest at a rate of 1.50% per annum, which is payable semiannually in arrears on 9 January and 9 July. For further details, please refer to the announcements of the Company dated 24 June 2019 and 9 July 2019, and the announcements on adjustment to conversion price dated 5 September 2019 and 29 June 2020. As of 31 December 2021, all of the net proceeds of the bonds were allocated or applied to repay loans of the Group and other general corporate purposes.

## Use of Proceeds of Issue of New Shares

On 29 January 2021, the Company and Hillhouse NEV Holdings Limited (“Hillhouse NEV”, a company formed under the laws of British Virgin Islands to which Hillhouse Capital Management, Ltd., a global firm of investment professionals and operating executives focused on building and investing in high quality business franchises that achieve sustainable growth, is the sole investment manager) entered into a subscription agreement, pursuant to which Hillhouse NEV subscribed for 292,406,881 new ordinary shares issued by the Company, representing approximately 8.26% of the issued share capital of the Company as enlarged by the issue of such new shares. The subscription price for such new shares was HK\$4.28 per share which represents a premium of approximately 10.03% over the closing price of HK\$3.89 per share as quoted on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 29 January 2021, being the date of the subscription agreement. For further details, please refer to the announcements of the Company dated 31 January 2021 and 8 February 2021.

The net proceeds from the issue of new shares are approximately RMB1,044,477,000 (equivalent to approximately US\$161,411,163, representing a net price of approximately RMB3.57 per share). As of 31 December 2021, the entire amount of the net proceeds from such issuance has been allocated or applied to refinance the Group’s indebtedness.

The subscription and issue represented an opportunity to raise capital for the Company while having Hillhouse NEV as a strategic investor will strengthen the Company’s shareholder base. Further, the subscription and issue would strengthen the financial position of the Group and provide working capital to the Group.

## Share Award Scheme (the “Scheme”)

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. As at 31 December 2021, the Board has not granted any share to the Group’s employees (2020: Nil) under the Scheme.

## Hedging Activities

As at 31 December 2021, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Employees and Remuneration Policy

As at 31 December 2021, the Group employed a total of 4,845 employees, as compared to a total of 4,963 employees as at 31 December 2020. For the year ended 31 December 2021, the staff costs, (including Directors' emoluments but excluding any contributions to pension scheme), were approximately RMB830.0 million as compared to RMB743.2 million for the year ended 31 December 2020. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

## Significant Investments and Future Plans for Material Investments or Capital Assets

The Group did not hold any significant investment with a value greater than 5% of its total assets as at 31 December 2021. The Group does not have plans for material investments or capital assets.

## Subsequent Events After the Reporting Period

After 31 December 2021 and up to the date of this annual report, there was no event occurred that has significantly affected the Group.

## Final Dividend

No dividends were declared for the year ended 31 December 2021 (2020: Nil).

# DIRECTORS AND SENIOR MANAGEMENT

Set forth below is the composition of the board of directors and senior management of the Company as at 31 December 2021.

## Directors

### Executive Directors

**Mr. Liu Dian Bo**, aged 56, Executive Chairman, is a founding member of our Group. He was appointed as a director of the Company (“Director”) in July 2003. As our Executive Chairman, Mr. Liu is responsible for the overall management, operations and the charting and reviewing of corporate directions and strategies of our Group. Prior to founding our Group, Mr. Liu was a teacher at Yantai Teacher’s College from 1985 to 1989. From 1989 to 1993, Mr. Liu was the general manager of Penglai Huatai Pharmaceutical Co. Ltd. From 1994 to 1999, Mr. Liu was the chairman cum general manager of 山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co., Ltd.) (“Shandong Luye”). From 1999 to the incorporation of our Company in 2003, Mr. Liu was the chairman cum president of Shandong Luye. Mr. Liu obtained a Medical Diploma from Yishui Special Medical College (now known as Shandong Medical College) in July 1985. Mr. Liu is the executive chairman of Shandong Luye and Beijing WBL Peking University Biotech Co., Ltd. (“Beijing WPU”), and a director of the following main subsidiaries of our Company: Yantai Luye Drugs Trading Co., Ltd. (“Luye Trading”), Sichuan Luye Pharmaceutical Co., Ltd., AsiaPharm Investments Limited, AsiaPharm Biotech Pte. Ltd., Luye Biotech (Singapore) Pte. Ltd. and A-Bio Pharma Pte. Ltd.. Mr. Liu is a director of each of Luye Life Sciences Group Ltd. (“Luye Group”), Luye Pharma Holdings Ltd. (“Luye Pharma Holdings”), LuYe Pharmaceutical International Co., Ltd. (“Luye Pharma Intl”), LuYe Investment, Shorea LBG, Ginkgo (PTC) Limited (formerly known as Ginkgo Trust Limited), and Nelumbo Investment Limited.

**Mr. Yang Rong Bing**, aged 56, holds the office of Vice Executive Chairman and is also a founding member of our Group. Mr. Yang was appointed as an Executive Director on 1 March 2007 and was previously a Non-Executive Director from July 2003. Mr. Yang was appointed as a vice executive chairman of the Board with effect from 30 March 2015. Mr. Yang has also been a non-executive director of Shandong Luye since 2000. Prior to that, Mr. Yang was with Jiangsu Xuzhou Bio-Chemical Pharmaceutical Factory from 1988 to 1994 where he worked as an assistant factory head. In 1994, Mr. Yang joined Shandong Luye as a deputy general manager and from 1999 to 2000, he was the chief sales executive and executive director of Shandong Luye. Mr. Yang obtained a Bachelor’s degree in Science from Beijing Normal University in July 1988. Mr. Yang is the executive chairman of Nanjing Luye Pharmaceutical Co., Ltd. (“Nanjing Luye”) and a director of the following main subsidiaries of our Company: Shandong Luye, Luye Trading and Nanjing Luye. Mr. Yang is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and LuYe Investment.

**Mr. Yuan Hui Xian**, aged 63, holds the office of Executive Director and is also a founding member of our Group. Mr. Yuan was appointed as a Director in July 2003 and is in charge of our Group’s public relations. Prior to joining our Group in 1994, Mr. Yuan was a doctor with Shengli Petroleum Administrative Bureau Yantai Sanatorium from 1980 to 1994, where he was in charge of radiation diagnosis. From 1994 to 1999, Mr. Yuan was a deputy general manager with Shandong Luye. From 1999 to the incorporation of our Company in 2003, Mr. Yuan was the vice-president and executive director of Shandong Luye. He has also received a Post-graduate Certificate in National Economics from the China People’s University in February 2003. Mr. Yuan is the executive chairman of Luye Trading and a director of the following main subsidiaries of our Company: Shandong Luye, Nanjing Luye, Shandong Luye Natural Drug R&D Co. Ltd.. Mr. Yuan is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and LuYe Investment.

# DIRECTORS AND SENIOR MANAGEMENT

**Ms. Zhu Yuan Yuan**, aged 41, has been our Executive Director since March 2014. She joined our Group in August 2009 and has 11 years of experience in corporate finance. Before joining our Group, she worked for New Asia Partners Investment Holdings Limited, a Shanghai and Hong Kong-based investment firm focused on assisting Chinese companies in accessing the international capital markets, principally by providing equity capital and corporate finance advisory services. She obtained her Master's degree in Corporate Strategy and Governance from the University of Nottingham in December 2004 and a Bachelor's degree in Finance from Southeast University, the PRC in June 2003. Ms. Zhu is a director of the following subsidiaries of our Company: Luye Pharma Hong Kong Limited, Solid Success Holdings Limited, Apex Group Holdings Limited and Kang Hai Pharmaceutical Technology Development Limited. She is a supervisor of our subsidiary, Beijing WPU. Ms. Zhu is a director of each of Luye Pharma Holdings, Luye Pharma Intl and LuYe Investment.

## Non-executive Directors

**Mr. Song Rui Lin**, aged 60, has been our non-executive Director since March 2017. Mr. Song is the executive chairman of China Pharmaceutical Industry Research and Development Association\* (中國醫藥創新促進會) and the executive deputy director of the Research Centre for Drug Policy and Industrial Development at China Pharmaceutical University\* (中國藥科大學藥物政策與產業經濟研究中心). He also is the executive chairman of China Pharmaceutical Industry Research and Development Association\* (中國醫藥創新促進會), specially-invited expert of Talent Pool Participating in and Discussing State Affairs of the CPPCC, consultant expert of Participating in and Discussing State Affairs of the Chinese Peasants and Workers Democratic Party, a member of the Biotech Advisory Panel of the Stock Exchange, vice chairman of China Alliance of Rare Diseases (CARD), honorary director of Chinese Pharmaceutical Association (CPA), standing director of Chinese Pharmacist Association, council member of the Bethune Charitable Foundation and guest researcher in Shanghai Jiao Tong University. Mr. Song has extensive experience in the research of the PRC healthcare and drugs laws and policies, and was involved in the drafting and review of a number of the current PRC laws and regulations on healthcare and drugs. From 1985 to 2007, Mr. Song served as deputy director (副處長), director (處長) and deputy head (副司長) at the PRC State Council Legislative Office\* (中國國務院法制辦公室). Subsequent to 2008, Mr. Song served as deputy director of the Chinese Pharmaceutical Association\* (中國藥學會) (the "Association") and executive director of the Research Centre for Drug Policies (醫藥政策研究中心) at the Association. He served as the chairman and executive editor of Chinese Journal of New Drugs\* (中國新藥雜誌). Since 2011, Mr. Song has been serving as an expert at the Capital Healthcare Policy Reform Expert Group\* (首都醫療衛生體制改革專家組). Mr. Song obtained a Bachelor of Laws degree from China University of Political Science and Law in 1985 and a Master in Business Administration degree from China Europe International Business School in 2004, and obtained a Doctorate in Social and Administrative Pharmacy from China Pharmaceutical University in 2018.

Mr. Song currently serves as an independent non-executive director at Shanghai Henlius Biotech, Inc. (上海復宏漢霖生物技術股份有限公司) (stock code: 2696), Simcere Pharmaceutical Group Limited (先聲藥業集團有限公司) (stock code: 2096), Mediwelcome Healthcare Management & Technology Inc. (麥迪衛康健康醫療服務科技有限公司) (stock code: 2159) and Jacobio Pharmaceuticals Group Co., Ltd. (加科思藥業集團有限公司) (stock code: 1167), all companies are listed on the Main Board of Stock Exchange.

Mr. Song currently serves as an independent director of a company listed on the Shanghai Stock Exchange, Shenzhen Chipscreen Biosciences Co., Ltd. (深圳微芯生物科技股份有限公司) (stock code: 688321). From March 2017 to March 2021, Mr. Song served as an independent director of Jiangxi Boya Bio-pharmaceutical Co., Ltd.\* (江西博雅生物製藥股份有限公司) (stock code: 300294); from August 2015 to August 2021, he served as 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); from June 2015 to June 2021, he served as 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).

\* denotes English translation of the name of a Chinese company, entity or organisation, and is provided for identification purposes only.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. SUN Xin**, aged 41, is currently a Managing Director at Hillhouse Capital and has been a member of the healthcare private equity team since 2017. He has more than 10 years of experience in financial services and healthcare industries. Prior to joining Hillhouse Capital, he was a vice president of Affinity Equity Partners, an Asia-focused private equity fund based in Hong Kong. Prior to that, he worked at the Investment Banking Division of Goldman Sachs in New York, focusing on healthcare M&A and financing. He started his career in pharmaceutical and biotech industry as a research scientist at Boehringer Ingelheim and Genentech, respectively. Mr. Sun obtained his Master of Business Administration from Columbia Business School, his Master of Science from Duke University and Bachelor of Science from Peking University.

Mr. Sun currently serves as a non-executive director at Shanghai MicroPort MedBot (Group) Co., Ltd. (上海微創醫療機器人(集團)股份有限公司) (stock code: 2252), a company listed on the Main Board of Stock Exchange.

## Independent Non-executive Directors

**Mr. Zhang Hua Qiao**, aged 58, has been our Independent Non-Executive Director since June 2014. Mr. Zhang has 17 years of experience in working in the investment banking industry since 1994. He served as managing director and the co-head of China research team from June 1999 to April 2006 and the deputy head of China investment banking division of UBS AG, Hong Kong Branch from September 2008 to June 2011. He graduated from the Graduate School of the People's Bank of China (中國人民銀行研究生部) with a Master's degree in Economics in 1986, and from the Australian National University with a Master's degree in Economics in January 1991.

As at the date of this annual report, Mr. Zhang holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
Radiance Holdings (Group) Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 9993)	October 2020 to present	Independent non-executive director
Logan Group Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3380)	November 2013 to present	Independent non-executive director
China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1290)	October 2013 to May 2021	Independent non-executive director
Zhong An Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 672)	January 2013 to present	Independent non-executive director
China Smartpay Group Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8325)	September 2017 to January 2020	Non-executive director
Fosun International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 656)	March 2012 to present	Independent non-executive director
Boer Power Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1685)	November 2011 to May 2019	Non-executive director
Haitong International Securities Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 665)	May 2021 to present	Independent non-executive director

# DIRECTORS AND SENIOR MANAGEMENT

**Professor Lo Yuk Lam**, aged 73, has been our Independent Non-executive Director since June 2014. Professor Lo has extensive experience in biotechnology industry, corporate management, academic research and community service.

Currently Professor Lo is serving as the Founding President of HK Bio-Med Innotech Association, and the Honorary Founding Chairman of Hong Kong Biotechnology Organization. In the educational area, Professor Lo has been elected an Honorary Fellow of the Hong Kong University of Science and Technology. He is also the Honorary Professor of several universities in China.

Professor Lo was heavily involved in several committees of the HKSAR Government. He had been served as the Chairman of the Advisory Council for Food Safety of the Food and Health Bureau HKSAR, Director of the Hong Kong Applied R&D Fund Co. Ltd., Chairman of the Biotechnology Committee of the Hong Kong Industry & Technology Development Council, and Chairman of Biotechnology Projects Vetting Committee of the Innovation and Technology Fund, HKSAR.

In mainland China, Professor Lo is a member of Chinese People's Political Consultative Conference in Jilin Province. He was also a consultant of the Centre for Disease Control and Prevention of China. In recognition of his leadership in the community and dedication to his field, Professor Lo has received many awards, such as the "Pericles International Prize" in 2019. He is the second Asian and the first person from Hong Kong to be awarded the Prize since it was founded in 1986. In 2020, Professor Lo was awarded the Bronze Bauhinia Star by the HKSAR government for his outstanding services over the past decades.

In the business sector, Professor Lo had served as the Managing Director of Asia Pacific of Bio-Rad Laboratories (NYSE: BIO) and PerkinElmer (NYSE: PKI). He is the Chairman of GT Healthcare Capital Partners, and Partner & Investment Committee Member of Hongsen Investment Management Limited. As at the date of this annual report, Professor Lo holds directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
Sinovac Biotech Ltd. (SVA: NASDAQ)	March 2006 to present	Independent Director
CSPC Pharmaceutical Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1093)	June 2014 to August 2020	Independent non-executive director
Zhaoke Ophthalmology Limited, a company listed on the Main Board of the Stock Exchange (stock code: 6622)	April 2021 to present	Independent non-executive director

**Mr. Leung Man Kit**, aged 68, has been the Independent Non-executive Director since June 2014. Mr. Leung has over 42 years of experience in project finance and corporate finance. Mr. Leung was a Responsible Officer of Grand Moore Capital Limited from 18 September 2019 to 31 October 2021. Previously, he was a director of Emerging Markets Partnership (Hong Kong) Limited (the principal adviser to the AIG Infrastructure Fund L.P.) in 1999. He also held senior positions in the Hong Kong Branch of the Swiss Bank Corporation, SG Securities (HK) Limited (formerly known as Crosby Securities (Hong Kong) Limited) and Peregrine Capital Limited.

# DIRECTORS AND SENIOR MANAGEMENT

As at the date of this annual report, Mr. Leung holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
China Electronics Optics Valley Union Holding Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 798)*	March 2014 to May 2020	Independent non-executive director
Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1132)*	February 2008 to present	Independent non-executive director
China Ting Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3398)	November 2005 to present	Independent non-executive director
Netease, Inc., a company listed on NASDAQ and Main Board of the Stock Exchange (stock code: NTES, 9999)*	July 2002 to present	Independent non-executive director

\* Mr. Leung is/was also the chairman of the audit committee of these companies.

Mr. Leung obtained a Bachelor's degree in Social Sciences from University of Hong Kong in October 1977.

**Mr. Choy Sze Chung Jojo**, aged 63, has been the Independent Non-executive Director since June 2014. Mr. Choy has extensive experience in the securities industry and business management. He is currently the vice chairman of National Resources Securities Limited and the permanent honourable president and vice chairman of the Institute of Securities Dealers Ltd.

Mr. Choy is a fellow member of the Hong Kong Institute of Directors, the Institute of Financial Accountants, the Institute of Public Accountants and the Institute of Compliance Officers. Mr. Choy is also a member of the Election Council for Hong Kong Deputies to the 12th and the 13th National People's Congress of the People's Republic of China, a member of the 4th, the 5th and 6th term Chief Executive Election Committee of Hong Kong and a member of Chinese People's Political Consultative Conference, Shantou.

# DIRECTORS AND SENIOR MANAGEMENT

As at the date of this annual report, Mr. Choy holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
First Credit Finance Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8215)	November 2017 to present	Independent non-executive director
New Sparkle Roll International Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 970)	October 2007 to present	Independent non-executive director
Zhaojin Mining Industry Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1818)	May 2007 to present	Independent non-executive director

Mr. Choy obtained a Master's degree in Business Administration from University of Wales, Newport in October 2004 and a Master's degree in Business Law from Monash University in April 2007, a Honorary doctorate of Management from Lincoln University in August 2018 and a Fellowship from Canadian Chartered Institute of Business Administration.

## Senior Management

Our senior management comprises Executive Directors and the following persons:

**Mr. Liu Yuan Chong**, aged 58, joined our Group in March 1997 and is currently our Chief Financial Officer. He started as the accountant-in-charge at our finance department, and was promoted to chief of the finance department in 2005 and to our Chief Financial Officer in 2012. Prior to joining our Group, he was the head of accounting of Yantai Alternator Plant (煙台家電交電總公司). He also taught at Yantai Business Vocational Secondary School (煙台商業中專) from September 1983 until September 1986. From 1980 to 1983, he was employed by Shandong Laiyang Biochemical Pharmaceutical Factory. Mr. Liu received a Post-Graduate Certificate in Financial Management from Peking University in October 2006.

**Dr. Li You Xin**, aged 60, joined our Group in October 2007 and is currently our Senior Vice President and head of R&D. Dr. Li has extensive experience in drug design. He is responsible for a number of our R&D platforms including our long-acting and extended release technology and targeted drug delivery platforms. Under Dr. Li's leadership, the Company was awarded the State Key Laboratory of Long-acting and Targeting Drug Delivery System (長效和靶向製劑國家重點實驗室). Dr. Li is also a professor at the College of Life Sciences of Jilin University. Prior to joining our Group, he was a senior scientist officer at Schwarz Pharma AG. He was also a Research Fellow of Alexander von Humboldt Foundation of University of Marburg from 1991 to 1993. Dr. Li obtained a Bachelor's degree in Chemistry in July 1982, a Master of Science degree in July 1985 and a Ph.D. in Science in July 1988 from Peking University.

**Ms. Xue Yun Li**, aged 58, joined our Group in 1994 and is currently our Senior Vice President and the general manager of Shandong Luye and responsible for manufacturing and quality management of subsidiaries. From 1999 to 2009, she was the director of the R&D centre and then vice president of R&D of Shandong Luye. Prior to joining our Group, she was a technician and the chief of scientific research at Shenyang Liaohe Pharmaceutical Factory from 1988 to 1994. Ms. Xue obtained a Bachelor's degree in Engineering from Jiamusi University in July 1988 and a Master's degree in Integrated Traditional Chinese and Western Clinical Medicine from Shandong University of Traditional Chinese Medicine in July 2011.

# REPORT OF DIRECTORS

The directors of the Company (the “Directors”) are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

## Corporate Information

The Company was incorporated in the Bermuda on 2 July 2003 as an exempted company with limited liability under the laws of Bermuda (the “Companies Law”). The Company’s shares (the “Shares”) were listed on the Main Board of the Stock Exchange on 9 July 2014.

## Principal Activities

The principal activity of the Company is investment holding and the Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC. Details of the principal activities of the Company’s subsidiaries are set out in note 1 to the consolidated financial statements of this annual report.

## Business Review and Performance

A fair review of the Group’s business during the year, including an analysis of which using financial key performance indicators, and the outlook of the Group’s business are provided in the section headed “Management Discussion and Analysis” of this annual report, which discussion forms part of this “Report of Directors”.

## Results

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss on page 65 of this annual report.

## Dividend Policy and Final Dividend

No dividends were declared for the year ended 31 December 2021.

It is the policy of the Board, in considering payment of dividends, to allow Shareholders to share the Company’s profits whilst retaining adequate reserves for the Group’s future growth.

The Board shall consider the following factors before declaring or recommending dividends:

- the Company’s actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- the Group’s working capital requirements, capital expenditure requirements and future expansion plans;

# REPORT OF DIRECTORS

- the Group's liquidity position;
- general economic condition, business cycle of the Group's business and other internal or external factors that may affect the business or financial performance and position of the Company; and
- other factors that the Board considers relevant.

