復旦張江
FUDAN-ZHANGJIANG

上海復旦張江生物醫藥股份有限公司

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 1349)

Annual Report 2020

* *For identification purpose only*

Contents

Corporate Information

EXECUTIVE DIRECTORS

Wang Hai Bo *(Chairman)*
Su Yong
Zhao Da Jun

NON-EXECUTIVE DIRECTORS

Shen Bo
Yu Xiao Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhou Zhong Hui
Lam Yiu Kin
Xu Qing
Yang Chun Bao

SUPERVISORS

Tang Yu Kuan *(Chairman,appointed on 30 March 2020)*
Zhou Xi *(Resigned on 30 March 2020)*
Wang Luo Chun
Liu Xiao Long
Huang Jian
Yu Dai Qing

LEGAL REPRESENTATIVE

Wang Hai Bo

COMPANY SECRETARY

Xue Yan, HKICPA/FCCA/CICPA/CIA

AUTHORISED REPRESENTATIVES

Zhao Da Jun
Xue Yan, HKICPA/FCCA/CICPA/CIA

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Shen Bo
Xu Qing

REMUNERATION COMMITTEE

Zhou Zhong Hui *(Chairman)*
Lam Yiu Kin
Yang Chun Bao

NOMINATION COMMITTEE

Wang Hai Bo *(Chairman)*
Zhou Zhong Hui
Xu Qing

STRATEGY COMMITTEE

Wang Hai Bo *(Chairman)*
Zhao Da Jun
Yang Chun Bao

AUDITOR

PricewaterhouseCoopers Zhong Tian LLP

LEGAL ADVISERS TO THE COMPANY

Baker & McKenzie (As to Hong Kong Law)
Fangda Partners (As to PRC Law)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Zhangjiang Sub-branch
Bank of China, Zhangjiang Sub-branch
Bank of Nanjing, Taizhou Branch
China Merchants Bank, Tianshan Sub-branch
Ping An Bank, Shanghai Branch

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LISTING INFORMATION

H Share
The Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1349

A Share
The STAR Market of the Shanghai Stock Exchange
Stock Code: 688505

WEBSITE

www.fd-zj.com

Five Years Financial Data Highlights

RESULTS

	Year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Revenue	**833,803**	1,029,295	741,841	497,694	621,870