The payment of dividends is also subject to applicable laws and regulations including the laws and regulations of Bermuda and the articles of association of the Company. The Board will continually review the dividend policy from time to time and there is no assurance that dividends will be paid in any particular amount for any given period.

## Financial Summary

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

## Risks and Uncertainties Relating to the Group's Business

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown 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.

### Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

### Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

### Manpower and Retention Risk

The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel.

# REPORT OF DIRECTORS

## Financial Risk

The Group also faces financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of these financial risks are set out in note 45 to the consolidated financial statements of the Group.

In light of the above risks relevant to and potentially affecting the Group's business, the Group has certain risk management procedures with a view to minimise the risks and to manage, but not eliminate, the risk of failure to fulfil business objectives. Please refer to the section headed "Risk Management and Internal Control" in the Corporate Governance Report for policies concerning the Group's risk management system.

## Legal Proceedings

As disclosed in the announcement of the Company dated 22 October 2021, the Group received an arbitration award in favour of the former distributor of Seroquel for its claim against Luye Pharma Hong Kong Limited, a subsidiary of the Company. In December 2021, the final amount of the arbitration award was determined to be approximately RMB253.2 million, and considering related interests and arbitration fees, the Company accordingly made a total provision of RMB273.5 million in its financial statements for the year ended 31 December 2021. Luye Pharma Hong Kong Limited has applied to the High Court of Hong Kong for the revocation of such award and as at the date of this report, the application has not been heard.

## Environmental Policies and Performance

Our Group is committed to achieving environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group's business is subject to national, provincial and local environmental laws and regulations of the PRC. During the year ended 31 December 2021, so far as our Directors are aware, there were no material breach of applicable environmental laws and regulations of the PRC that have a significant adverse impact on the business and operations of our Group.

Our Group also encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs — reduce, recycle and reuse and enhance environmental sustainability.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company's Environmental, Social and Governance Report will be available on its website within three months from the publication of this annual report.

# REPORT OF DIRECTORS

## Compliance with Laws and Regulations

Our Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. Our Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. For the year ended 31 December 2021, the Group has complied, to the best of our knowledge, in all material respects, with all relevant rules and regulations that have a significant impact on the Company.

## Key Relationships with Employees, Customers and Suppliers

Being people-oriented, our Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

Our Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Our Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

## Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 17.5% of the total sales for the year ended 31 December 2021 and sales to the largest customer included therein amounted to 9.2% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 46.8% of the total purchase for the year ended 31 December 2021 and purchase from the Group's largest supplier included therein amounted to 13.7% of the total purchase for the year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2021 are set out in note 13 to the consolidated financial statements in this annual report.

## Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2021 are set out in note 33 to the consolidated financial statements in this annual report.

# REPORT OF DIRECTORS

## Reserves

Details of movements in the reserves of the Group during the year are set out on pages 69 to 70 in the consolidated statement of changes in equity of this annual report and in note 34 to the consolidated financial statements.

## Distributable Reserves

As at 31 December 2021, the Company's and the Group's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately RMB-969.5 million (as at 31 December 2020: RMB-724.9 million) and RMB5.0 billion (as at 31 December 2020: RMB5.2 billion), respectively.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2021 are set out in note 27 to the consolidated financial statements in this annual report.

## Directors

The Directors during the year ended 31 December 2021 and up to the date of this annual report were:

### Executive Directors:

Mr. LIU Dian Bo (*Executive Chairman and Chief Executive Officer*)  
Mr. YANG Rong Bing (*Vice Executive Chairman*)  
Mr. YUAN Hui Xian  
Ms. ZHU Yuan Yuan

### Non-executive Directors:

Mr. SONG Rui Lin  
Mr. SUN Xin (appointed on 8 February 2021)

### Independent non-executive Directors:

Mr. ZHANG Hua Qiao  
Professor LO Yuk Lam  
Mr. LEUNG Man Kit  
Mr. CHOY Sze Chung Jojo

In accordance with the bye-laws of the Company (the "Bye-laws"), all Directors are subject to retirement by rotation at least once every three years and any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

# REPORT OF DIRECTORS

In accordance with bye-law 84(1) of the Bye-laws, Mr. Liu Dian Bo, Mr. Yuan Hui Xian, Mr. Zhang Hua Qiao and Mr. Choy Sze Chung Jojo will retire by rotation and being eligible, will offer themselves for re-election as the Directors at the forthcoming annual general meeting (the “AGM”).

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders.

## Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 26 to 31 of this annual report.

## Confirmation of Independence of Independent Non-executive Directors

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

## Directors’ Service Contracts

Each of the executive Directors has entered into an appointment letter with the Company for a term of three years commencing from 9 July 2020 and may be terminated in accordance with the respective terms of the appointment letters.

Mr. Song Rui Lin and Mr. Sun Xin, the non-executive Directors, each entered into an appointment letter with the Company for a term of two years commencing from 29 March 2021 and 8 February 2021 respectively, which may be terminated in accordance with the terms of the appointment letter.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 9 July 2020 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Interests in Transactions, Arrangements and Contracts

At the end of the year or at any time during the year, other than those transactions disclosed in note 39 to the consolidated financial statements and under the section headed “Connected Transaction” in this annual report, (a) no transactions, arrangements and contracts of significance in relation to the Group’s business to which the Company, Company’s subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted; and (b) there is no contract of significance (i) between the Company or its subsidiaries and Company’s controlling shareholder or its subsidiaries; and (ii) for the provision of services to the Company or any of its subsidiaries by Company’s controlling shareholder or its subsidiaries.

# REPORT OF DIRECTORS

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2021.

## Equity-Linked Agreements

Save as disclosed in this annual report, no equity-linked agreement that will or may result in the Company issuing Shares nor require the Company to enter into an agreement that will or may result in the Company issuing Shares was entered into by the Company during the year or subsisted at the end of the year under review.

## Emolument Policy

The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. In addition, social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations. For employee retirement benefits, please refer to note 2.4 to the consolidated financial statements in this annual report. A remuneration committee of the Board was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. Our Group participates in the national pension schemes as defined by the laws of the countries in which it has operations and our Group makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore. The Company's subsidiaries established and operating in mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC.

## Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements in this annual report.

## Share Option Scheme

During the year ended 31 December 2021 and up to the date of this annual report, the Group has no share option scheme.

# REPORT OF DIRECTORS

## Luye Pharma Share Award Scheme

The Company adopted a share award scheme on 10 January 2017 (the “Scheme”). The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive Directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. During the year ended 31 December 2021, the Board has not granted any share to employees (2020: Nil) under the Scheme.

The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. No Shareholders’ approval is required to adopt the Scheme. Please refer to the Company’s announcement dated 10 January 2017 for information.

A summary of terms of the Scheme is set out below:

### i. Purpose

The purpose of the Scheme is to recognise contributions by certain employee, including any executive director of any member of the Group except for the current executive Directors (“Employee”) and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

### ii. Duration

Subject to any early termination as may be determined by the Board in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of 10 years commencing on the 10 January 2017 (the “Adoption Date”). As at the date of this annual report, the Scheme has a remaining life of around 4 years and 8 months.

### iii. Administration

The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the “Trustee”) in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (the “Trust Deed”). The decision of the Board with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any shares held under the Trust.

### iv. Contribution of funds to the Trust

The Board may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the Board. The committee appointed and authorised by the Board to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the Board (“EBT Committee”), may from time to time instruct the Trustee in writing to purchase Shares on the Stock Exchange specifying the timing of purchase, maximum amount of funds to be used and the range of prices within which such Shares are to be purchased.

# REPORT OF DIRECTORS

## v. Eligible persons for the Scheme and grant of Awarded Shares

The Board may from time to time select any Employee (excluding any Employee who is resident in a place where the award of, in respect of a Selected Employee, such number of Shares awarded by the Board ("Awarded Shares") and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Scheme is not permitted under the laws or regulations of such place or where in the view of the Board or the trustee of the Scheme, compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such Employee ("Excluded Employee")) for participation in the Scheme as a Selected Employee and grant to such Selected Employee Awarded Shares in such number at a stated price at which an Award Share is granted to a Selected Employee ("Grant Price") and on and subject to such terms and conditions as it may in its discretion determine.

## vi. Vesting of Awarded Shares

The Board is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the Selected Employee. Upon the vesting of the Awarded Shares, the Selected Employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the Selected Employee shall pay the Company the Grant Price for the Awarded Shares.

## vii. Rights attached to the Awarded Shares

A Selected Employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a Selected Employee, the date on which his entitlement to the Awarded Shares is vested in such Selected Employee pursuant to the terms of the Scheme ("Vesting Date").

## viii. Non-transferrable

Prior to the Vesting Date, any award of Awarded Shares is personal to the Selected Employee to whom it is made and is not assignable and no Selected Employee may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award.

## ix. Lapse of Awarded Shares

In the event that a Selected Employee has ceased to be an Employee, the relevant award made to such Selected Employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

## x. Voting rights of the Trustee

The Trustee may not exercise the voting rights in respect of any Shares held under the Trust.

## xi. Restrictions

The Trustee may not acquire or sell any Shares at any time when dealings in the Shares are prohibited under any code or requirements of the Listing Rules and all applicable laws.

## xii. Scheme Limit

The maximum number of Shares and Awarded Shares which may be held under the Trust and managed by the Trustee may not exceed 2% of issued share capital of the Company at any single point in time during the life of the Trust.

# REPORT OF DIRECTORS

## xiii. Alteration of the Scheme

The Scheme may be altered in any respect by a resolution of the Board provided that no such amendment shall operate to affect materially and adversely any subsisting rights of any Selected Employee.

## xiv. Termination

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the Board provided that such termination shall not materially and adversely affect any subsisting rights of any Selected Employee.

The fair value of services received in return for Shares granted is measured by reference to the fair value of Shares granted. The fair value of the Shares granted is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 Shares (the “2017 Awarded Shares”) were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2018 to those selected employees, an aggregate of 20,098,000 shares (the “2018 Awarded Shares”) were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2018 Awarded Shares is 15 May 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2019 to those selected employees, an aggregate of 25,206,000 shares (the “2019 Awarded Shares”) were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2019 Awarded Shares is 15 May 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

As at 31 December 2021, the Board has not granted any share to employees nor any share being cancelled or lapsed under the Scheme.

## Changes to Information in respect of Directors

Save as disclosed in the section headed “Directors and Senior Management” in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules for the year ended 31 December 2021.

# REPORT OF DIRECTORS

## Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures

As at 31 December 2021, the interests or short positions of the Directors or chief executive 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 Securities and Futures Ordinance (the "SFO")) 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 which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), are as follows:

### (i) Interest in the Company

Name of Director	Nature of interest	Number of securities	Approximate percentage of shareholding
Liu Dian Bo <sup>(1)(2)</sup>	Founder of a discretionary trust	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
Zhang Hua Qiao <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Leung Man Kit <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Song Rui Lin <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

#### Notes:

1. Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo (PTC) Limited, Nelumbo Investments Limited, Luye Life Sciences Group Ltd., Luye Pharma Holdings Ltd., LuYe Pharmaceutical International Co., Ltd. and LuYe Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,257,196,703 ordinary shares and 72,701,950 short position in the Company held by LuYe Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd.
2. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.
3. These represent the interests in underlying Shares in respect of the awarded shares granted by the Company under Luye Pharma Share Award Scheme.

# REPORT OF DIRECTORS

## (ii) Interest in associated corporations

Name of Director	Associated Corporation	Nature of interest	Number of securities	Approximate percentage in the registered capital of the associated corporation
Liu Dian Bo	Luye Life Sciences Group Ltd. <sup>(2)</sup>	Founder of a discretionary trust	8,400(L)	70%
Liu Dian Bo	Ginkgo (PTC) Limited <sup>(1)</sup>	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Luye Pharma Holdings Ltd. <sup>(2)</sup>	Founder of a discretionary trust	1,136,852(L)	100%
Liu Dian Bo	LuYe Pharmaceutical International Co., Ltd. <sup>(2)</sup>	Founder of a discretionary trust	202,180,988(L)	100%
Liu Dian Bo	LuYe Pharmaceutical Investment Co., Ltd. <sup>(2)</sup>	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Nelumbo Investments Limited <sup>(1)</sup>	Founder of a discretionary trust	1(L)	100%
Yang Rong Bing	Luye Life Sciences Group Ltd. <sup>(2)</sup>	Beneficial interest	1,800(L)	15%
Yuan Hui Xian	Luye Life Sciences Group Ltd. <sup>(2)</sup>	Beneficial interest	1,800(L)	15%

Remark: The Letter "L" denotes long position in such securities.

### Notes:

- The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo.
- Luye Life Sciences Group Ltd. holds the entire issued ordinary share capital of Luye Pharma Holdings Ltd. LuYe Pharmaceutical International Co., Ltd. is wholly-owned by Luye Pharma Holdings Ltd. and LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd.

Save as disclosed above, as at 31 December 2021, none of our Directors and chief executive of the Company has any interests or short positions 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 (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the year ended 31 December 2021.

# REPORT OF DIRECTORS

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2021, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of securities	Approximate percentage of shareholding
LuYe Pharmaceutical Investment Co., Ltd. <sup>(1)</sup>	Beneficial owner	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
LuYe Pharmaceutical International Co., Ltd. <sup>(1)</sup>	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
Luye Pharma Holdings Limited <sup>(1)</sup>	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
Luye Life Sciences Group Ltd. <sup>(2)</sup>	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
Nelumbo Investments Limited <sup>(2)</sup>	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
Ginkgo (PTC) Limited <sup>(2)</sup>	Trustee	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
Shorea LBG <sup>(2)</sup>	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.50% 2.05%
Hillhouse Capital Management, Ltd. <sup>(3)</sup>	Investment manager	552,324,108(L)	15.60%
Hillhouse Fund V, LP. <sup>(3)</sup>	Interest in controlled corporation	552,324,108(L)	15.60%
Hillhouse NEV Holdings Limited <sup>(3)</sup>	Beneficial owner	552,324,108(L)	15.60%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

### Notes:

1. LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd., which is in turn wholly-owned by Luye Pharma Holdings Ltd..
2. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.
3. Hillhouse NEV Holdings Limited is wholly-owned by Hillhouse Fund V, L.P. and Hillhouse Capital Management, Ltd. is the sole investment manager of Hillhouse NEV Holdings Limited.

Save as disclosed above, as at 31 December 2021, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

# REPORT OF DIRECTORS

## Purchase, Sale or Redemption of Listed Securities

On 8 February 2021, the Company allotted and issued 292,406,881 new shares of the Company at HK\$4.28 per Share in cash to Hillhouse NEV pursuant to the subscription agreement dated 29 January 2021. Please refer to the section headed “Use of Proceeds of Issue of New Shares” above for further details. Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2021.

## Tax Relief

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holding of Company’s shares.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company’s Bye-laws or the Companies Law that would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

## Permitted Indemnity Provision

According to the Bye-laws of the Company, among others, the Directors acting in relation to any of the affairs of the Company may be entitled to be indemnified and secured harmless out of assets and profits of the Company from and against all, among others, actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

## Director’s and Controlling Shareholder’s Interest in Competing Business

A deed of non-compete undertaking dated 19 June 2014 (the “Deed of Non-compete Undertaking”) was entered into between the Company and the controlling shareholder and the executive chairman of the Company, Mr. Liu Dian Bo, who has undertaken to our Company that conditional upon Listing, he will not carry on, engage, invest, participate or otherwise be interested in any business which competes or is likely to compete with any of the existing and/or future businesses carried on by any shareholder of our Group in relation to developing, producing, marketing and selling innovative pharmaceutical products.

As disclosed in the Prospectus, except for Mr. Liu Dian Bo’s interest in our Group, he is interested in the equity interest of 蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co. Ltd.) (“Wuhu Luye”), which is owned as to 90% by 綠葉投資集團有限公司 (Luye Investment Group Co. Ltd.) (“Luye Investment Group”) and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.), an independent third party. Luye Investment Group is owned by the founding shareholders (namely, Messrs. Liu Dian Bo, Yuan Hui Xian (“Mr. Yuan”) and Yang Rong Bing (“Mr. Yang”)) as to 70% by Mr. Liu Dian Bo and 15% by each of Mr. Yang and Mr. Yuan (each an executive Director). Wuhu Luye is primarily engaged in the production and sale of Chinese medicine covering a number of therapeutic areas including cardiocerebral vascular, neurology, neuropsychiatry and hepatology, which competes or is likely to compete, either directly or indirectly, with our Group’s business.

# REPORT OF DIRECTORS

By reasons of the fact that Wuhu Luye and our Group have (i) different management teams; (ii) separate production facilities and respective procurement teams to source raw materials and suppliers; (iii) independent sales and marketing activities; and (iv) independent financial and accounting systems, and that Mr. Liu Dian Bo has already given an undertaking pursuant to the Deed of Non-compete Undertaking, our Group is therefore capable of carrying on its business independently of, and at arms length from, the excluded business as described above.

The Company has received an annual written confirmation from the controlling shareholder, Mr. Liu Dian Bo, in respect of his compliance with the Deed of Non-compete Undertaking.

The independent non-executive Directors have reviewed the Deed of Non-compete Undertaking and assessed whether the controlling shareholder has abided by the non-competition undertaking. The independent non-executive Directors confirmed that the controlling shareholder has not been in breach of the non-competition undertaking during the year ended 31 December 2021.

Save as disclosed above, none of the Directors held any interests in any business that compete directly against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2021.

## Connected Transaction

The Company has complied with the disclosure requirements, to the extent they are not waived by the Stock Exchange, in accordance with Chapter 14A of the Listing Rules with respect to the connected transaction entered into by the Group during the year ended 31 December 2021.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2021 is contained in note 39 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of “connected transactions” or “continuing connected transactions” under Chapter 14A of the Listing Rules.

## Charitable Donations

During the year ended 31 December 2021, the Group made charitable and other donations in a total amount of RMB1.1 million.

## Post Balance Sheet Events

After 31 December 2021 and up to the date of this annual report, to the best of the Directors' knowledge, there was no event occurred that has significantly affected the Group.

## Audit Committee

The audit committee has reviewed together with the management the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2021.

# REPORT OF DIRECTORS

## Code of Conduct regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2021.

## Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 49 to 59 of this annual report.

## Closure of Register of Shareholders

The Company's AGM will be held on Monday, 20 June 2022. For determining the entitlement to attend and vote at the AGM, the register of shareholders of the Company will be closed from Wednesday, 15 June 2022 to Monday, 20 June 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, 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 p.m. on Tuesday, 14 June 2022.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the Directors at the latest practicable date in relation to this annual report, there was a sufficient public float of the issued shares of the Company under the Listing Rules.

# REPORT OF DIRECTORS

## Auditor

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2021.

Ernst & Young shall retire at the AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as independent auditor of the Company will be proposed at the AGM.

On behalf of the Board

**Liu Dian Bo**

*Chairman*

Hong Kong, 29 March 2022

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save for the deviation disclosed in this annual report, in the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code in force during the year during the year ended 31 December 2021.

## The Board

### Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group’s strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company’s affairs, the Board has established three Board committees including the audit committee (the “Audit Committee”), the remuneration committee (the “Remuneration Committee”) and the nomination committee (the “Nomination Committee”) (together, the “Board Committees”). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

### Board Composition

As at the date of this annual report, the Board comprises 10 members, consisting of 4 executive Directors, 2 non-executive Directors and 4 independent non-executive Directors as set out below:

#### Executive Directors

Mr. LIU Dian Bo (*Executive Chairman and Chief Executive Officer*)  
Mr. YANG Rong Bing (*Vice Executive Chairman*)  
Mr. YUAN Hui Xian  
Ms. ZHU Yuan Yuan

#### Non-executive Directors

Mr. SONG Rui Lin  
Mr. SUN Xin (appointed on 8 February 2021)

#### Independent Non-executive Directors

Mr. ZHANG Hua Qiao  
Professor LO Yuk Lam  
Mr. LEUNG Man Kit  
Mr. CHOY Sze Chung Jojo

# CORPORATE GOVERNANCE REPORT

The biographies of the Directors are set out under the section headed “Directors and Senior Management” of this annual report.

During the year ended 31 December 2021, the Board at all times met the requirements of 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 independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company also complied Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

None of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

## Induction and Continuous Professional Development

Each newly appointed Director is 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 status, 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.

According to A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. According to the records kept by the Company, each of the Directors during the reporting period, namely, Mr. LIU Dian Bo, Mr. YANG Rong Bing, Mr. YUAN Hui Xian, Ms. ZHU Yuan Yuan, Mr. SONG Rui Lin, Mr. SUN Xin, Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo (a) attended seminars and/or trainings that are relevant to the Directors’ professional knowledge and skills and in performing their duties and responsibilities as Directors; and (b) read materials that are relevant to the Directors’ professional knowledge and skills and in performing their duties and responsibilities as Directors during the year ended 31 December 2021.

# CORPORATE GOVERNANCE REPORT

## Chairman and Chief Executive Officer

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

Under the current organization structure of the Company, Mr. Liu Dian Bo is our Executive Chairman of the Board and the Chief Executive Officer. Although the dual roles of Chairman and Chief Executive Officer is a deviation from the CG Code, the Board believes that with extensive experience in the pharmaceutical industry, vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

## Appointment and Re-Election of Directors

Each of the executive Directors has entered into an appointment letter with the Company for a term of three years commencing from 9 July 2020 and may be terminated in accordance with the respective terms of the appointment letters.

Mr. Song Rui Lin, the non-executive Director, has entered into an appointment letter with the Company for a term of two years commencing from 29 March 2021 and may be terminated in accordance with the terms of the appointment letter.

Mr. Sun Xin, the non-executive Director, has entered into an appointment letter with the Company for a term of two years commencing from 8 February 2021, which may be terminated in accordance with the terms of the appointment letter.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 9 July 2020 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has a service agreement which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Bye-laws, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

# CORPORATE GOVERNANCE REPORT

## Board Meetings

The Company has adopted the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than 14 days will be 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 committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or 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 the board meetings and committee meetings will be recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the year ended 31 December 2021, seven board meetings, and one annual general meeting ("AGM") were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend Board meeting	AGM
Mr. LIU Dian Bo	7/7	1/1
Mr. YANG Rong Bing	6/7	0/1
Mr. YUAN Hui Xian	2/7	0/1
Ms. ZHU Yuan Yuan	7/7	1/1
Mr. SONG Rui Lin	6/7	0/1
Mr. SUN Xin (appointed on 8 February 2021)	6/6	0/1
Mr. ZHANG Hua Qiao	5/7	0/1
Professor LO Yuk Lam	6/7	0/1
Mr. LEUNG Man Kit	7/7	0/1
Mr. CHOY Sze Chung Jojo	7/7	0/1

## Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2021.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

# CORPORATE GOVERNANCE REPORT

## Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

## Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors which include:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2021 are set out in note 8 to the consolidated financial statements in this annual report.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the top senior management (excluding the Directors) for the year ended 31 December 2021 fell within the following bands as follows:

Remuneration Band	No. of employees
RMB3,000,001 to RMB3,500,000	1
RMB3,500,001 to RMB4,000,000	1
RMB4,000,001 to RMB4,500,000	—
RMB4,500,001 to RMB5,000,000	—
RMB5,000,001 to RMB5,500,000	1
	3

## Directors' Liability Insurance

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

# CORPORATE GOVERNANCE REPORT

## Board Committees

### Nomination Committee

The Nomination Committee currently comprises three members, namely Professor Lo Yuk Lam (chairman), Mr. Zhang Hua Qiao and Mr. Choy Sze Chung Jojo, all of them are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendation to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. The Nomination Committee adopted certain criteria and procedure in the nomination of new directors. The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

In assessing the suitability of a proposed candidate before recommending to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies, the Nomination Committee will consider factors including, without limitation, character and integrity of the proposed candidates, qualifications of the proposed candidates including professional qualifications, skills, knowledge and experience, accomplishments and experience of the proposed candidates in the business from time to time, commitment of the proposed candidates in respect of available time and relevant interest, diversity and balance of the Board and such other perspectives appropriate to the Company's business.

### Nomination Policy

A director nomination policy (the "Nomination Policy") adopted by the Board aims to enhancing transparency and accountability of the nomination process of Directors and enabling the Company to ensure the Board has a balance of skills and experience and diversity of perspectives appropriate to the requirements of the Company's business.

The selection criteria for assessing the suitability of a proposed candidate which shall be taken as reference by the Nomination Committee includes: character and integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and strategy, the potential contribution to the Board from the diversity aspects (including but not limited to age, gender, international background, and professional experience), the candidate's time commitment to the Company, the candidate's service on other boards of directors of the Group or of other companies (whether they are listed or non-listed) and any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and its shareholders. These above selection criteria are not exhaustive or conclusive. The Nomination Committee would consider any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and shareholders of the Company.

For those potential new director candidates who appear upon first consideration to meet the Board's selection criteria, upon obtaining the required information from the candidate, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the candidate to the Board for appointment as a Director. The Nomination Committee shall review whether the candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and the policies of the Company.

The Board and the Nomination Committee intend to review the Nomination Policy at least annually and anticipate that modifications may be necessary from time to time as the Company's needs and circumstances evolve, and as applicable if and where the legal obligations or requirements in the Listing Rules or laws of Hong Kong or Bermuda, or other regulatory change(s).

# CORPORATE GOVERNANCE REPORT

The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2021, two meetings of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

<b>Directors</b>	<b>Attended/Eligible to attend</b>
Professor LO Yuk Lam	1/2
Mr. ZHANG Hua Qiao	2/2
Mr. CHOY Sze Chung Jojo	2/2

During the year 2021, the Nomination Committee reviewed the Board composition, recommended the appointment of a non-executive Director to the Board and made recommendation to the Board on the re-election of retiring Directors.

## Board Diversity Policy

The Company views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. To that end, the Company has adopted a Board Diversity Policy to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Ultimately, all Board appointments have been based on merit, and candidates were considered against objective criteria, having due regard for the benefits of diversity on the Board.

## Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Choy Sze Chung Jojo (chairman), Mr. Zhang Hua Qiao and Professor LO Yuk Lam, all of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations to the Board for approval on the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for ensuring that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The written terms of reference of Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2021, two meetings of the Remuneration Committee were held and the attendance record of the Remuneration Committee members is set out in the table below:

<b>Directors</b>	<b>Attended/Eligible to attend</b>
Mr. CHOY Sze Chung Jojo	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	2/2

During the year 2021, the Remuneration Committee assessed the performance of the Directors and reviewed the Company's policy and structure for all directors' and senior management remuneration.

# CORPORATE GOVERNANCE REPORT

## Audit Committee

The Audit Committee comprises three members namely, Mr. Leung Man Kit (chairman), Mr. Zhang Hua Qiao and Professor Lo Yuk Lam, all of them are independent non-executive Directors. The main duties of the Audit Committee include the following:

- To review the financial statements and reports before submission to the Board;
- To review and monitor the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard and discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; and
- To oversee the risk management and internal control systems of the Group, report to the Board on any material issue, and make recommendations to the Board.

The written terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2021, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. LEUNG Man Kit	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	2/2

During the year 2021, the Audit Committee had reviewed the annual results of the Group for the year ended 31 December 2020 and interim results of the Company and its subsidiaries for the period ended 30 June 2021, the risk management systems and processes for the re-appointment of the external auditor. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

## Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2021 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 63 of this annual report.

# CORPORATE GOVERNANCE REPORT

## Risk Management and Internal Control

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholders investments and Company assets and reviewing the effectiveness of such system on an annual basis. The Board also clarifies that the system is purported to manage, but not eliminate, the risk of failure to fulfil business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group. Management is responsible for performing risk assessment, and owning the implementation and maintenance of internal control. Essential to this risk management and internal control systems are well defined policies and procedures that are properly documented and communicated to employees.

At least annually, the Board, through the Audit Committee, review the effectiveness of the risk management and the internal control systems of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the internal control system is effective and adequate. For the year ended 31 December 2021, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the risk management and the internal control systems are effective and adequate.

The Group's risk management and internal control system is embedded within our business processes so that it functions as an integral part of the overall operation of the Group. The system comprises a comprehensive organisation structure with assignment of definite accountabilities and delegation of corresponding authorities to each post. Based on our organization structure, a reporting system has been developed including reporting channels from division heads of business units to the Board.

The risk management and internal control systems and accounting system of the Group are aimed at identifying and evaluating the Group's risk and formulate risk mitigation strategies, and to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation, and the accounting records are reliable for preparing financial information used within the business for publication, maintaining accountability for assets and liabilities and ensuring the business operations are in accordance with relevant legislation, regulations and internal guidelines.

The Group has a defined organisational structure with clear defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to report to Executive Directors on a regular basis. Policies and procedures are set for each department, which includes establishing and maintaining effective policies to enhance risks identification to which the Group are exposed and taking appropriate action to manage such risks, establishing a structure with defined authorities and proper segregation of duties; monitoring the strategic plan and performance; designing an effective accounting and information system; controlling price sensitive information; and ensuring swift actions and timely communication with our stakeholders.

# CORPORATE GOVERNANCE REPORT

## Dissemination of Inside Information

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated to all staff; the Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the “Guidelines on Disclosure of Inside Information” issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers can act as the Group’s spokesperson and respond to external enquiries about the Group’s affairs.

## Auditor’s Remuneration

For the year ended 31 December 2021, the total remuneration paid or payable to the Company’s auditors, Ernst & Young, for annual audit and other audit services totally RMB10.6 million.

An analysis of the remuneration paid or payable to Ernst & Young is set out below:

Items of auditors’ services	Amount (RMB’000)
Audit services	10,648
Non-audit services — transfer pricing advisory services	825
Total	11,473

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the independent auditor of the Group for 2022 and the proposal will be submitted for approval at the AGM to be held on 20 June 2022.

## Company Secretary

Ms. Lee Mei Yi (“Ms. Lee”) has been appointed as the company secretary of the Company since 1 December 2020. Ms. Lee is an executive director of the Corporate Services Department of Tricor Services Limited, and she has closely communicated with Ms. Zhu Yuan Yuan, an executive Director of the Company.

During the year 2021, Ms. Lee undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group’s business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

# CORPORATE GOVERNANCE REPORT

The annual general meeting of the Company provides opportunity for shareholders to communicate directly with the Directors. The Chairman of the Company, the chairman of each Board Committee of the Company will attend the AGMs to answer shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at [www.luye.cn](http://www.luye.cn), where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

## Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

## Convening of Special General Meeting and Putting Forward Proposals

In accordance with the Bye-laws, a special general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.

Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition.

Shareholders may put forward proposals for consideration at an annual general meeting in accordance with the Companies Act 1981 of Bermuda and the Bye-laws.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

## Enquiries to the Board or Proposals at Company's General Meetings

Written enquiries to the Board and proposals at general meetings of the Company may be made at the Company's principal place of business in Hong Kong at Unit 3207, 32/F, Champion Tower, 3 Garden Road, Central, Hong Kong for the attention to the Chairman of the Board. Other enquiries may be made by telephone at (852) 3523 0428 or by fax at (852) 3524 0430.

## Change in Constitutional Documents

There was no change in the Bye-laws of the Company for the year ended 31 December 2021.

# INDEPENDENT AUDITOR'S REPORT



**Ernst & Young**  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay, Hong Kong

安永會計師事務所  
香港鰂魚涌英皇道979號  
太古坊一座27樓

Tel 電話: +852 2846 9888  
Fax 傳真: +852 2868 4432  
ey.com

## To the shareholders of Luye Pharma Group Ltd.

*(Incorporated in Bermuda with limited liability)*

## Opinion

We have audited the consolidated financial statements of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 180, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matter

## How our audit addressed the key audit matter

### *Impairment testing of goodwill*

The carrying amount of goodwill at 31 December 2021 was RMB985,413,000. The Group performs its impairment test of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Management's impairment test is important to our audit because the assessment process is complex and requires significant judgement and estimates on assumptions including growth rate, gross margin and discount rate.

The Group's disclosures about impairment testing of goodwill are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 15 *Goodwill*, which specifically explain the accounting policies and management's assumptions and accounting estimates.

### *Capitalisation of development costs*

During the year ended 31 December 2021, expenditure incurred on projects to develop new pharmaceutical products of RMB793,250,000 was capitalised in other intangible assets in the consolidated financial statements. The expenditure on development activities is capitalised when all the criteria mentioned in note 2.4 *Summary of significant accounting policies* were satisfied. Significant management estimation and judgement were required in determining whether the capitalised costs met the capitalisation criteria.

The Group's disclosures about the capitalisation of development costs are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 16 *Other intangible assets*, which specifically explain the accounting policies and management's assumptions and accounting estimates.

We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan, budget and financial projections and analysis of the industry. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the discount rate, the growth rate applied and the valuation model with forecasted cash flows.

We evaluated management judgement on the distinction between research and development phase and the satisfaction of capitalisation criteria in comparison to industry practice and the Group's policy. We obtained an understanding of the Group's internal approval process regarding the capitalisation of development costs by conducting interviews with key management members in charge of research, development and commercialisation of various projects. We also examined technical feasibility reports and certifications related to different stages of development activities and reviewed the expenditure documents relevant to separately accounted development costs.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matter

## How our audit addressed the key audit matter

### *Impairment testing of other intangible assets with indefinite life*

As at 31 December 2021, other intangible assets with indefinite lives amounted to RMB1,361,999,000. The Group performs its impairment test for indefinite-life intangible assets at least on an annual basis. The impairment reviews performed by the Group contained significant judgement and estimates on assumptions including growth rate, profit margin and discount rate.

The Group's disclosures on other intangible assets with indefinite lives are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 16 *Other intangible assets*, which specifically explain the accounting policies and management's assumptions and accounting estimates.

We checked the key assumptions including the product's projected market share, expected selling price and associated costs to be incurred against industrial analyst commentaries, consensus forecasts of certain therapeutic area and benchmark data for comparable companies where available. We involved our internal valuation specialists to assist us in evaluation of the methodologies used in the impairment analysis, in particular discount rate and growth rate.

## Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Report of Directors and the Corporate Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Statement, the Report of Directors and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

## Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of 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.

# INDEPENDENT AUDITOR'S REPORT

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, 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.

# INDEPENDENT AUDITOR'S REPORT

- 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with 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 Lai Chee Kong.

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong  
29 March 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>REVENUE</b>	5	<b>5,200,226</b>	5,539,641
Cost of sales		<b>(1,803,486)</b>	(1,549,027)
Gross profit		<b>3,396,740</b>	3,990,614
Other income and gains	5	<b>330,690</b>	403,290
Selling and distribution expenses		<b>(1,704,780)</b>	(1,663,893)
Administrative expenses		<b>(570,844)</b>	(521,482)
Other expenses		<b>(1,127,606)</b>	(844,079)
Finance costs	7	<b>(399,458)</b>	(424,002)
Share of profit of an associate	17	<b>701</b>	1,726
<b>(LOSS)/PROFIT BEFORE TAX</b>	6	<b>(74,557)</b>	942,174
Income tax expense	10	<b>(70,226)</b>	(238,909)
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(144,783)</b>	703,265
Attributable to:			
Owners of the parent		<b>(134,392)</b>	706,586
Non-controlling interests		<b>(10,391)</b>	(3,321)
		<b>(144,783)</b>	703,265
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic (RMB)	12	<b>(3.90 cents)</b>	22.17 cents
Diluted (RMB)	12	<b>(3.90 cents)</b>	22.12 cents

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(144,783)</b>	703,265
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		(30,534)	54,985
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		(30,534)	54,985
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		6,178	3,561
Income tax effect		(491)	—
		5,687	3,561
Remeasurement on defined benefit plan	41	788	1,370
Income tax effect		(68)	(66)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		720	1,304
		6,407	4,865
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>(24,127)</b>	59,850
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(168,910)</b>	763,115
Attributable to:			
Owners of the parent		(158,519)	766,436
Non-controlling interests		(10,391)	(3,321)
		(168,910)	763,115

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	3,858,491	3,677,698
Advance payments for property, plant and equipment and other intangible assets		390,989	323,678
Right-of-use assets	14(a)	344,990	337,960
Goodwill	15	985,413	1,056,583
Other intangible assets	16	5,441,833	4,770,004
Investment in an associate	17	8,659	8,640
Long-term receivables		8,380	8,000
Equity investments designated at fair value through other comprehensive income	18	95,273	61,556
Financial assets at fair value through profit or loss	22	478,263	1,263
Pledged time deposits	23	440,000	300,000
Deferred tax assets	32	133,106	114,743
<b>Total non-current assets</b>		<b>12,185,397</b>	<b>10,660,125</b>
<b>CURRENT ASSETS</b>			
Inventories	19	746,344	612,303
Trade and notes receivables	20	1,765,096	1,553,089
Prepayments, other receivables and other assets	21	1,039,538	470,508
Financial assets at fair value through profit or loss	22	2,684,198	1,431,907
Restricted cash	23	31,982	37,473
Pledged time deposits	23	1,303,395	1,890,776
Time deposits with original maturity of over three months	23	387,859	109,000
Cash and cash equivalents	23	2,438,252	3,865,385
<b>Total current assets</b>		<b>10,396,664</b>	<b>9,970,441</b>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	24	570,890	485,262
Other payables and accruals	25	1,318,092	729,875
Derivative financial instruments	26	—	22,563
Interest-bearing loans and borrowings	27	5,263,216	5,642,855
Government grants	31	31,353	45,193
Tax payable		141,142	308,346
Dividend payable		5,500	—
<b>Total current liabilities</b>		<b>7,330,193</b>	<b>7,234,094</b>
<b>NET CURRENT ASSETS</b>		<b>3,066,471</b>	<b>2,736,347</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>15,251,868</b>	<b>13,396,472</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>15,251,868</b>	13,396,472
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	28	1,870,654	1,810,930
Interest-bearing loans and borrowings	27	2,356,923	2,527,715
Contingent consideration payables	29	334,378	638,556
Government grants	31	209,387	185,657
Redemption liabilities on non-controlling interests	36	1,202,818	—
Employee defined benefit obligation	41	6,793	8,080
Deferred tax liabilities	32	57,874	74,320
Other non-current liabilities	30	99,138	52,199
Total non-current liabilities		6,137,965	5,297,457
Net assets		9,113,903	8,099,015
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital	33	455,835	417,991
Treasury shares	33	(279,558)	(279,558)
Share premium		1,715,981	1,042,005
Equity component of convertible bonds	28	292,398	292,398
Reserves	34	6,303,467	6,418,395
		8,488,123	7,891,231
Non-controlling interests	35	625,780	207,784
Total equity		9,113,903	8,099,015

Mr. Liu Dianbo  
Director

Mr. Yang Rongbing  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the parent												
	Issued capital RMB'000 (note 33)	Treasury shares RMB'000 (note 33)	Share premium account RMB'000	Equity component of convertible bonds RMB'000 (note 28)	Safety production reserve* RMB'000 (note 34)	Statutory surplus reserve* RMB'000 (note 34)	Share award scheme reserve* RMB'000 (note 34)	Retained earnings* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Foreign currency translation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	417,991	(279,558)	1,042,005	292,398	11,518	1,025,835	149,443	5,183,442	(3,771)	51,928	7,891,231	207,784	8,099,015
Loss for the year	-	-	-	-	-	-	-	(134,392)	-	-	(134,392)	(10,391)	(144,783)
Other comprehensive income for the year:													
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	5,687	-	5,687	-	5,687
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	-	(30,534)	(30,534)	-	(30,534)
Remeasurement on defined benefit plan, net of tax	-	-	-	-	-	-	-	720	-	-	720	-	720
Total comprehensive income for the year	-	-	-	-	-	-	-	(133,672)	5,687	(30,534)	(158,519)	(10,391)	(168,910)
Equity-settled share award expense (note 40)	-	-	-	-	-	-	43,591	-	-	-	43,591	6,385	49,976
Transfer to statutory reserves	-	-	-	-	-	56,192	-	(56,192)	-	-	-	-	-
Issue of shares	37,844	-	1,006,633	-	-	-	-	-	-	-	1,044,477	-	1,044,477
Appropriation to safety production reserve	-	-	-	-	23,781	-	-	(23,781)	-	-	-	-	-
Safety production reserve used	-	-	-	-	(10,005)	-	-	10,005	-	-	-	-	-
Capital contribution from non-controlling shareholders (note)	-	-	814,933	-	-	-	-	-	-	-	814,933	415,280	1,230,213
Exemption of payables	-	-	(12,222)	-	-	-	-	-	-	-	(12,222)	12,222	-
Redemption rights on non-controlling interests (note 36)	-	-	(1,135,368)	-	-	-	-	-	-	-	(1,135,368)	-	(1,135,368)
Dividend paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	(5,500)	(5,500)
At 31 December 2021	455,835	(279,558)	1,715,981	292,398	25,294	1,082,027	193,034	4,979,802	1,916	21,394	8,488,123	625,780	9,113,903

Note: During the year, non-controlling shareholders contributed RMB1,230,213,000 in a subsidiary, Shandong BoAn Biotechnology Co., Ltd. ("Boan Biotech") and certain of the non-controlling shareholders have redemption rights. Further details are included in note 36 to the financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the parent											Non-controlling interests	Total equity
	Issued capital	Treasury shares	Share premium account	Equity component of convertible bonds	Safety production reserve*	Statutory surplus reserve*	Share award scheme reserve*	Retained earnings*	Fair value reserve of financial assets at fair value through other comprehensive income*	Foreign currency translation reserve*	Total		
	RMB'000 (note 33)	RMB'000 (note 33)	RMB'000	RMB'000 (note 28)	RMB'000 (note 34)	RMB'000 (note 34)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	420,565	(279,558)	2,699,052	292,398	—	907,644	99,871	4,780,748	(7,332)	(3,057)	8,910,331	10,053	8,920,384
Profit/(loss) for the year	—	—	—	—	—	—	—	706,586	—	—	706,586	(3,321)	703,265
Other comprehensive income for the year:													
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	—	3,561	—	3,561	—	3,561
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	—	54,985	54,985	—	54,985
Remeasurement on defined benefit plan, net of tax	—	—	—	—	—	—	—	1,304	—	—	1,304	—	1,304
Total comprehensive income for the year	—	—	—	—	—	—	—	707,890	3,561	54,985	766,436	(3,321)	763,115
Cancellation of treasury shares	(2,574)	77,962	(75,388)	—	—	—	—	—	—	—	—	—	—
Repurchase of shares	—	(77,962)	—	—	—	—	—	—	—	—	(77,962)	—	(77,962)
Equity-settled share award expense (note 40)	—	—	—	—	—	—	49,572	—	—	—	49,572	1,332	50,904
Business combination involving entities under common control (note)	—	—	(1,338,161)	—	—	—	—	—	—	—	(1,338,161)	—	(1,338,161)
Transfer to statutory reserves	—	—	—	—	—	118,191	—	(118,191)	—	—	—	—	—
Appropriation to safety production reserve	—	—	—	—	17,513	—	—	(17,513)	—	—	—	—	—
Safety production reserve used	—	—	—	—	(5,995)	—	—	5,995	—	—	—	—	—
Final 2019 dividend	—	—	—	—	—	—	—	(175,487)	—	—	(175,487)	—	(175,487)
Exemption of interest	—	—	1,645	—	—	—	—	—	—	—	1,645	—	1,645
Capital contribution from non-controlling shareholders	—	—	(55,515)	—	—	—	—	—	—	—	(55,515)	55,515	—
Acquisition of non-controlling interests	—	—	(189,628)	—	—	—	—	—	—	—	(189,628)	149,205	(40,423)
Dividend paid to a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	—	(5,000)	(5,000)
At 31 December 2020	417,991	(279,558)	1,042,005	292,398	11,518	1,025,835	149,443	5,183,442	(3,771)	51,928	7,891,231	207,784	8,099,015

Note: On 17 February 2020, the Group obtained control over Boan Biotech through a business combination involving entities under common control.

\* These reserve accounts comprise the consolidated reserves of RMB6,303,467,000 (2020: RMB6,418,395,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
(Loss)/profit before tax		(74,557)	942,174
Adjustments for:			
Share of profit of an associate	17	(701)	(1,726)
Depreciation of property, plant and equipment	13	309,211	268,223
Depreciation of right-of-use assets	14(a)	33,516	27,480
Amortisation of other intangible assets	16	239,255	215,196
Gain on disposal of items of property, plant and equipment	5	(11,357)	(87)
Bank interest income	5	(101,996)	(109,170)
Interest income on loans to a related party		—	(1,235)
Investment income from financial assets at fair value through profit or loss	5	(78,117)	(40,646)
Dividend income from equity investments at fair value through other comprehensive income	5	(9,573)	—
Changes in fair value of financial assets at fair value through profit or loss		14,808	3,458
Remeasurement of contingent considerations	29	57,505	23,761
Changes in fair value of redemption liabilities on non-controlling interests	36	67,450	—
Covid-19-related rent concessions from lessors	14(b)	—	(1,675)
Equity-settled share award expense		49,976	50,904
Finance costs	7	399,458	424,002
Defined benefit plan		(41)	1,323
Fair value losses on derivative financial instruments	26	—	22,563
Provision for a legal claim	37	273,482	—
		<b>1,168,319</b>	<b>1,824,545</b>
(Increase)/decrease in trade and notes receivables		(211,760)	144,998
Increase in prepayments, other receivables and other assets		(556,809)	(161,166)
(Increase)/decrease in inventories		(134,041)	4,875
Decrease/(increase) in restricted cash		5,491	(830)
Decrease/(increase) in pledged time deposits		106,147	(402,000)
Decrease in government grants		(6,430)	(16,857)
Increase in trade and notes payables		43,643	144,214
Increase/(decrease) in other payables and accruals		287,926	(5,562)
Increase in long-term receivables		(380)	(8,000)
Increase in other non-current liabilities		48,131	—
Cash generated from operations		<b>750,237</b>	<b>1,524,217</b>
Interest paid		(297,123)	(330,355)
Income tax paid		(270,743)	(160,413)
Net cash flows from operating activities		<b>182,371</b>	<b>1,033,449</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
Net cash flows from operating activities	<b>182,371</b>	1,033,449
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment and construction in progress	<b>(556,199)</b>	(692,813)
Prepayments for right-of-use assets	—	(95,045)
Increase in other intangible assets	<b>(985,396)</b>	(732,025)
Purchases of financial assets at fair value through profit or loss	<b>(3,696,805)</b>	(2,859,220)
Proceeds from sales of financial assets at fair value through profit or loss	<b>1,919,002</b>	3,261,845
Receipts of investment income from financial assets at fair value through profit or loss	<b>68,467</b>	64,151
Proceeds from disposal of items of property, plant and equipment	<b>13,770</b>	2,310
Receipts of government grants for property, plant and equipment	<b>16,320</b>	97,160
(Increase)/decrease in time deposits with original maturity of over three months	<b>(278,859)</b>	892,000
Increase in pledged time deposits	<b>(30,977)</b>	(14,942)
Receipts of repayments from a related party	—	112,185
Interest received	<b>94,645</b>	102,591
Net cash flows (used in)/from investing activities	<b>(3,436,032)</b>	138,197

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans		7,155,047	7,352,854
Repayment of loans		(7,536,692)	(5,896,686)
Principal portion of lease payments	42(b)	(24,676)	(16,124)
Decrease/(increase) in pledged time deposits		372,211	(158,825)
Dividends paid to equity holders of the parent		—	(175,487)
Dividend paid to a non-controlling shareholder		—	(10,000)
Issue of shares	33	1,044,477	—
Repurchase of shares		—	(77,962)
Payments for a business combination involving entities under common control		(361,683)	(723,366)
Acquisition of non-controlling interests		—	(40,423)
Capital contribution from non-controlling shareholders		1,230,213	—
Net cash flows from financing activities		1,878,897	253,981
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Effect of foreign exchange rate changes, net		(52,369)	112,409
Cash and cash equivalents at beginning of year	23	3,865,385	2,327,349
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	23	<b>2,438,252</b>	<b>3,865,385</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 1. Corporate and group information

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited (the “SGX”) on 5 May 2004 and has been delisted since 29 November 2012. On 9 July 2014, the Company succeeded in listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The Company’s subsidiaries are principally engaged in the development, production, marketing and sale of pharmaceutical products.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is located at Suite 3207, Champion Tower, 3 Garden Road, Central, Hong Kong.

In the opinion of the directors, the ultimate holding company of the Company is Luye Life Sciences Group Ltd., which is incorporated in Bermuda.

### Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Luye Pharma (Singapore) Pte. Ltd.	Singapore 23 April 1991	SG\$1,700,000	100	—	Distribution and sale of pharmaceutical drugs
Luye Pharma Investments Pte. Ltd.	Singapore 26 August 2010	SG\$2	100	—	Investment holding
Luye Pharma Venture Capital	Cayman Islands 26 November 2015	US\$50,000	100	—	Investment holding
Luye Pharma (USA) Ltd.	United States of America (“USA”) 3 August 2015	US\$1	100	—	Research and development and manufacture and sale of pharmaceutical products
Luye Pharma Hong Kong Limited	Hong Kong 31 July 2007	HK\$2,328,930,660	—	100	Distribution and sale of pharmaceutical products and investment holding
Luye Pharma Europe AG (“LPEU”)	Switzerland 11 July 2016	CHF 100,000	—	100	Investment holding
Luye Pharma (Germany) GmbH	Germany 17 July 2016	EUR 25,000	—	100	Investment holding
Luye Pharma Switzerland AG	Switzerland 23 January 2006	CHF100,000	—	100	Manufacture and sale of pharmaceutical products
Luye Pharma AG (“LPAG”)	Germany 17 April 1997	EUR209,865	—	100	Distribution and sale of pharmaceutical products

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 1. Corporate and group information (Continued)

### Information about subsidiaries (Continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Luye Pharma Ltd.	United Kingdom ("UK") 13 September 2018	GBP1	—	100	Investment holding
Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye") <sup>(i)</sup>	People's Republic of China ("PRC")/ Mainland China 8 June 1994	RMB2,031,800,000	—	100	Manufacture and sale of pharmaceutical products
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading") <sup>(i)</sup>	PRC/Mainland China 27 March 1997	RMB900,000,000	—	100	Distribution and sale of pharmaceutical products
Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye") <sup>(i)</sup>	PRC/Mainland China 22 February 2004	RMB1,167,170,000	—	100	Manufacture and sale of pharmaceutical products
Beijing WBL Peking University Biotech Co., Ltd. ("WPU") <sup>(i)</sup>	PRC/Mainland China 1 September 1994	RMB80,000,000	—	69.55	Manufacture and sale of pharmaceutical products
Nanjing Kanghai Phospholipid Biological Technology Co., Ltd. (Nanjing Kanghai Phospholipid) <sup>(i)</sup>	PRC/Mainland China 13 September 2010	RMB 1,500,000	—	100	Manufacture and sale of pharmaceutical products
Sichuan Luye Pharmaceutical Co., Ltd. ("Sichuan Luye") <sup>(i)</sup>	PRC/Mainland China 21 December 2000	RMB36,100,000	—	100	Manufacture and sale of pharmaceutical products
Yantai Luye Pharma Holdings Co., Ltd. <sup>(ii)</sup>	PRC/Mainland China 15 May 2014	US\$585,929,100	—	100	Investment Holding
Chengdu Luye WBL Biopharmaceutical Co., Ltd. <sup>(i)</sup>	PRC/Mainland China 30 May 2019	RMB100,000,000	—	100	Manufacture and sale of biopharmaceutical products
Shandong BoAn Biotechnology Co., Ltd. <sup>(i)</sup>	PRC/Mainland China 13 December 2013	RMB498,583,000	—	72.32	Research and development and manufacture and sale of pharmaceutical products
Nanjing Jimai Biological Technology Co., Ltd. <sup>(i)</sup>	PRC/Mainland China 13 July 2020	RMB50,000,000	—	100	Research and development and manufacture and sale of pharmaceutical products

#### Notes:

(i) These entities are limited liability enterprises established under PRC law.

(ii) The entity is a wholly-foreign-owned enterprise established under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# NOTES TO FINANCIAL STATEMENTS

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## 2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss, notes receivable, derivative financial instruments, redemption liabilities on non-controlling interests and contingent consideration payables, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.2 Changes in accounting policies and disclosures

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The nature and the impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Renminbi based on the Loan Prime Rate (“LPR”), Euro based on the Euro Interbank Offered Rate (“EURIBOR”) and United States dollars based on the London Interbank Offered Rate (“LIBOR”) as at 31 December 2021. The Group expects that LPR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's LPR-based borrowings. For the EURIBOR-based borrowings and LIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.2 Changes in accounting policies and disclosures (Continued)

- (b) Amendments to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

## 2.3 Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework<sup>1</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
IFRS 17	<i>Insurance Contracts<sup>2</sup></i>
Amendments to IFRS 17	<i>Insurance Contracts<sup>2, 5</sup></i>
Amendments to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information<sup>2</sup></i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current<sup>2</sup></i>
Amendments to IAS 1 and IFRS Practice statement 2	<i>Disclosure of Accounting Policies<sup>2</sup></i>
Amendments to IAS 8	<i>Definition of Accounting Estimates<sup>2</sup></i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction<sup>2</sup></i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>1</sup></i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract<sup>1</sup></i>
<i>Annual Improvements to IFRS Standards 2018–2020</i>	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to *the Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise a deferred tax asset and a deferred tax liability for deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained profits at the beginning of the earliest comparative period presented.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

*Annual Improvements to IFRS Standards 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

## 2.4 Summary of significant accounting policies

### Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Investments in associates (Continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date through fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Business combination and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Foreign currencies

These financial statements are presented in RMB, which the Company adopted as the presentation currency of the Group because the Group's principal operations are carried out in Mainland China. The functional currency of the Company is the United States dollar ("US\$") and certain subsidiaries incorporated outside Mainland China use the Singapore dollar ("SG\$"), the Hong Kong dollar ("HK\$"), Malaysian Ringgit ("MYR") and Euro ("EUR") as their functional currencies. The functional currency of the subsidiaries established in Mainland China is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the non-Mainland China established subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entities. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the non- Mainland China established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non- Mainland China established companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Revenue recognition

#### Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, 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 between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) *Sale of products*

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on acceptance of the goods.

(b) *Sale of product know-how*

Revenue from the sale of product know-how is recognised at the point in time when control of the product know-how is transferred to the customer, generally on acceptance of the product know-how.

(c) *Provision of research and development services*

Revenue from the provision of research and development services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(d) *Out-licensing agreements*

The Group grant commercialisation licenses or intellectual property licenses of certain products. Revenue is recognised at the point in time when the control of the license is transferred to the customer. The consideration for license comprises fixed element and variable elements. The variable elements are included in the transaction price when the Group can conclude that it is highly probable there will not be a significant reversal of revenue.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Revenue recognition (Continued)

#### Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

#### Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

#### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Share-based payments

The Group operates two share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 40 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding shares is reflected as additional share dilution in the computation of earnings per share.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Other employee benefits

#### Pension schemes

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The Group makes contributions to the Central Provident Fund (the “CPF”) Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore.

The subsidiaries established and operated in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC (the “PRC Pension Scheme”). Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries’ employees. The Group’s employer contributions to the CPF and the PRC Pension Scheme vest fully with the employees upon the contributions are made and hence no forfeited contributions arise when the employees leave the respective scheme.

#### Defined benefit plan

The Group operates a defined benefit pension plan in Switzerland, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under “cost of sales”, “selling and distribution expenses” and “administrative expenses” in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" above.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Investments and other financial assets (Continued)

#### Subsequent measurement (Continued)

The subsequent measurement of financial assets depends on their classification as follows: (Continued)

#### *Financial assets at fair value through other comprehensive income (debt instruments)*

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

#### *Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

### General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Impairment of financial assets (Continued)

#### General approach (Continued)

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals, derivative financial instruments and interest-bearing loans and borrowings.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Financial liabilities (Continued)

#### Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

#### *Financial liabilities at amortised cost (loans and borrowings)*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

#### Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Derecognition of financial liabilities (Continued)

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value measurement

The Group measures equity investments and wealth management products investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	10 to 40 years
Machinery and equipment	5 to 15 years
Motor vehicles	5 to 10 years
Computer and office equipment	3 to 15 years
Leasehold improvements	2 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, and machinery and equipment under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Leases

The Group assesses at contract inception whether a 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Leases (Continued)

#### Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### (a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	20 to 60 years
Buildings	1.5 to 5 years
Motor vehicles	2 to 3 years
Plant and machinery	1.5 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

#### (b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing loans and borrowings.

#### (c) *Short-term leases*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment and buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Trademarks	10 years
Patents and technology know-how	5 to 30 years
Software	2 to 10 years
Distribution right	30 years

### Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production. During the period of development, the deferred development costs are tested for impairment annually.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 2.4 Summary of significant accounting policies (Continued)

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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); and
- (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 parent of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Research and development costs

All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions and judgements regarding to technical feasibility of completing the intangible asset, future economic benefits and so forth.

#### Estimation uncertainty

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

#### Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

#### Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 3. Significant accounting judgements and estimates (Continued)

### Estimation uncertainty (Continued)

#### Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to deductible temporary differences as at 31 December 2021 was RMB133,106,000 (2020: RMB114,743,000). Further details are contained in note 32 to the consolidated financial statements.

#### Income tax

The Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB985,413,000 (2020: RMB1,056,583,000). Further details are given in note 15 to the financial statements.

#### Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## 4. Operating segment information

The Group manages its businesses by type of products. The Group's chief operating decision maker is the Chief Executive Officer, who reviews the revenue from and results of the major type of products sold for the purpose of resource allocation and assessment of segment performance. Segment results are evaluated based on gross profit less selling expenses allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 4. Operating segment information (Continued)

Year ended 31 December 2021

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
<b>Segment revenue (note 5)</b>						
Sale of products	1,057,492	1,361,310	898,455	1,172,808	136,605	4,626,670
Sale of product know-how	339,938	65,970	—	74,092	—	480,000
Provision of research and development services	16,691	—	—	851	—	17,542
Out-licensing agreements	—	—	—	76,014	—	76,014
<b>Total revenue</b>	<b>1,414,121</b>	<b>1,427,280</b>	<b>898,455</b>	<b>1,323,765</b>	<b>136,605</b>	<b>5,200,226</b>
<b>Segment results</b>	<b>690,627</b>	<b>408,935</b>	<b>93,307</b>	<b>469,668</b>	<b>29,423</b>	<b>1,691,960</b>
Other income and gains						330,690
Administrative expenses						(570,844)
Other expenses						(1,127,606)
Finance costs						(399,458)
Share of profit of an associate						701
<b>Loss before tax</b>						<b>(74,557)</b>

Year ended 31 December 2020

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
<b>Segment revenue (note 5)</b>						
Sale of products	2,235,178	1,004,474	733,414	1,379,622	165,090	5,517,778
Out-licensing agreements	—	—	—	21,863	—	21,863
<b>Total revenue</b>	<b>2,235,178</b>	<b>1,004,474</b>	<b>733,414</b>	<b>1,401,485</b>	<b>165,090</b>	<b>5,539,641</b>
<b>Segment results</b>	<b>1,226,968</b>	<b>382,323</b>	<b>183,278</b>	<b>482,140</b>	<b>52,012</b>	<b>2,326,721</b>
Other income and gains						403,290
Administrative expenses						(521,482)
Other expenses						(844,079)
Finance costs						(424,002)
Share of profit of an associate						1,726
<b>Profit before tax</b>						<b>942,174</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 4. Operating segment information (Continued)

### Geographical information

#### (a) Revenue from external customers

	2021 RMB'000	2020 RMB'000
Mainland China	4,237,528	4,511,447
Asia (other than Mainland China)	443,848	505,202
European Union	244,075	242,785
Other countries	274,775	280,207
Total	5,200,226	5,539,641

The revenue information above is based on the locations of the customers.

#### (b) Non-current assets

	2021 RMB'000	2020 RMB'000
Mainland China	7,249,923	6,042,858
Hong Kong	2,316,255	2,459,920
European Union	1,328,489	1,568,979
Other countries	135,708	102,806
Total	11,030,375	10,174,563

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

#### *Information about a major customer*

No revenue from the Group's sales to a single customer accounted for 10% or more of the Group's revenue during the years ended 31 December 2021 and 2020.

## 5. Revenue, other income and gains

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	5,200,226	5,539,641

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 5. Revenue, other income and gains (Continued)

Revenue from contracts with customers

(i) Disaggregated revenue information  
For the year ended 31 December 2021

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
<b>Types of goods or services</b>						
Sale of products	1,057,492	1,361,310	898,455	1,172,808	136,605	4,626,670
Sale of product know-how	339,938	65,970	—	74,092	—	480,000
Provision of research and development services	16,691	—	—	851	—	17,542
Out-licensing agreements	—	—	—	76,014	—	76,014
<b>Total revenue from contracts with customers</b>	<b>1,414,121</b>	<b>1,427,280</b>	<b>898,455</b>	<b>1,323,765</b>	<b>136,605</b>	<b>5,200,226</b>
<b>Geographical markets</b>						
Mainland China	1,414,121	1,411,110	894,424	399,366	118,507	4,237,528
Asia (other than Mainland China)	—	16,170	2,887	423,999	792	443,848
European Union	—	—	986	243,089	—	244,075
Other countries	—	—	158	257,311	17,306	274,775
<b>Total revenue from contracts with customers</b>	<b>1,414,121</b>	<b>1,427,280</b>	<b>898,455</b>	<b>1,323,765</b>	<b>136,605</b>	<b>5,200,226</b>
<b>Timing of revenue recognition</b>						
Transferred at a point in time	1,397,430	1,427,280	898,455	1,322,914	136,605	5,182,684
Transferred over time	16,691	—	—	851	—	17,542
<b>Total revenue from contracts with customers</b>	<b>1,414,121</b>	<b>1,427,280</b>	<b>898,455</b>	<b>1,323,765</b>	<b>136,605</b>	<b>5,200,226</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 5. Revenue, other income and gains (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)  
For the year ended 31 December 2020

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
<b>Types of goods or services</b>						
Sale of products	2,235,178	1,004,474	733,414	1,379,622	165,090	5,517,778
Out-licensing agreements	—	—	—	21,863	—	21,863
<b>Total revenue from contracts with customers</b>	<b>2,235,178</b>	<b>1,004,474</b>	<b>733,414</b>	<b>1,401,485</b>	<b>165,090</b>	<b>5,539,641</b>
<b>Geographical markets</b>						
Mainland China	2,235,178	994,286	732,080	399,583	150,320	4,511,447
Asia (other than Mainland China)	—	10,188	1,334	492,759	921	505,202
European Union	—	—	—	242,426	359	242,785
Other countries	—	—	—	266,717	13,490	280,207
<b>Total revenue from contracts with customers</b>	<b>2,235,178</b>	<b>1,004,474</b>	<b>733,414</b>	<b>1,401,485</b>	<b>165,090</b>	<b>5,539,641</b>
<b>Timing of revenue recognition</b>						
Transferred at a point in time	2,235,178	1,004,474	733,414	1,401,485	165,090	5,539,641
<b>Total revenue from contracts with customers</b>	<b>2,235,178</b>	<b>1,004,474</b>	<b>733,414</b>	<b>1,401,485</b>	<b>165,090</b>	<b>5,539,641</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 5. Revenue, other income and gains (Continued)

### Revenue from contracts with customers (Continued)

#### (i) Disaggregated revenue information (Continued)

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	67,021	49,408

#### (ii) Performance obligations

Information about the Group's performance obligations is summarised below:

##### *Sale of products*

The performance obligation is satisfied upon acceptance of the goods and payment is generally due within one month to three months, extending up to six months for major customers.

##### *Sale of product know-how*

The performance obligation is satisfied upon acceptance of the product know-how and payment is generally within one year.

##### *Provision of research and development services*

The performance obligation is satisfied over time as services are rendered and payment is generally due within six months from the date of billing.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 5. Revenue, other income and gains (Continued)

### Revenue from contracts with customers (Continued)

#### (ii) Performance obligations (Continued)

##### *Out-licensing agreements*

The performance obligation is satisfied upon granting the license and payment is generally due within 30 days from the date of billing.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2021 RMB'000	2020 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	39,640	67,021
After one year	—	18,978
	<b>39,640</b>	<b>85,999</b>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to a license arrangement. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

### Other income and gains

	2021 RMB'000	2020 RMB'000
Bank interest income	101,996	109,170
Dividend income from equity investments at fair value through other comprehensive income	9,573	—
Government grants	118,328	199,893
Investment income from financial assets at fair value through profit or loss	78,117	40,646
Interest income on loans to a related party	—	1,235
Foreign exchange gain, net	—	49,750
Gain on disposal of items of property, plant and equipment	11,357	87
Others	11,319	2,509
	<b>330,690</b>	<b>403,290</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 6. (Loss)/profit before tax

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Notes	2021 RMB'000	2020 RMB'000
Depreciation of items of property, plant and equipment	13	309,211	268,223
Depreciation of right-of-use assets	14(a)	33,516	27,480
Amortisation of other intangible assets*	16	239,255	215,196
Write-down of inventories to net realisable value**		18,421	6,125
Impairment of trade receivables, net	20	(519)	(392)
Lease payments not included in the measurement of lease liabilities	14(c)	14,931	9,658
Auditor's remuneration		10,648	9,840
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		719,797	631,688
Pension scheme contributions***		148,599	90,645
Pension plan costs (defined benefit plan)		1,552	2,455
Central Provident Fund in Singapore***		2,408	1,824
Staff welfare expenses		49,770	48,653
Equity-settled share award expense		49,976	50,904
		972,102	826,169
Other expenses:			
Research and development costs		683,156	789,869
Foreign exchange loss, net		24,091	—
Donation		1,130	3,085
Remeasurement of contingent considerations		57,505	23,761
Fair value losses on derivative financial instruments		—	22,563
Fair value adjustment of redemption liabilities on non-controlling interests		67,450	—
Changes in fair value of financial assets at fair value through profit or loss		14,808	3,458
Provision for legal claim	37	273,482	—
Others		5,984	1,343
		1,127,606	844,079

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 6. (Loss)/profit before tax (Continued)

The Group's (loss)/profit before tax is arrived at after charging/(crediting): (Continued)

	2021 RMB'000	2020 RMB'000
Cost of inventories sold	1,785,944	1,549,027
Cost of services provided	17,542	—

The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:

Depreciation of items of property, plant and equipment	247,463	213,108
Amortisation of other intangible assets*	234,269	210,563
Depreciation of right-of-use assets	8,494	7,882
Staff costs	358,485	313,096

\* The amortisation of trademarks, distribution right, patents and technology know-how are included in "Cost of sales" in the consolidated statement of profit or loss.

The amortisation of software is included in "Administrative expenses" in the consolidated statement of profit or loss.

\*\* The write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss.

\*\*\* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

## 7. Finance costs

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest on bank and other loans (including convertible bonds)	355,300	401,383
Amortised interest on discounted long-term payables	—	1,721
Interest on discounted notes receivable	33,046	4,867
Interest on discounted letters of credit	9,434	14,574
Interest on lease liabilities	1,678	1,457
	<b>399,458</b>	<b>424,002</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 8. Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 RMB'000	2020 RMB'000
Fees	1,295	1,388
Other emoluments:		
Salaries, allowances and benefits in kind	6,998	7,846
Performance related bonuses	2,050	2,407
Equity-settled share award expense	103	348
Pension scheme contributions	248	187
	9,399	10,788
	10,694	12,176

During the year and in prior years, certain directors were granted shares, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 40 to the financial statements. The fair value of the shares granted, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

### Independent non-executive directors

	Fees RMB'000	Equity-settled share award expense RMB'000	Total RMB'000
<b>2021</b>			
Leung Man Kit	299	—	299
Choy Sze Chung Jojo	249	—	249
Lo Yuk Lam	249	—	249
Zhang Hua Qiao	249	—	249
	1,046	—	1,046
<b>2020</b>			
Leung Man Kit	320	8	328
Choy Sze Chung Jojo	267	8	275
Lo Yuk Lam	267	8	275
Zhang Hua Qiao	267	8	275
	1,121	32	1,153

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 8. Directors' and chief executive's remuneration (Continued)

Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Equity- settled share award expense RMB'000	Total remuneration RMB'000
<b>2021</b>						
<i>Executive directors:</i>						
Liu Dian Bo	—	3,004	960	68	—	4,032
Yang Rong Bing	—	2,260	610	58	—	2,928
Yuan Hui Xian	—	978	300	—	—	1,278
Zhu Yuan Yuan	—	756	180	122	—	1,058
	—	6,998	2,050	248	—	9,296
<i>Non-executive director:</i>						
Sun Xin	—	—	—	—	—	—
Song Rui Lin	249	—	—	—	103	352
	249	6,998	2,050	248	103	9,648
<b>2020</b>						
<i>Executive directors:</i>						
Liu Dian Bo	—	4,076	960	39	—	5,075
Yang Rong Bing	—	2,260	960	58	—	3,278
Yuan Hui Xian	—	994	300	—	—	1,294
Zhu Yuan Yuan	—	516	187	90	—	793
	—	7,846	2,407	187	—	10,440
<i>Non-executive director:</i>						
Song Rui Lin	267	—	—	—	316	583
	267	7,846	2,407	187	316	11,023

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Liu Dian Bo is also the chief executive of the Group.

Sun Xin was appointed as a non-executive director of the Company on 8 February 2021.

The directors did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2020: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 9. Five highest paid employees

The five highest paid employees of the Group during the year included one director (2020: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2020: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	11,760	5,861
Performance related bonuses	1,064	1,538
Equity-settled share award expense	11,654	2,716
Pension scheme contributions	290	100
	<b>24,768</b>	<b>10,215</b>

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
HK\$3,000,001 to HK\$3,500,000	—	2
HK\$4,000,001 to HK\$4,500,000	1	—
HK\$5,000,001 to HK\$5,500,000	—	1
HK\$6,000,001 to HK\$6,500,000	1	—
HK\$9,000,001 to HK\$9,500,000	1	—
HK\$9,500,001 to HK\$10,000,000	1	—
	<b>4</b>	<b>3</b>

In prior years, shares were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 40 to the financial statements. The fair value of such shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

# NOTES TO FINANCIAL STATEMENTS

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## 10. Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of Bermuda, the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for a subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

Pursuant to the rules and regulations of Singapore, Malaysia, Switzerland, Germany, United Kingdom and Australia, the Group is subject to 17%, 24%, 13%, 29.125%, 19% and 30% of their taxable income, respectively.

Pursuant to the rules and regulations of the USA, the Group is subject to Federal statutory tax at the rate of 21% (2020: 21%) of taxable income. No provision for income tax has been made as the Group did not generate any taxable income in the USA (2020: Nil) during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Shandong Luye, Nanjing Luye, WPU, Sichuan Luye and Nanjing Kanghai Phospholipid are qualified as High and New Technology Enterprises and were entitled to a preferential income tax rate of 15% (2020: 15%) during the year.

	2021 RMB'000	2020 RMB'000
Current tax:		
Charge for the year	105,066	259,223
(Overprovision)/underprovision in prior years	(897)	4,272
Deferred tax ( <i>note 32</i> )	(33,943)	(24,586)
Total tax charge for the year	70,226	238,909

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 10. Income tax (Continued)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2021 RMB'000	2020 RMB'000
(Loss)/profit before tax	(74,557)	942,174
At the PRC's statutory income tax rate of 25%	(18,639)	235,544
Effect of tax rate differences in other jurisdictions	66,133	21,472
Preferential income tax rates applicable to subsidiaries	(45,328)	(109,870)
Additional deductible allowance for research and development expenses	(123,624)	(92,642)
Adjustments in respect of current tax of previous years	(897)	4,272
Effect of non-deductible expenses	92,787	46,109
Deemed income subject to tax	13,369	—
Income not subject to tax	(46,165)	(3,878)
Tax losses utilised from previous years	(4,074)	(767)
Tax losses not recognised	136,509	137,835
Effect of withholding tax at 10% on the interest expense of the Group's PRC subsidiaries to be paid	155	834
Tax charge at the Group's effective rate	70,226	238,909

The effective tax rate of the Group for the year was -94.2% (2020: 25.4%).

## 11. Dividends

No interim or final dividends were declared by the Company during the year ended 31 December 2021 (2020: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 12. (Loss)/earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,445,431,364 (2020: 3,187,322,035) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares issued.

The calculation of the diluted earnings per share amount for the year ended 31 December 2020 is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2020 in respect of a dilution from the impact of the convertible bonds outstanding, as it had an anti-dilutive effect on the basic earnings per share amount presented.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2021 in respect of a dilution as the impact of the convertible bonds outstanding and share award scheme had an anti-dilutive effect on the basic loss per share amount presented. The calculations of basic and diluted earnings per share are based on:

	2021 RMB'000	2020 RMB'000
<b>(Loss)/earnings</b>		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<b>(134,392)</b>	706,586
	Number of shares	
	2021	2020
<b>Shares</b>		
Weighted average number of shares in issue during the year	<b>3,445,431,364</b>	3,187,322,035
Effect of dilution — weighted average number of ordinary shares under the share award scheme	—	6,625,296
	<b>3,445,431,364</b>	3,193,947,331

# NOTES TO FINANCIAL STATEMENTS

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## 13. Property, plant and equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
<b>31 December 2021</b>							
At 1 January 2021:							
Cost	1,455,418	2,539,854	21,266	156,604	25,399	864,861	5,063,402
Accumulated depreciation and impairment	(306,379)	(961,747)	(13,673)	(92,450)	(11,455)	—	(1,385,704)
Net carrying amount	1,149,039	1,578,107	7,593	64,154	13,944	864,861	3,677,698
At 1 January 2021, net of accumulated depreciation and impairment	1,149,039	1,578,107	7,593	64,154	13,944	864,861	3,677,698
Additions	54,249	122,128	911	11,806	2,816	327,000	518,910
Disposals	(541)	(6,848)	(14)	(375)	(135)	—	(7,913)
Depreciation provided during the year	(53,406)	(231,975)	(1,877)	(16,955)	(4,998)	—	(309,211)
Transfers	108,102	234,892	—	3,689	12,249	(358,932)	—
Exchange realignment	(9,159)	(11,124)	(43)	(942)	275	—	(20,993)
At 31 December 2021: net of accumulated depreciation and impairment	1,248,284	1,685,180	6,570	61,377	24,151	832,929	3,858,491
At 31 December 2021:							
Cost	1,601,924	2,841,179	21,619	167,957	40,260	832,929	5,505,868
Accumulated depreciation and impairment	(353,640)	(1,155,999)	(15,049)	(106,580)	(16,109)	—	(1,647,377)
Net carrying amount	1,248,284	1,685,180	6,570	61,377	24,151	832,929	3,858,491

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 13. Property, plant and equipment (Continued)

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
<b>31 December 2020</b>							
At 1 January 2020:							
Cost	1,229,627	2,325,005	22,277	142,545	23,854	653,751	4,397,059
Accumulated depreciation and impairment	(257,336)	(761,789)	(13,507)	(78,715)	(9,419)	—	(1,120,766)
Net carrying amount	972,291	1,563,216	8,770	63,830	14,435	653,751	3,276,293
At 1 January 2020, net of accumulated depreciation and impairment							
	972,291	1,563,216	8,770	63,830	14,435	653,751	3,276,293
Additions	123,715	161,606	1,123	14,801	620	364,739	666,604
Disposals	(11)	(1,933)	(137)	(40)	(102)	—	(2,223)
Depreciation provided during the year	(47,774)	(200,768)	(2,172)	(15,434)	(2,075)	—	(268,223)
Transfers	98,640	53,120	—	775	1,094	(153,629)	—
Exchange realignment	2,178	2,866	9	222	(28)	—	5,247
At 31 December 2020, net of accumulated depreciation and impairment							
	1,149,039	1,578,107	7,593	64,154	13,944	864,861	3,677,698
At 31 December 2020:							
Cost	1,455,418	2,539,854	21,266	156,604	25,399	864,861	5,063,402
Accumulated depreciation and impairment	(306,379)	(961,747)	(13,673)	(92,450)	(11,455)	—	(1,385,704)
Net carrying amount	1,149,039	1,578,107	7,593	64,154	13,944	864,861	3,677,698

As at 31 December 2021, the Group was applying for the certificates of ownership for certain properties with a net book value of RMB107,386,000 (2020: RMB110,123,000). The directors of the Company are of the opinion that the use of the properties and the conduct of operating activities at those properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

As at 31 December 2021, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB557,809,000 (2020: RMB186,649,000) were pledged to secure bank loans (note 27).

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 14. Leases

The Group has lease contracts for various items of buildings, plant and machinery and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 60 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings, plant and machinery generally have lease terms between 1.5 and 5 years, while motor vehicles generally have lease terms between 2 and 3 years. Other equipment generally has lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

### (a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2020	228,020	26,115	73	2,000	256,208
Additions	95,045	14,025	370	—	109,440
Depreciation charge	(7,067)	(19,701)	(122)	(590)	(27,480)
Exchange realignment	—	(208)	—	—	(208)
As at 31 December 2020 and 1 January 2021	315,998	20,231	321	1,410	337,960
Additions	—	30,695	—	8,466	39,161
Depreciation charge	(10,252)	(18,850)	(117)	(4,297)	(33,516)
Exchange realignment	—	1,426	(26)	(15)	1,385
As at 31 December 2021	305,746	33,502	178	5,564	344,990

As at 31 December 2021, the Group's right-of-use assets with a carrying value of RMB5,386,000 (2020: Nil) were pledged to secure the bank loans (note 27).

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 14. Leases (Continued)

### (b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	24,742	28,957
New leases	39,161	14,395
Accretion of interest recognised during the year	1,678	1,457
Covid-19-related rent concessions from lessors	—	(1,675)
Payments	(26,354)	(17,581)
Exchange realignment	2,723	(811)
<b>Carrying amount at 31 December</b>	<b>41,950</b>	<b>24,742</b>
Analysed into:		
Current portion	22,745	13,013
Non-current portion	19,205	11,729

The maturity analysis of lease liabilities is disclosed in note 45 to the financial statements.

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain buildings during the year.

### (c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	1,678	1,457
Depreciation charge of right-of-use assets	33,516	27,480
Expense relating to short-term leases (included in cost of sales, selling and distribution expenses and administrative expenses)	14,931	9,658
Covid-19-related rent concessions from lessors	—	(1,675)
<b>Total amount recognised in profit or loss</b>	<b>50,125</b>	<b>36,920</b>

### (d) The total cash outflow for leases is disclosed in note 42(c) to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 15. Goodwill

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	1,056,583	1,038,068
Exchange realignment	(71,170)	18,515
Carrying amount at 31 December	985,413	1,056,583

There was no impairment charge made against goodwill for the year (2020: Nil).

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to seven individual cash-generating units for impairment testing:

- (a) CMNa cash-generating unit ("CMNa unit"), which relates to CMNa, one of the Group's key products;
- (b) Pharmaceutical products other than the CMNa cash-generating unit ("Other products unit"), which relates to Maitongna and Lutingnuo, of which Maitongna is one of the Group's key products;
- (c) Solid Success Group cash-generating unit ("SSL unit"), which relates to Lipusu and Tiandixin, of which Lipusu is one of the Group's key products;
- (d) Luye Pharma (Singapore) Pte. Ltd. ("LPPL") cash-generating unit ("LPPL unit"), which relates to HypoCol;
- (e) WPU cash-generating unit ("WPU unit"), which relates to Xuezhikang, one of the Group's key products;
- (f) Sichuan Luye cash-generating unit ("SL unit"), which relates to Bei Xi, one of the Group's key products; and
- (g) Europe cash-generating unit ("EU unit"), which relates to products of advanced transdermal drug delivery systems, one of the key products of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 15. Goodwill (Continued)

### Impairment testing of goodwill (Continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2021	2020
	RMB'000	RMB'000
CMNa unit	38,444	38,444
Other products unit	5,954	5,954
SSL unit	114,185	114,185
LPPL unit	7,353	7,353
WPU unit	22,276	22,276
SL unit	159,144	159,144
EU unit	638,057	709,227
	<b>985,413</b>	1,056,583

The recoverable amounts of the cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period for the EU unit and other units. The pre-tax discount rates applied to cash flow projections were 13.3% (2020: 11.7%) for the EU unit and 15% (2020: 15%) for other units. The growth rates used to extrapolate the cash flows of the EU unit and other units beyond the five-year period were 2.0% (2020: 2.0%) and 3% (2020: 3%), respectively.

### Key assumptions used in the value-in-use calculation

The calculation of value in use is based on assumptions of the following:

- Gross margins and operating expenses
- Discount rates
- Growth rates

Gross margins and operating expenses — Gross margins are based on the average gross margins achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect past experience and management's commitment to maintain them at an acceptable level.

Discount rates — the rates reflect management's estimate of the risks specific to each of the units.

Growth rates — the rates are based on published industry research.

The values assigned to the key assumptions on gross margins and operating expenses, discount rates and growth rates are consistent with management's past experience and external information sources.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 16. Other intangible assets

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Deferred development costs RMB'000	Distribution right RMB'000	Total RMB'000
<b>31 December 2021</b>						
At 1 January 2021:						
Cost	41,971	1,993,060	51,980	1,005,396	2,683,722	5,776,129
Accumulated amortisation	(38,066)	(712,039)	(32,207)	—	(223,813)	(1,006,125)
Net carrying amount	3,905	1,281,021	19,773	1,005,396	2,459,909	4,770,004
Cost at 1 January 2021, net of accumulated amortisation						
	3,905	1,281,021	19,773	1,005,396	2,459,909	4,770,004
Additions	3	205,665	28,463	793,250	—	1,027,381
Transfers	—	416,383	—	(416,383)	—	—
Amortisation provided during the year	(3,905)	(141,919)	(4,986)	—	(88,445)	(239,255)
Exchange realignment	—	(40,650)	(173)	(20,264)	(55,210)	(116,297)
At 31 December 2021	3	1,720,500	43,077	1,361,999	2,316,254	5,441,833
At 31 December 2021:						
Cost	41,974	2,511,248	61,604	1,361,999	2,600,130	6,576,955
Accumulated amortisation	(41,971)	(790,748)	(18,527)	—	(283,876)	(1,135,122)
Net carrying amount	3	1,720,500	43,077	1,361,999	2,316,254	5,441,833

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 16. Other intangible assets (Continued)

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Deferred development costs RMB'000	Distribution right RMB'000	Total RMB'000
<b>31 December 2020</b>						
At 1 January 2020:						
Cost	41,971	2,061,109	48,743	583,754	2,869,146	5,604,723
Accumulated amortisation	(34,952)	(714,152)	(26,859)	—	(143,457)	(919,420)
Net carrying amount	7,019	1,346,957	21,884	583,754	2,725,689	4,685,303
Cost at 1 January 2020, net of accumulated amortisation						
	7,019	1,346,957	21,884	583,754	2,725,689	4,685,303
Additions	—	32,660	2,429	468,278	—	503,367
Transfers	—	51,853	—	(51,853)	—	—
Amortisation provided during the year	(3,114)	(112,692)	(4,633)	—	(94,757)	(215,196)
Exchange realignment	—	(37,757)	93	5,217	(171,023)	(203,470)
At 31 December 2020	3,905	1,281,021	19,773	1,005,396	2,459,909	4,770,004
At 31 December 2020:						
Cost	41,971	1,993,060	51,980	1,005,396	2,683,722	5,776,129
Accumulated amortisation	(38,066)	(712,039)	(32,207)	—	(223,813)	(1,006,125)
Net carrying amount	3,905	1,281,021	19,773	1,005,396	2,459,909	4,770,004

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 16. Other intangible assets (Continued)

### Impairment testing of deferred development costs

Deferred development costs were capitalised in accordance with the accounting policies for research and development costs in note 2.4 to the financial statements. The useful life of deferred development costs is considered indefinite until the completion or abandonment of the related research and development efforts. Deferred development costs are not amortised but tested individually for impairment annually. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

The recoverable amounts of deferred development costs have been determined based on a value in use calculation using cash flow projections which are based on financial forecast approved by the Company's directors. The discount rate applied to the cash flow projections 15.0% (2020: 15.0%), which is determined by reference to the average rates for in progress research and development projects with similar business risk and after taking into account the risk premium in connection with the related research and development efforts. The growth rates used to extrapolate the cash flows beyond the forecast period are from -3% to 2% (2020: -3% to 2%), which are also estimates of the rate of inflation and characteristic of pharmaceutical industry.

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amounts of deferred development costs to exceed their recoverable amounts.

Assumptions were used in the value in use calculation of deferred development costs as at 31 December 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of deferred development costs:

- Discount rate — The discount rate used is before tax and reflects specific risks in respect of the related research and development efforts.
- Profit margin — The basis used to determine the value assigned to the profit margin is the expected commercialising markets.
- Growth rate — The growth rate used to extrapolate the cash flows beyond the forecast period is based on the estimated growth rate of the Group taking into account the industry growth rate, past experience and the medium-term or long-term growth target of the Group.

The values assigned to the key assumptions are consistent with historical experience of the Group and external information sources.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 17. Investment in an associate

	2021 RMB'000	2020 RMB'000
At 1 January	8,640	6,346
Share of profits	614	2,391
Dividend received	(518)	—
Foreign currency translation differences	(77)	(97)
At 31 December	8,659	8,640

Particulars of the associate are as follows:

Company	Place of incorporation and business	Nominal value of issued/registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Steward Cross Pte. Ltd. ("Steward Cross")	Singapore	SG\$620,002	36	Distribution and sale of pharmaceutical drugs

The Group's shareholdings in this associate comprise equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associate that is not material:

	2021 RMB'000	2020 RMB'000
Share of the associate's profit for the year	701	1,726
Share of the associate's total comprehensive income	701	1,726
Carrying amount of the Group's investment in the associate	8,659	8,640

As at 31 December 2021, the unrealised profits from the related party transactions between Steward Cross and LPPL was RMB366,000 (2020: RMB125,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 18. Equity investments designated at fair value through other comprehensive income

	2021 RMB'000	2020 RMB'000
Listed equity investments, at fair value	5,870	3,041
Unlisted equity investments, at fair value	89,403	58,515
	95,273	61,556

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

The fair value of the listed equity investments is derived from quoted price in an active market.

The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

## 19. Inventories

	2021 RMB'000	2020 RMB'000
Raw materials	268,127	220,547
Work in progress	219,172	186,806
Finished goods	259,045	204,950
	746,344	612,303

## 20. Trade and notes receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	1,518,185	954,645
Notes receivable	250,315	602,614
	1,768,500	1,557,259
Less: Impairment of trade receivables	(3,404)	(4,170)
	1,765,096	1,553,089

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 20. Trade and notes receivables (Continued)

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at 31 December 2021, notes receivable of RMB250,315,000 (2020: RMB602,614,000) were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2021.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	1,008,416	887,792
3 to 6 months	57,993	47,101
6 to 12 months	449,895	17,067
1 to 2 years	697	1,267
Over 2 years	1,184	1,418
	<b>1,518,185</b>	954,645

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	4,170	4,718
Impairment losses, net (note 6)	(519)	(392)
Exchange realignment	(247)	(156)
At end of year	<b>3,404</b>	4,170

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due and are not subject to enforcement activity.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 20. Trade and notes receivables (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2021

	Less than 6 months	6 months to 1 year	1 year to 2 years	Over 2 years	Total
Expected credit loss rate	0.18%	0.00%	50.00%	100.00%	0.15%
Gross carrying amount (RMB'000)	1,066,409	449,895	697	1,184	1,518,185
Expected credit losses (RMB'000)	1,871	—	349	1,184	3,404

As at 31 December 2020

	Less than 6 months	6 months to 1 year	1 year to 2 years	Over 2 years	Total
Expected credit loss rate	0.23%	0.00%	50.00%	100.00%	0.44%
Gross carrying amount (RMB'000)	934,893	17,067	1,267	1,418	954,645
Expected credit losses (RMB'000)	2,119	—	633	1,418	4,170

As at 31 December 2021, the Group has pledged notes receivable of RMB11,932,000 (2020: RMB15,000,000) to secure notes payable of RMB11,932,000 (2020: RMB15,000,000) (note 24).

As at 31 December 2021, the Group has pledged intra-group notes receivable of RMB50,000,000 (2020: RMB10,000,000) to secure bank loans (note 27).

The notes receivable are due within twelve months. As at 31 December 2021, notes receivable and intra-group notes receivable of RMB6,170,000 (2020: RMB929,000) and RMB750,000,000 (2020: RMB540,975,000) were discounted.

At 31 December 2021, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB463,670,000 (2020: RMB256,227,000) (the "Endorsement"). The Endorsed Notes have a maturity from one to twelve months as at 31 December 2021. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 20. Trade and notes receivables (Continued)

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with an amount of RMB362,386,000 (2020: RMB167,955,000) (the "Derecognised Notes"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB101,284,000 as at 31 December 2021 (2020: RMB88,273,000) because the directors of the Company believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

During the year ended 31 December 2021, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the period and cumulatively. The Endorsement has been made evenly throughout the year.

## 21. Prepayments, other receivables and other assets

	2021 RMB'000	2020 RMB'000
Other receivables	622,610	253,522
Prepaid income tax	1,143	1,773
Prepaid other tax	45,796	93,697
Prepayments	369,989	121,516
	<b>1,039,538</b>	470,508

The financial assets included in the above balances are non-interest-bearing, unsecured and repayable on demand.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2021 and 2020, the loss allowance was assessed to be minimal.

# NOTES TO FINANCIAL STATEMENTS

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## 22. Financial assets at fair value through profit or loss

	2021 RMB'000	2020 RMB'000
<b>Current</b>		
Listed equity investments, at fair value	2,148	19,248
Unlisted equity investments, at fair value	930,000	—
Other unlisted investments, at fair value	1,752,050	1,412,659
	<b>2,684,198</b>	<b>1,431,907</b>
<b>Non-current</b>		
Unlisted equity investment, at fair value	478,263	1,263

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

The above unlisted equity investments were partnerships established in accordance with Partnership Enterprise Law of PRC. The above current other unlisted investments were wealth management products issued by licensed financial institutions in Mainland China with a maturity period within one year. The fair values of the financial assets approximate to their costs plus expected interest. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The fair value of the listed equity investments is derived from quoted price in an active market.

The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 23. Cash and cash equivalents, pledged time deposits and restricted cash

	2021 RMB'000	2020 RMB'000
Cash and bank balances	2,249,252	3,484,938
Time deposits	2,320,254	2,680,223
	<b>4,569,506</b>	6,165,161
Less:		
Pledged time deposits for letters of credit	(47,758)	(16,781)
Pledged time deposits for bank loans	(727,784)	(1,099,995)
Current pledged time deposits for notes payable	(527,853)	(774,000)
Non-current pledged time deposits for notes payable	(200,000)	(300,000)
Non-current pledged time deposits to issue a letter of guarantee	(240,000)	—
Non-pledged time deposits with original maturity of over three months when acquired	(387,859)	(109,000)
Cash and cash equivalents	<b>2,438,252</b>	3,865,385
Denominated in RMB	1,979,986	3,786,523
Denominated in US\$	341,735	36,492
Denominated in EUR	83,944	29,997
Denominated in other currencies	32,587	12,373
Cash and cash equivalents	<b>2,438,252</b>	3,865,385

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and thirty-six months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2021, restricted cash of RMB29,266,000 (2020: RMB30,122,000) represented an account balance held at Bank of Communications Trustee Limited. The account was opened for the share award scheme of the Company, of which the balance cannot be withdrawn during the valid and effective term of the share award scheme. Restricted cash of RMB2,716,000 (2020: RMB7,351,000) represented an account balance held at China Minsheng Banking Corporation Limited. The account was opened for a bank loan of LPEU, which shall only be used for the payment of the interest, fees and principal of the loan. The borrower shall not utilise any amounts in the account without consent from the lender. The restricted cash balance is not available to finance the Group's day-to-day operations and, therefore, has been excluded from cash and cash equivalents for the purposes of the statement of cash flows.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 23. Cash and cash equivalents, pledged time deposits and restricted cash (Continued)

As at 31 December 2021, time deposits of RMB727,784,000 (2020: RMB1,099,995,000) have been pledged to secure bank loans (note 27).

As at 31 December 2021, time deposits of RMB492,340,000 (2020: RMB1,019,910,000) and RMB235,513,000 (2020: RMB54,090,000) have been pledged to secure intra-group notes payable and notes payable (note 24), respectively.

## 24. Trade and notes payables

	2021 RMB'000	2020 RMB'000
Trade payables	323,445	326,172
Notes payable	247,445	159,090
	<b>570,890</b>	485,262

An ageing analysis of the trade and notes payables as at the end of the reporting period, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	538,576	456,647
3 to 6 months	18,815	17,952
6 to 12 months	6,906	6,516
1 to 2 years	4,894	2,042
Over 2 years	1,699	2,105
	<b>570,890</b>	485,262

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

The maturity of the notes payable is within twelve months.

As at 31 December 2021, the Group's notes payable were secured by certain of the Group's notes receivable and time deposits amounting to approximately RMB11,932,000 (2020: RMB15,000,000) (note 20) and RMB235,513,000 (2020: RMB54,090,000) (note 23), respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 25. Other payables and accruals

	Notes	2021 RMB'000	2020 RMB'000
Other payables	(a)	348,950	234,609
Accrued liabilities		164,421	27,451
Accrued payroll		202,060	133,275
Contract liabilities	(b)	39,640	85,999
Taxes payable other than corporate income tax		63,930	49,741
Payables for purchases of property, plant and equipment and other intangible assets		228,822	198,800
Provision for legal claim		270,269	—
		<b>1,318,092</b>	<b>729,875</b>

Notes:

(a) Other payables are non-interest-bearing.

(b) Details of contract liabilities are as follows:

	31 December 2021 RMB'000	31 December 2020 RMB'000	1 January 2020 RMB'000
Advances received from customers			
Sale of products	39,640	67,021	49,408
Out-licensing agreements	—	18,978	—
Total contract liabilities	<b>39,640</b>	<b>85,999</b>	<b>49,408</b>

Contract liabilities mainly include advances received to deliver products. The increase in contract liabilities in 2020 was mainly due to the increase in advances received from customers in relation to the sale of products and out-licensing agreements at the end of the year. The decrease in contract liabilities in 2021 was mainly due to the decrease in advances received from customers in relation to the sale of products at the end of the year.

## 26. Derivative financial instruments

	2021 Liabilities RMB'000	2020 Liabilities RMB'000
Foreign currency swaps	—	22,563

The foreign currency swaps are not designated for hedge purposes and are measured at fair value through profit or loss. There were no changes in the fair value of non-hedging foreign currency swaps charged to the statement of profit or loss during the year (2020: RMB22,563,000).

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings

31 December 2021

	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
Bank loan — secured	LPR+0.14	2022	45,046
Bank loan — secured	LPR+0.25	2022	70,093
Bank loan — secured	LPR+0.15	2022	200,222
Bank loan — secured	LPR+0.20	2022	200,225
Bank loan — secured	LPR+0.20	2022	100,113
Bank loan — secured	4.65	2022	250,116
Bank loan — secured	4.65	2022	50,060
Bank loan — secured	LPR+0.55	2022	95,333
Bank loan — secured	4.35	2022	50,067
Bank loan — secured	3.95	2022	91,252
Bank loan — secured	3.95	2022	109,284
Bank loan — secured	3.95	2022	40,300
Bank loan — secured	LPR+0.25	2022	100,114
Bank loan — secured	4.20	2022	73,715
Bank loan — secured	4.20	2022	57,060
Bank loan — secured	4.25	2022	150,177
Bank loan — secured	4.25	2022	150,177
Bank loan — secured	3.80	2022	125,132
Bank loan — secured	3.80	2022	125,132
Bank loan — secured	4.60	2022	175,224
Bank loan — secured	4.60	2022	32,041
Bank loan — secured	4.80	2022	49,000
Bank loan — secured	4.10	2022	300,292
Bank loan — secured	4.35	2022	80,169
Bank loan — secured	4.00	2022	10,046
Bank loan — secured	4.00	2022	20,092
Bank loan — secured	4.00	2022	50,230
Bank loan — secured	4.00	2022	80,368
Bank loan — secured	4.30	2022	50,383
Bank loan — secured	4.30	2022	50,259
Bank loan — secured	1.70	2022	95,712
US\$15,012,042			
Bank loan — secured	1.30	2022	131,536
EUR18,219,050			
Bank loan — secured	1.35	2022	72,230
EUR10,004,521			
Bank loan — secured	1.35	2022	63,254
EUR8,761,358			
Bank loan — secured	3-month EURIBOR+0.60	2022	216,861
EUR30,037,394			
Bank loan — secured	3-month EURIBOR+0.60	2022	83,130
EUR11,514,335			
Bank loan — secured	1.30	2022	97,771
EUR13,542,263			

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings (Continued)

31 December 2021 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
Current portion of long-term bank loans — secured			
Bank loan — secured	4.90	2022	15,118
Bank loan — secured	4.90	2022	10,079
Bank loan — secured	4.60	2022	1,026
Bank loan — secured	4.60	2022	17,537
Bank loan — secured	4.35	2022	2,091
Bank loan — secured	4.35	2022	2,091
Bank loan — secured	4.13	2022	90,686
Bank loan — secured	5-year LPR+0.05	2022	10,000
Bank loan — secured	3-month LIBOR+2.85	2022	13,269
US\$2,081,038			
Bank loan — secured	3-month LIBOR+2.85	2022	105,862
US\$16,603,766			
Bank loan — secured	3-month LIBOR+2.85	2022	110,768
US\$17,373,495			
Bank loan — secured	3-month LIBOR+2.85	2022	20,346
US\$3,191,210			
Bank loan — secured	3-month EURIBOR+1.70	2022	101,744
EUR14,092,522			
Discounted notes receivable	4.00	2022	78,027
	4.00	2022	96,311
	0.80	2022	1,335
	2.60	2022	49,119
	2.65	2022	48,877
	3.90	2022	87,407
	3.90	2022	97,064
	2.35	2022	1,945
	1.50	2022	2,393
	1.50	2022	1,362
	1.25	2022	1,047
	4.80	2022	48,546
	2.48	2022	29,847
	2.40	2022	78,491
	2.40	2022	19,623
	4.05	2022	48,543
	4.05	2022	48,515
Discounted letters of credit	4.15	2022	49,852
	3.90	2022	199,572
	3.65	2022	9,762
Lease liabilities (note 14(b))	3.98	2022	22,745
			5,263,216

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings (Continued)

31 December 2021 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
<b>Non-current</b>			
Bank loan — secured	4.90	2025	110,000
Bank loan — secured	4.60	2026	342,583
Bank loan — secured	4.35	2023	144,000
Bank loan — secured	5-year LPR+0.05	2026	240,000
Bank loan — secured	3-month LIBOR+2.85	2025	76,585
US\$12,012,000			
Bank loan — secured	3-month LIBOR+2.85	2025	598,296
US\$93,840,000			
Bank loan — secured	3-month LIBOR+2.85	2025	625,193
US\$98,058,742			
Bank loan — secured	3-month LIBOR+2.85	2025	111,001
US\$17,410,023			
Bank loan — secured	3-month Euribor+1.70	2023	90,060
EUR12,474,157			
Lease liabilities (note 14(b))	3.98	2029	19,205
			2,356,923
Total interest-bearing loans and borrowings			7,620,139
Convertible bonds (note 28)	7.29	2022–2024	1,870,654
			9,490,793

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings (Continued)

31 December 2020

	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
Bank loan — secured	LPR+0.08	2021	50,064
Bank loan — secured	LPR+0.94	2021	70,093
Bank loan — secured	LPR+0.08	2021	200,230
Bank loan — secured	LPR	2021	100,124
Bank loan — secured	LPR	2021	200,248
Bank loan — secured	LPR+0.15	2021	95,116
Bank loan — secured	4.57	2021	110,140
Bank loan — secured	3.95	2021	52,105
Bank loan — secured	3.95	2021	22,254
Bank loan — secured	3.95	2021	17,154
Bank loan — secured	3.95	2021	43,773
Bank loan — secured	3.95	2021	80,693
Bank loan — secured	3.95	2021	27,622
Bank loan — secured	4.25	2021	56,312
Bank loan — secured	4.00	2021	101,822
Bank loan — secured	4.00	2021	71,167
Bank loan — secured	4.00	2021	20,333
Bank loan — secured	4.00	2021	30,500
Bank loan — secured	4.00	2021	81,511
Bank loan — secured	4.00	2021	71,299
Bank loan — secured	4.05	2021	194,218
Bank loan — secured	4.35	2021	150,181
Bank loan — secured	4.60	2021	57,146
Bank loan — secured	3.70	2021	125,128
Bank loan — secured	3.70	2021	125,128
Bank loan — secured	4.10	2021	175,199
Bank loan — secured	4.50	2021	50,063
Bank loan — secured	4.00	2021	81,449
Bank loan — secured	4.13	2021	300,238
Bank loan — secured	4.35	2021	80,113

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings (Continued)

31 December 2020 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
Bank loan — secured HK\$194,423,387	1.08	2021	163,635
Bank loan — secured US\$7,006,085	2.85	2021	45,714
Bank loan — secured US\$8,005,707	2.35	2021	52,236
Bank loan — secured US\$30,022,255	1-month LIBOR+1.10	2021	195,892
Bank loan — secured US\$40,379,432	1.70	2021	263,472
Bank loan — secured US\$15,134,234	1.70	2021	98,749
Bank loan — secured US\$22,404,985	1-month LIBOR+0.80	2021	146,190
Bank loan — secured EUR10,081,130	1.20	2021	80,901
Bank loan — secured EUR10,004,815	1.45	2021	80,289
Bank loan — secured EUR11,005,306	1.45	2021	88,318
Bank loan — secured EUR25,051,198	1.42	2021	201,036
Bank loan — secured EUR12,617,110	3-month LIBOR+0.85	2021	101,252
Bank loan — secured EUR20,000,000	1.02	2021	165,763

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings (Continued)

31 December 2020 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
Current portion of long-term bank loans — secured			
Bank loan — secured	4.90	2021	3,204
Bank loan — secured	4.90	2021	10,000
Bank loan — secured	4.90	2021	340
Bank loan — secured	4.13	2021	10,125
Bank loan — secured US\$1,224,488	3-month LIBOR+2.85	2021	7,990
Bank loan — secured US\$12,457,158	3-month LIBOR+2.85	2021	81,282
Bank loan — secured US\$13,103,880	3-month LIBOR+2.85	2021	85,502
Bank loan — secured US\$2,408,816	3-month LIBOR+2.85	2021	15,717
Bank loan — secured EUR81,492	3-month EURIBOR+1.70	2021	654
Discounted notes receivable	2.85	2021	98,108
	3.40	2021	39,772
	3.55	2021	29,652
	3.15	2021	922
	2.80	2021	29,859
	2.89	2021	49,500
	2.79	2021	964
	4.20	2021	48,454
	4.20	2021	48,484
	3.19	2021	38,892
	3.90	2021	146,588
Discounted letters of credit	2.57	2021	19,863
	3.85	2021	199,284
	3.73	2021	99,816
	3.38	2021	40,000
Lease liabilities (note 14(b))	3.93	2021	13,013
			5,642,855

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings (Continued)

31 December 2020 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
<b>Non-current</b>			
Bank loan — secured	4.90	2025	135,000
Bank loan — secured	4.90	2026	250,000
Bank loan — secured	4.13	2022	90,000
Bank loan — secured US\$14,580,000	3-month LIBOR+2.85	2025	95,133
Bank loan — secured US\$111,780,000	3-month LIBOR+2.85	2025	729,353
Bank loan — secured US\$116,426,160	3-month LIBOR+2.85	2025	759,669
Bank loan — secured US\$20,482,380	3-month LIBOR+2.85	2025	133,646
Bank loan — secured EUR40,272,226	3-month EURIBOR+1.70	2023	323,185
Lease liabilities ( <i>note 14(b)</i> )	3.93	2028	11,729
			2,527,715
Total interest-bearing loans and borrowings			8,170,570
Convertible bonds ( <i>note 28</i> )	7.29	2021–2024	1,810,930
			9,981,500

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 27. Interest-bearing loans and borrowings (Continued)

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	5,263,216	5,642,855
In the second year	674,947	455,701
In the third to fifth years, inclusive	3,551,951	3,792,268
After five years	679	90,676
	<b>9,490,793</b>	<b>9,981,500</b>

Notes:

Certain of the Group's bank loans are secured by:

- (i) the pledge of certain of the Group's time deposits of RMB727,784,000 (2020: RMB1,099,995,000) (note 23);
- (ii) the pledge of certain of the Group's intra-group notes receivable of RMB50,000,000 (2020: RMB10,000,000) (note 20);
- (iii) the pledge of certain of the Group's property, plant and equipment, which had a net carrying value at the end of the reporting period of approximately RMB557,809,000 (2020: RMB186,649,000) (note 13);
- (iv) the pledge of certain of the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of approximately RMB5,386,000 (2020: Nil) (note 14); and
- (v) the pledge of certain of the Group's subsidiaries' shares.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 28. Convertible bonds

On 9 July 2019, the Company issued 1.50 per cent convertible bonds with an aggregate principal amount of US\$300,000,000. There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK\$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The bonds are redeemable at the option of the bondholders at a 3.75 per cent gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent of its principal amount together with accrued but unpaid interest thereon. The bonds carry interest at a rate of 1.50 per cent per annum, which is payable semi-annually in arrears on 9 January and 9 July. As at 31 December 2021, the conversion price was HK\$7.90 per share after adjustment (2020: HK\$7.90 per share) as a result of the declaration of the dividends.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The movements in liability component of convertible bonds during the year are as follows:

	RMB'000
Liability component at 1 January 2020	1,833,173
Interest expense	132,905
Interest paid	(31,043)
Exchange realignment	(124,105)
Liability component at 31 December 2020 and 1 January 2021	<b>1,810,930</b>
Interest expense	<b>131,367</b>
Interest paid	<b>(29,032)</b>
Exchange realignment	<b>(42,611)</b>
Liability component at 31 December 2021 ( <i>note 27</i> )	<b>1,870,654</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 29. Contingent consideration payables

As part of the sale and purchase agreement in relation to the acquisition of Boan Biotech, portions of the consideration were determined to be contingent, based on the grant by the competent authority in China of the marketing authorisation for LY01008 and LY06006, respectively. LY01008 and LY06006 are two biosimilar products under research and development by Boan Biotech. The movement of the fair value of contingent consideration payables is as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	638,556	—
Arising from acquisition of Boan Biotech	—	614,795
Payment	(361,683)	—
Fair value changes	57,505	23,761
At end of year	334,378	638,556

The fair values of the contingent consideration payables were determined using the discounted cash flow method and are within Level 3 fair value measurement. Significant unobservable valuation inputs for the fair value measurement of the contingent considerations are as follows:

	2021	2020
Discount rate	4.9%	4.9%
Discount for own non-performance risk	5%	5%

## 30. Other non-current liabilities

	Notes	2021 RMB'000	2020 RMB'000
Payables for an asset purchase and license agreement	(i)	51,007	52,199
Consideration received for a collaboration arrangement	(ii)	48,131	—
		99,138	52,199

Notes:

- (i) The balance represents the remaining long-term instalments for an asset purchase and license agreement.
- (ii) Boan Biotech entered into an agreement with OcuMension Therapeutics (Zhejiang) Co., Ltd. ("OcuMension"), as amended by a supplemental agreement, pursuant to which Boan Biotech is responsible for conducting certain initial stages of the Phase 3 clinical trial, commercial production and registration permit of BA9101 and OcuMension is responsible for completing the rest of Phase 3 clinical trial and promote and commercialise BA9101 in China. A total consideration received for the collaboration arrangement of RMB48,131,000 was recorded as other non-current liabilities.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 31. Government grants

	2021 RMB'000	2020 RMB'000
At 1 January	230,850	150,547
Grants received during the year	51,839	115,174
Amount released	(41,949)	(34,871)
At 31 December	240,740	230,850
Current	31,353	45,193
Non-current	209,387	185,657
	240,740	230,850

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment from the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

# NOTES TO FINANCIAL STATEMENTS

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## 32. Deferred tax

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

	2021								
	Employee defined benefit obligation RMB'000	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from inter-company transactions RMB'000	Others RMB'000	Total deferred tax assets RMB'000
At 1 January 2021	605	26,962	6,255	1,092	777	34,125	44,927	—	114,743
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	—	27,202	(300)	3,258	(23)	1,013	(15,225)	3,220	19,145
Deferred tax charged to other comprehensive income during the year	(160)	—	—	—	—	—	—	—	(160)
Exchange realignment	—	—	(622)	—	—	—	—	—	(622)
At 31 December 2021	445	54,164	5,333	4,350	754	35,138	29,702	3,220	133,106

	2020								
	Employee defined benefit obligation RMB'000	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from inter-company transactions RMB'000	Others RMB'000	Total deferred tax assets RMB'000
At 1 January 2020	616	18,599	7,252	1,395	1,266	20,907	43,824	—	93,859
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	—	8,363	(1,072)	(303)	(489)	13,218	1,103	—	20,820
Deferred tax charged to other comprehensive income during the year	(11)	—	—	—	—	—	—	—	(11)
Exchange realignment	—	—	75	—	—	—	—	—	75
At 31 December 2020	605	26,962	6,255	1,092	777	34,125	44,927	—	114,743

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 32. Deferred tax (Continued)

### Deferred tax liabilities

	2021			
	Fair value adjustment on acquisition RMB'000	Accelerated depreciation and amortisation for tax purposes RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2021	55,189	13,464	5,667	74,320
Deferred tax credited to the statement of profit or loss during the year ( <i>note 10</i> )	(11,557)	(676)	(2,565)	(14,798)
Exchange realignment	—	(1,648)	—	(1,648)
At 31 December 2021	43,632	11,140	3,102	57,874
	2020			
	Fair value adjustment on acquisition RMB'000	Accelerated depreciation and amortisation for tax purposes RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2020	62,015	11,742	4,015	77,772
Deferred tax charged/(credited) to the statement of profit or loss during the year ( <i>note 10</i> )	(6,826)	1,408	1,652	(3,766)
Exchange realignment	—	314	—	314
At 31 December 2020	55,189	13,464	5,667	74,320

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 32. Deferred tax (Continued)

The Group has tax losses arising in Singapore, Hong Kong and Germany of RMB59,732,000 (2020: RMB73,868,000) that are available indefinitely for offsetting against future taxable profits.

The Group has tax losses arising in Switzerland of RMB132,038,000 (2020: RMB124,386,000) that are available for offsetting against future taxable profits in seven years.

The Group has tax losses arising in the USA of RMB229,135,000 (2020: RMB180,374,000) that are available for offsetting against future taxable profits in twenty years.

The Group has tax losses arising in Mainland China of RMB1,957,598,000 (2020: RMB1,373,939,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2021, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2020: Nil). In the opinion of the directors, these subsidiaries' fund will be retained in Mainland China for the expansion of these subsidiaries' operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB4,773,372,000 as at 31 December 2021 (2020: RMB4,194,534,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

# NOTES TO FINANCIAL STATEMENTS

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## 33. Issued capital and treasury shares

	2021	2020
<b>Authorised:</b>		
10,000,000,000 (2020: 10,000,000,000) ordinary shares of US\$0.02 each US\$'000	200,000	200,000
<b>Issued and fully paid:</b>		
3,541,372,224 (2020: 3,248,965,343) ordinary shares of US\$0.02 each US\$'000	70,827	64,979
Equivalent to RMB'000	455,835	417,991

A summary of movements in the Company's issued capital and treasury shares is as follows:

	Number of shares in issue	Issued capital RMB'000	Treasury shares RMB'000
At 1 January 2020	3,268,965,343	420,565	(279,558)
Shares cancelled	(20,000,000)	(2,574)	77,962
Shares repurchased	—	—	(77,962)
At 31 December 2020 and 1 January 2021	3,248,965,343	417,991	(279,558)
Shares issued ( <i>note</i> )	292,406,881	37,844	—
At 31 December 2021	3,541,372,224	455,835	(279,558)

*Note: On 2 February 2021, the Company issued 292,406,881 shares to Hillhouse NEV Holdings Limited at the subscription price of HK\$4.28 per share. The proceeds of HK\$45,345,000 (equivalent to RMB37,844,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$1,206,156,000 (equivalent to RMB1,006,633,000) were credited to the share premium account.*

## 34. Reserves

### Statutory surplus reserve

In accordance with the Company Law of the PRC, 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 surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 34. Reserves (Continued)

### Safety production reserve

The Group has appropriated a certain amount of accumulated losses to the safety production reserve fund for safety production expense purposes as required by directives issued by the relevant PRC government authorities. The Group charged the safety production expense to profit or loss when such expense was incurred, and at the same time an equal amount of special reserve fund was utilised and transferred back to accumulated losses.

## 35. Partly-owned subsidiaries with material non-controlling interests

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2021	2020
<b>Percentage of equity interest held by non-controlling interests:</b>		
WPU	30.45%	30.45%
Boan Biotech	27.68%	11.67%
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Profit/(loss) for the year allocated to non-controlling interests:</b>		
WPU	44,905	11,736
Boan Biotech	(55,231)	(12,779)
<b>Dividends declared to non-controlling interests:</b>		
WPU	5,500	5,000
<b>Accumulated balances of non-controlling interests at the reporting date:</b>		
WPU	194,275	154,055
Boan Biotech	432,153	54,312
<b>Share award scheme reserve attributable to non-controlling interests:</b>		
WPU	815	1,332
Boan Biotech	5,570	—

# NOTES TO FINANCIAL STATEMENTS

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## 35. Partly-owned subsidiaries with material non-controlling interests (Continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2021	WPU RMB'000	Boan Biotech RMB'000
Revenue	849,425	158,704
Total expenses	(713,890)	(384,121)
Profit/(loss) for the year	135,535	(225,417)
Total comprehensive income for the year	135,535	(225,417)
Current assets	753,566	939,850
Non-current assets	316,388	1,166,754
Current liabilities	(380,548)	(260,482)
Non-current liabilities	(22,641)	(294,435)
Net cash flows from/(used in) operating activities	43,095	(246,278)
Net cash flows used in investing activities	(20,478)	(432,296)
Net cash flows (used in)/from financing activities	(26,709)	1,211,729
Net foreign exchange differences	(235)	(5,081)
Net (decrease)/increase in cash and cash equivalents	(4,327)	528,074
2020	WPU RMB'000	Boan Biotech RMB'000
Revenue	533,890	—
Total expenses	(470,752)	(248,817)
Profit/(loss) for the year	63,138	(248,817)
Total comprehensive income for the year	63,138	(248,817)
Current assets	545,036	98,670
Non-current assets	325,408	779,811
Current liabilities	(295,390)	(410,285)
Non-current liabilities	(28,436)	(2,800)
Net cash flows used in operating activities	(120,491)	(250,856)
Net cash flows from/(used in) investing activities	134,019	(50,247)
Net cash flows (used in)/from financing activities	(10,000)	301,115
Net foreign exchange differences	(399)	—
Net increase in cash and cash equivalents	3,129	12

As at 31 December 2021, the unrealised profit from the inter-company transaction between WPU and Luye Trading was RMB28,753,000 (2020: RMB40,688,000).

# NOTES TO FINANCIAL STATEMENTS

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## 36. Redemption liabilities on non-controlling interests

In January 2021, Boan Biotech, a subsidiary of Shandong Luye, completed financing from eighteen third-party investors (“Round A Investors”) at a total consideration of RMB876,618,000. In August 2021, Boan Biotech completed financing from five third-party investors (“Round B Investors”) at a total consideration of RMB210,915,000. Significant terms of the subscription agreements that will impact the accounting treatment of the Group are outlined below:

### Redemption rights held by non-controlling shareholders:

Pursuant to the subscription agreements signed by and among Investors, the Company, and Shandong Luye, shares of the Investors shall be redeemable by Shandong Luye upon the occurrence of certain contingent events which cannot be controlled by Boan Biotech, Shandong Luye and the Company, including: (i) a qualified public offering of Boan Biotech cannot be completed by 31 December 2024; (ii) a qualified public offering of Boan Biotech cannot be achieved due to material integrity issue of existing shareholders, directors or senior management, or due to material internal control weaknesses resulted from existing shareholders or management; (iii) a qualified public offering of Boan Biotech cannot be achieved due to the auditor does not give an unqualified opinion; or (iv) the Group does not receive approval in connection with the application of proposed spin-off listing of Boan Biotech from the Stock Exchange.

The redemption price shall be determined by investors based on 1) the amount that would give investors a ten percent for Round A Investors and a eight percent for Round B Investors as internal return rate for their investments in Boan Biotech plus all accrued but unpaid dividends; or 2) the then fair value of shares held by the investors, and in any case the redemption price shall be not greater than three times for Round A Investors and two times for Round B Investors of the respective investor’s total contribution amount. The put option granted to non-controlling shareholders give rise to financial liabilities.

	<b>Redemption liabilities</b>
	RMB'000
At 1 January 2021	—
Recognition	1,135,368
Changes in fair value	67,450
At 31 December 2021	1,202,818

The fair values of the redemption liabilities were determined using discounted cash flow method and are within Level 3 fair value measurement as further explained in note 44.

## 37. Provision

In September 2019, Luye Pharma Hong Kong Limited (“Luye Hong Kong”), a subsidiary of the Group was involved in an arbitration brought by the former distributor of Seroquel in Mainland China disputing the subsidiary’s basis of terminating the distribution agreement with such distributor. The directors of the Company, based on information available to the Group and taking into account the advice from the Group’s legal counsel in relation to the arbitration proceedings, believe that the subsidiary has a valid defence against the allegation and, accordingly, had not provided for any claim arising from the litigation, other than the related legal and other costs for the years ended 31 December 2019 and 2020.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 37. Provision (Continued)

On 21 October 2021, Luye Hong Kong received the arbitral award from the Hong Kong International Arbitration Centre in relation to the arbitration brought by the former distributor of Seroquel in Mainland China. The tribunal sustained part of the claim brought by such distributor and held that Luye Hong Kong shall make payment in the amount of approximately RMB239,400,000.

On 14 December 2021, Luye Hong Kong has submitted the application for revoking the arbitral award to the Hong Kong High Court. On 31 December 2021, the tribunal made final verdict on the amount of claim as approximately RMB273,482,000, which also included such distributor's arbitration fees and interests related. Accordingly, a provision for the claimed amount has been made in these financial statements during the year.

## 38. Commitments

The Group had the following capital commitments at the end of the reporting period:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Buildings	335,382	358,945
Plant and machinery	590,832	321,089
Other intangible assets	51,006	52,199
	977,220	732,233

## 39. Related party transactions

Details of the Group's principal related parties are as follows:

Company	Relationship
Steward Cross Pte. Ltd. ("Steward Cross")	An associate
Yantai Painuo Biotech Co., Ltd. ("Yantai Painuo")	An entity controlled by the controlling shareholder
Luye Boston Research & Development LLC ("Luye Boston")	An entity controlled by the controlling shareholder
Shandong International Biotech Park Development Co., Ltd. ("Biotech Park Development")	An entity controlled by the controlling shareholder
Luye Investment Group Co., Ltd. ("LIG")	An entity controlled by the controlling shareholder
Yantai Yunyue Winery Management Co., Ltd. ("Yunyue Winery")	An entity controlled by the controlling shareholder
Luye Life Sciences Group Japan Co., Ltd. ("Luye Japan")	An entity controlled by the controlling shareholder

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 39. Related party transactions (Continued)

(a) The Group had the following transactions with related parties during the year:

	Notes	2021 RMB'000	2020 RMB'000
Sales of goods to a related party:			
Steward Cross	(i)	6,110	5,953
Success fee to a related party:			
Luye Japan	(ii)	—	2,070
Interest income from a related party:			
LIG	(iii)	—	1,235
Receipts of repayments from a related party:			
LIG	(iii)	—	112,185
Accommodation services from a related party:			
Yunyue Winery	(iv)	370	—
Provision of manufacturing service to a related party:			
Yantai Painuo	(iv)	5,511	—
Lease and property management services to a related party:			
Yantai Painuo	(iv)	1,592	—
Sales of materials to a related party:			
Yantai Painuo	(iv)	294	—
Payment on behalf by:			
Biotech Park Development	(v)	1,908	—
Luye Boston	(v)	2,431	—
Repayment to:			
Biotech Park Development	(v)	2,358	—
Luye Boston	(v)	2,400	—

Notes:

- (i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The service fee was charged with reference to prices mutually agreed between the parties for the services rendered for a business introduction in Japan, including market research, regulatory consultation, financial advices and conducting regular meetings for development projects.
- (iii) The loans bear interest of 4.35% to 6.18% per annum.
- (iv) The transaction fees were determined on normal commercial terms and negotiated on arm's length basis, on similar basis as the Group conducted businesses with other independent third parties.
- (v) The payments and advances were unsecured, interest-free and repayable on demand.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 39. Related party transactions (Continued)

(b) The Group had the following transactions with related parties during the year:

As at 31 December 2020, LIG, Biotech Park Development and Boan Biotech entered into a debt waiver agreement, pursuant to which LIG transferred its debt to Biotech Park Development, and Biotech Park Development waived the remaining right of credit amounting to approximately RMB1,645,000 to Boan Biotech, and the amount credited to Boan Biotech's other reserves.

(c) Outstanding balances with related parties:

	Notes	2021 RMB'000	2020 RMB'000
<b>Other receivables</b>			
Yantai Painuo	(i)	5,522	—
<b>Other payables</b>			
Biotech Park Development	(ii)	222	2,196
Luye Boston	(ii)	31	—
		253	2,196
<b>Lease liabilities</b>			
Biotech Park Development		5,620	—
Luye Boston		3,536	—
		9,156	—

Notes:

(i) The balance was trade in nature.

(ii) The balances were non-trade in nature.

(d) Compensation of key management personnel of the Group:

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	32,546	27,535
Pension scheme contributions	875	649
Equity-settled share award expense	15,281	7,387
Total compensation paid to key management personnel	48,702	35,571

Further details of directors' and the chief executive's remuneration are included in note 8 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 40. Share award schemes

### Share award scheme

The Company adopted a share award scheme on 10 January 2017 (the “Scheme”). The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and, to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

Subject to any early termination, which may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of ten years commencing on the 10 January 2017 (the “Adoption Date”).

The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the “Trustee”) in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (the “Trust Deed”). The decision of the board of directors with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Company’s shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any shares held under the Trust.

The board of directors may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the board of directors. The committee appointed and authorised by the board of directors to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the board of directors, may from time to time instruct the Trustee in writing to purchase shares on the Stock Exchange specifying the timing of purchase, the maximum amount of funds to be used and the range of prices within which such shares are to be purchased.

The board of directors may from time to time select any employee (excluding any employee who is resident in a place where the award of, in respect of a selected employee, such number of shares awarded by the Board (the “Awarded Shares”) and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Scheme are/is not permitted under the laws or regulations of such place or where in the view of the board of directors or the Trustee of the Scheme, compliance with applicable laws or regulations in such place making it necessary or expedient to exclude such employee) for participation in the Scheme as a selected employee and grant such selected employee Awarded Shares in such number at a stated price at which an Awarded Share is granted to a selected employee (the “Grant Price”) and on and subject to such terms and conditions determined at the discretion of the board of directors.

The board of directors is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the selected employee. Upon the vesting of the Awarded Shares, the selected employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the selected employee shall pay the Company the Grant Price for the Awarded Shares.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 40. Share award schemes (Continued)

### Share award scheme (Continued)

A selected employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a selected employee, the date on which his entitlement to the Awarded Shares is vested pursuant to the terms of the Scheme (the “Vesting Date”). Prior to the Vesting Date, any award of Awarded Shares is personal to the selected employee to whom it is made and is not assignable and no selected employee may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award. In the event that a selected employee has ceased to be an employee, the relevant award made to such selected employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the board of directors, provided that such termination shall not materially and adversely affect any subsisting rights of any selected employee.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 shares (the “2017 Awarded Shares”) of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2018 to those selected employees, an aggregate of 20,098,000 shares (the “2018 Awarded Shares”) of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2018 Awarded Shares is 15 May 2021. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2019 to those selected employees, an aggregate of 25,206,000 shares (the “2019 Awarded Shares”) of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2019 Awarded Shares is 15 May 2022. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 40. Share award schemes (Continued)

### Share award scheme (Continued)

The following awarded shares were outstanding under the Scheme during the year:

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2021	7,019,500	58,479,000
Forfeited	1,941,000	(1,941,000)
At 31 December 2021	8,960,500	56,538,000
Exercisable as at 31 December 2021	—	34,555,000

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2020	2,470,500	63,028,000
Forfeited	4,549,000	(4,549,000)
At 31 December 2020	7,019,500	58,479,000
Exercisable as at 31 December 2020	—	16,474,000

The Group recognised a share award expense of RMB28,701,000 during the year ended 31 December 2021 (2020: RMB50,904,000). Out of the share award expense, an amount of RMB103,000 was included in the directors' remuneration (2020: RMB348,000).

### Share-based payment scheme of Boan Biotech

In December 2020, the board of directors of Boan Biotech passed a resolution to grant equity interests of Boan Biotech to the eligible employees (including directors) in order to provide incentives and rewards to participants for the business development of Boan Biotech. Subsequently, Yantai Bolian Investment Centre Limited Partnership ("Yantai Bolian"), Yantai Bosheng Investment Centre Limited Partnership ("Yantai Bosheng") and Yantai Bofa Investment Centre Limited Partnership ("Yantai Bofa"), three employee incentive platforms established in the PRC, subscribed paid-in capital of RMB21,380,000, RMB14,930,000 and RMB11,250,000 of Boan Biotech for total considerations of RMB64,140,000, RMB44,790,000 and RMB33,750,000, respectively.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 40. Share award schemes (Continued)

### Share-based payment scheme of Boan Biotech (Continued)

On 27 January 2021, 4.4247% of the then equity interest in Boan Biotech was granted to 36 selected directors and employees of Boan Biotech for a consideration of RMB64,140,000 through Yantai Bolian. 3.0898% of the then equity interest in Boan Biotech was granted to 45 selected directors and employees of Boan Biotech for a consideration of RMB44,790,000 through Yantai Bosheng. 2.3282% of the then equity interest in Boan Biotech was granted to 47 selected directors and employees of Boan Biotech for a consideration of RMB33,750,000 through Yantai Bofa.

Pursuant to the partnership agreements of Yantai Bolian, Yantai Bosheng and Yantai Bofa (collectively referred to as the "ESOP Entity"), (i) the ESOP Entity shall not dispose of any of the shares it held within 36 months immediately following the date of the Company's listing (the "ESOP Lock-up Period"); (ii) a partner is entitled to direct the ESOP Entity to dispose of his/her share of the shares held by the ESOP Entity (based on his/her shareholding percentage in the ESOP Entity) (the "ESOP Shares") in the proportion and on the respective dates as (a) 25% of his/her ESOP Shares upon the expiry of 12 months following the day after the ESOP Lock-up Period; (b) 50% of his/her ESOP Shares upon the expiry of 24 months following the day after the ESOP Lock-up Period; (c) 75% of his/her ESOP Shares upon the expiry of 36 months following the day after the ESOP Lock-up Period; and (d) 100% of his/her ESOP Shares upon the expiry of 48 months following the day after the ESOP Lock-up Period. If the partner cease to be qualified as a partner during the vesting period, the general partner shall have the right to purchase or appoint other eligible employees to purchase his/her share at cost or cost plus market interest. In August 2021, the lock-up period was updated as 12 months immediately following the date of the Boan Biotech's qualified listing pursuant to the updated partnership agreements.

The fair value of services received in return for equity interests granted is measured by reference to the fair value of the equity interests granted less the consideration received by Boan Biotech.

The fair value of the equity interests granted is determined by the back-solve method and equity value allocation based on the option pricing model at the grant date. The following table lists the inputs to the model used:

	2021
Risk-free interest rate (%)	2.9%
Volatility (%)	42.0%

The Group recognised a share-based payment expense of RMB21,275,000 during the year ended 31 December 2021 (2020: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 41. Pension plan

The Group has a defined benefit pension plan in Switzerland. The pension plan grants disability and death benefits which are defined as projected savings capital without interest but including future savings contribution. This projected savings capital is converted in disability or death benefits. In the event that an employee leaves his employment with the Group prior to reaching a pensionable age, the cumulative balance of the savings account is withdrawn from the pension plan and invested into the pension plan of the employee's new employer. The assets of the funded plan are held independently of those of the Group, being managed through a central trust fund.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2021 by Prevanto AG, an accredited pension actuary in Switzerland, using the projected unit credit actuarial valuation method.

The movements in the defined benefit obligation and fair value of plan assets during the year are as follows:

	Defined benefit obligation RMB'000	Fair value of plan assets RMB'000	Benefit liability RMB'000
At 1 January 2021	(20,477)	12,397	(8,080)
<b>Pension cost charged to profit or loss</b>			
Service cost	(1,489)	—	(1,489)
Net interest expense	(28)	(35)	(63)
	(1,517)	(35)	(1,552)
<b>Remeasurement gains/(losses) in other comprehensive income</b>			
Return on plan assets (excluding amounts included in net interest expense)	—	77	77
Actuarial changes arising from plan experience	(1,410)	—	(1,410)
Actuarial changes arising from demographic assumptions	1,402	—	1,402
Actuarial changes arising from financial assumptions	719	—	719
	711	77	788
Contributions by employer	—	1,593	1,593
Contributions by employee	(1,005)	1,005	—
Benefits paid	63	(63)	—
Exchange differences	1,261	(803)	458
At 31 December 2021	(20,964)	14,171	(6,793)

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 41. Pension plan (Continued)

The movements in the defined benefit obligation and fair value of plan assets during the year are as follows: (Continued)

	Defined benefit obligation RMB'000	Fair value of plan assets RMB'000	Benefit liability RMB'000
At 1 January 2020	(18,125)	10,245	(7,880)
<b>Pension cost charged to profit or loss</b>			
Service cost	(2,455)	—	(2,455)
Net interest expense	(52)	(22)	(74)
	(2,507)	(22)	(2,529)
<b>Remeasurement gains/(losses) in other comprehensive income</b>			
Return on plan assets (excluding amounts included in net interest expense)	—	67	67
Actuarial changes arising from plan experience	1,673	—	1,673
Actuarial changes arising from financial assumptions	(370)	—	(370)
	1,303	67	1,370
Contributions by employer	—	1,206	1,206
Contributions by employee	(821)	821	—
Benefits paid	229	(229)	—
Exchange differences	(556)	309	(247)
At 31 December 2020	(20,477)	12,397	(8,080)

The fair value of plan assets is as follows:

	2021 RMB'000	2020 RMB'000
Savings capital	14,171	12,397

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 41. Pension plan (Continued)

The principal assumptions used in determining benefit obligations for the Group's plan are shown below:

	2021	2020
Discount rate	0.35%	0.15%
Salary increase	1.50%	1.50%
Pension increase	0.00%	0.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December is shown below:

	Impact on defined benefit obligation	
	2021	2020
	RMB'000	RMB'000
Discount rate:		
0.25% increase	(844)	(903)
0.25% decrease	907	977
Salary increase:		
0.25% increase	133	141
0.25% decrease	(133)	(133)
Pension increase:		
0.25% increase	474	525
0.25% decrease	—	—

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 41. Pension plan (Continued)

The following payments are expected contributions to the defined benefit plan in future years:

	2021 RMB'000	2020 RMB'000
Less than 1 year	—	—
Between 1 and 5 years	—	—
Over 5 years	6,793	8,080
	<b>6,793</b>	<b>8,080</b>

## 42. Notes to the consolidated statement of cash flows

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB39,161,000 (2020: RMB14,395,000) and RMB39,161,000 (2020: RMB14,395,000), respectively, in respect of lease arrangements for buildings, plant and machinery and motor vehicles.

### (b) Changes in liabilities arising from financing activities

2021

	Bank and other loans RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000
At 1 January 2021	8,145,828	24,742	1,810,930
Changes from financing cash flows	(381,645)	(24,676)	—
New leases	—	39,161	—
Foreign exchange movement	(185,994)	2,723	(42,611)
Interest expense	—	1,678	131,367
Interest paid classified as operating cash flows	—	(1,678)	(29,032)
At 31 December 2021	<b>7,578,189</b>	<b>41,950</b>	<b>1,870,654</b>

# NOTES TO FINANCIAL STATEMENTS

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## 42. Notes to the consolidated statement of cash flows (Continued)

### (b) Changes in liabilities arising from financing activities (Continued)

2020

	Bank and other loans RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000
At 1 January 2020	6,689,660	28,957	1,833,173
Changes from financing cash flows	1,456,168	(16,124)	—
New leases	—	14,395	—
Foreign exchange movement	—	(811)	(124,105)
Interest expense	—	1,457	132,905
Interest paid classified as operating cash flows	—	(1,457)	(31,043)
Covid-19-related rent concessions from lessors	—	(1,675)	—
At 31 December 2020	8,145,828	24,742	1,810,930

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within operating activities	(16,609)	(11,115)
Within investing activities	—	(95,045)
Within financing activities	(24,676)	(16,124)
	(41,285)	(122,284)

# NOTES TO FINANCIAL STATEMENTS

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## 43. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2021

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Total RMB'000
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	
Equity investments designated at fair value through other comprehensive income	—	—	95,273	—	95,273
Notes receivable	—	—	250,315	—	250,315
Trade receivables	—	—	—	1,514,781	1,514,781
Financial assets included in prepayments, other receivables and other assets	—	—	—	622,610	622,610
Financial assets at fair value through profit or loss	1,263	3,161,198	—	—	3,162,461
Cash and cash equivalents	—	—	—	2,438,252	2,438,252
Time deposits with original maturity of over three months	—	—	—	387,859	387,859
Pledged time deposits	—	—	—	1,743,395	1,743,395
Restricted cash	—	—	—	31,982	31,982
Long-term receivables	—	—	—	8,380	8,380
	1,263	3,161,198	345,588	6,747,259	10,255,308

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 43. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2021 (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss			Total RMB'000
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	
Trade and notes payables	—	—	570,890	570,890
Financial liabilities included in other payables and accruals	—	—	742,193	742,193
Convertible bonds	—	—	1,870,654	1,870,654
Other non-current liabilities	—	—	99,138	99,138
Interest-bearing loans and borrowings	—	—	7,620,139	7,620,139
Dividend payable	—	—	5,500	5,500
Redemption liabilities on non-controlling interest	1,202,818	—	—	1,202,818
Contingent consideration payables	334,378	—	—	334,378
	<b>1,537,196</b>	<b>—</b>	<b>10,908,514</b>	<b>12,445,710</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 43. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2020

### Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Total RMB'000
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	
Equity investments designated at fair value through other comprehensive income	—	—	61,556	—	61,556
Notes receivable	—	—	602,614	—	602,614
Trade receivables	—	—	—	950,475	950,475
Financial assets included in prepayments, other receivables and other assets	—	—	—	253,522	253,522
Financial assets at fair value through profit or loss	1,263	1,431,907	—	—	1,433,170
Cash and cash equivalents	—	—	—	3,865,385	3,865,385
Time deposits with original maturity of over three months	—	—	—	109,000	109,000
Pledged time deposits	—	—	—	2,190,776	2,190,776
Restricted cash	—	—	—	37,473	37,473
Long-term receivables	—	—	—	8,000	8,000
	1,263	1,431,907	664,170	7,414,631	9,511,971

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 43. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

### 2020 (Continued)

#### Financial liabilities

	Financial liabilities at fair value through profit or loss			Total RMB'000
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	
Trade and notes payables	—	—	485,262	485,262
Financial liabilities included in other payables and accruals	—	—	460,860	460,860
Convertible bonds	—	—	1,810,930	1,810,930
Other non-current liabilities	—	—	52,199	52,199
Interest-bearing loans and borrowings	—	—	8,170,570	8,170,570
Derivative financial instruments	—	22,563	—	22,563
Contingent consideration payables	638,556	—	—	638,556
	638,556	22,563	10,979,821	11,640,940

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 44. Fair value and fair value hierarchy of financial instruments

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	5,870	89,403	—	95,273
Notes receivable	—	250,315	—	250,315
Financial assets at fair value through profit or loss	2,148	3,159,050	1,263	3,162,461
	8,018	3,498,768	1,263	3,508,049

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	3,041	58,515	—	61,556
Notes receivable	—	602,614	—	602,614
Financial assets at fair value through profit or loss	19,248	1,412,659	1,263	1,433,170
	22,289	2,073,788	1,263	2,097,340

# NOTES TO FINANCIAL STATEMENTS

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## 44. Fair value and fair value hierarchy of financial instruments (Continued)

### Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: (Continued)

#### Liabilities measured at fair value:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration payables	—	—	334,378	334,378
Redemption liabilities on non-controlling interests	—	—	1,202,818	1,202,818
	—	—	1,537,196	1,537,196

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration payables	—	—	638,556	638,556
Derivative financial instruments	—	22,563	—	22,563
	—	22,563	638,556	661,119

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2020: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 44. Fair value and fair value hierarchy of financial instruments (Continued)

### Fair value hierarchy (Continued)

#### Financial instruments whose carrying amounts approximate to their fair values

Management has determined that the carrying amounts of cash and cash equivalents, pledged time deposits, restricted cash, trade receivables, other receivables and other assets, trade and notes payables, other payables and short-term interest-bearing loans and borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short-term in nature.

The fair values of the non-current portion of pledged time deposits, interest-bearing loans and borrowings, long-term receivables and payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing loans and borrowings as at 31 December 2021 were assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income are based on recently executed transaction prices in securities of the issuer. The fair value of the unlisted equity investments at fair value through profit or loss has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires management to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, which is price to book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to measure the fair value of the unlisted equity investments. Management believes that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position, and the related change in fair values, which is recorded in consolidated statement of profit or loss, are reasonable, and that it was the most appropriate value at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of the notes receivable classified as debt investments at fair value through other comprehensive income as at 31 December 2021 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within twelve months, and thus, their fair values approximate to their carrying values.

The fair values of the contingent consideration payables and redemption liabilities on non-controlling interests were determined using discounted cash flow method and are within Level 3 fair value measurement.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 44. Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

Financial instruments whose carrying amounts approximate to their fair values (Continued)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

	Valuation technique	Significant unobservable inputs	Weighted average rate	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	20% (2020: 20%)	1% (2020: 1%) increase/decrease in discount would result in decrease/ increase in fair value by RMB16,000/RMB16,000 (2020: RMB17,000/RMB17,000)
Contingent consideration payables	Discounted cash flow method	Discount rate	4.9% (2020: 4.9%)	2% (2020: 2%) increase/decrease in discount would result in decrease/ increase in fair value by RMB7,046,000/RMB6,772,000 (2020: RMB19,092,000/RMB18,128,000)
		Discount for own non-performance risk	5% (2020: 5%)	1% (2020:1%) increase/decrease in multiple would result in decrease/ increase in fair value by RMB1,835,000/RMB1,826,000 (2020: RMB6,722,000)
Redemption liabilities on non-controlling interests	Discounted cash flow method	Discount rate	7.37%	0.1% increase/decrease in discount would result in decrease/ increase in fair value by RMB3,355,000/RMB3,367,000

# NOTES TO FINANCIAL STATEMENTS

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## 45. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing loans and borrowings, convertible bonds and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB, EUR and US\$ interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
<b>2021</b>			
RMB	50	(342)	(342)
RMB	(50)	342	342
EUR	50	(15)	(15)
EUR	(50)	15	15
US\$	50	(778)	(778)
US\$	(50)	778	778
<b>2020</b>			
RMB	50	(33)	(33)
RMB	(50)	33	33
EUR	50	(2)	(2)
EUR	(50)	2	2
US\$	50	(1,213)	(1,213)
US\$	(50)	1,213	1,213

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 45. Financial risk management objectives and policies (Continued)

### Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
<b>2021</b>			
If the RMB weakens against the US\$	5	12,510	9,423
If the RMB strengthens against the US\$	(5)	(12,510)	(9,423)
If the RMB weakens against the EUR	5	(11,334)	(9,150)
If the RMB strengthens against the EUR	(5)	11,334	9,150
If the US\$ weakens against the AU\$	5	260	217
If the US\$ strengthens against the AU\$	(5)	(260)	(217)
If the US\$ weakens against the EUR	5	(21,695)	(21,694)
If the US\$ strengthens against the EUR	(5)	21,695	21,694
<b>2020</b>			
If the RMB weakens against the HK\$	5	(7,364)	(5,523)
If the RMB strengthens against the HK\$	(5)	7,364	5,523
If the RMB weakens against the EUR	5	(8,827)	(7,503)
If the RMB strengthens against the EUR	(5)	8,827	7,503
If the US\$ weakens against the HK\$	5	(4,891)	(4,896)
If the US\$ strengthens against the HK\$	(5)	4,891	4,896
If the US\$ weakens against the EUR	5	(25,313)	(25,293)
If the US\$ strengthens against the EUR	(5)	25,313	25,293

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 45. Financial risk management objectives and policies (Continued)

### Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

### Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

### As at 31 December 2021

	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Trade receivables*	—	—	—	1,518,185	1,518,185
Notes receivable	250,315	—	—	—	250,315
Financial assets included in prepayments, other receivables and other assets					
— Normal**	622,610	—	—	—	622,610
Restricted cash					
— Not yet past due	31,982	—	—	—	31,982
Pledged time deposits					
— Not yet past due	1,743,395	—	—	—	1,743,395
Time deposits with original maturity of over three months					
— Not yet past due	387,859	—	—	—	387,859
Cash and cash equivalents					
— Not yet past due	2,438,252	—	—	—	2,438,252
	5,474,413	—	—	1,518,185	6,992,598

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 45. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

As at 31 December 2020

	12-month	Lifetime ECLs			Total RMB'000
	ECLs	Stage 2	Stage 3	Simplified	
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	approach RMB'000	
Trade receivables*	—	—	—	954,645	954,645
Notes receivable	602,614	—	—	—	602,614
Financial assets included in prepayments, other receivables and other assets					
— Normal**	253,522	—	—	—	253,522
Restricted cash					
— Not yet past due	37,473	—	—	—	37,473
Pledged time deposits					
— Not yet past due	2,190,776	—	—	—	2,190,776
Time deposits with original maturity of over three months					
— Not yet past due	109,000	—	—	—	109,000
Cash and cash equivalents					
— Not yet past due	3,865,385	—	—	—	3,865,385
	7,058,770	—	—	954,645	8,013,415

\* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

\*\* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 45. Financial risk management objectives and policies (Continued)

### Liquidity risk (Continued)

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings, convertible bonds and lease liabilities.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

#### 31 December 2021

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Convertible bonds	—	14,030	14,030	2,157,253	—	2,185,313
Lease liabilities	—	6,988	20,046	43,967	8,337	79,338
Interest-bearing loans and borrowings (excluding lease liabilities)	—	1,658,157	3,252,249	2,279,561	—	7,189,967
Trade and notes payables	32,314	394,433	144,143	—	—	570,890
Financial liabilities included in other payables and accruals	351,904	390,289	—	—	—	742,193
Dividend payable	5,500	—	—	—	—	5,500
Other non-current liabilities	—	—	—	99,138	—	99,138
Contingent consideration payable	—	—	—	361,683	—	361,683
Redemption liabilities on non-controlling interests	—	—	—	1,488,672	—	1,488,672
	<b>389,718</b>	<b>2,463,897</b>	<b>3,430,468</b>	<b>6,430,274</b>	<b>8,337</b>	<b>12,722,694</b>

#### 31 December 2020

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Convertible bonds	—	13,582	13,582	2,115,921	—	2,143,085
Lease liabilities	—	3,588	10,445	9,934	1,852	25,819
Interest-bearing loans and borrowings (excluding lease liabilities)	—	2,169,381	3,623,710	1,982,335	263,290	8,038,716
Trade and notes payables	28,615	456,647	—	—	—	485,262
Financial liabilities included in other payables and accruals	179,486	281,374	—	—	—	460,860
Other non-current liabilities	—	—	—	52,199	—	52,199
Contingent consideration payable	—	—	361,683	361,683	—	723,366
	<b>208,101</b>	<b>2,924,572</b>	<b>4,009,420</b>	<b>4,522,072</b>	<b>265,142</b>	<b>11,929,307</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 45. Financial risk management objectives and policies (Continued)

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total equity. The gearing ratios as at the end of the reporting periods were as follows:

	2021 RMB'000	2020 RMB'000
Interest-bearing loans and borrowings ( <i>note 27</i> )	7,620,139	8,170,570
Total equity	9,113,903	8,099,015
Gearing ratio	84%	101%

## 46. Events after the reporting period

There were no other significant events that required additional disclosure or adjustments occurred after the end of the reporting period.

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 47. Statement of financial position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
<b>NON-CURRENT ASSETS</b>		
Investments in subsidiaries	176,770	150,003
Right-of-use assets	1,559	3,744
Other intangible assets	31,879	32,625
Total non-current assets	210,208	186,372
<b>CURRENT ASSETS</b>		
Due from subsidiaries	7,541,627	6,920,806
Financial assets at fair value through profit or loss	2,148	19,248
Prepayments, other receivables and other assets	8,236	10,246
Restricted cash	29,266	30,121
Cash and cash equivalents	20,015	21,589
Total current assets	7,601,292	7,002,010
<b>CURRENT LIABILITIES</b>		
Interest-bearing loans and borrowings	532,862	975,510
Derivative financial instruments	—	22,563
Due to subsidiaries	1,996,834	1,727,022
Other payables and accruals	1,407	688
Total current liabilities	2,531,103	2,725,783
<b>NET CURRENT ASSETS</b>	<b>5,070,189</b>	<b>4,276,227</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>5,280,397</b>	<b>4,462,599</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing loans and borrowings	—	1,724
Convertible bonds	1,870,654	1,810,930
Total non-current liabilities	1,870,654	1,812,654
Net assets	3,409,743	2,649,945
<b>EQUITY</b>		
Issued capital	455,835	417,991
Treasury shares	(279,558)	(279,558)
Share premium (note)	3,666,230	2,659,597
Equity component of convertible bonds (note)	292,398	292,398
Reserves (note)	(725,162)	(440,483)
Total equity	3,409,743	2,649,945

# NOTES TO FINANCIAL STATEMENTS

31 December 2021

## 47. Statement of financial position of the Company (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Share award scheme reserve RMB'000	Accumulated losses RMB'000	Foreign currency translation reserve RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
At 1 January 2020	2,734,985	102,267	(421,527)	301,509	292,398	3,009,632
Loss for the year	—	—	(127,884)	—	—	(127,884)
Other comprehensive income for the year:						
Currency realignment	—	—	—	(170,265)	—	(170,265)
Total comprehensive income for the year	—	—	(127,884)	(170,265)	—	(298,149)
Cancellation of treasury shares	(75,388)	—	—	—	—	(75,388)
Equity-settled share award scheme	—	50,904	—	—	—	50,904
Final 2019 dividend	—	—	(175,487)	—	—	(175,487)
At 31 December 2020 and 1 January 2021	2,659,597	153,171	(724,898)	131,244	292,398	2,511,512
Loss for the year	—	—	(244,629)	—	—	(244,629)
Other comprehensive income for the year:						
Currency realignment	—	—	—	(68,752)	—	(68,752)
Total comprehensive income for the year	—	—	(244,629)	(68,752)	—	(313,381)
Equity-settled share award scheme	—	28,702	—	—	—	28,702
Issue of shares	1,006,633	—	—	—	—	1,006,633
At 31 December 2021	3,666,230	181,873	(969,527)	62,492	292,398	3,233,466

## 48. Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2022.



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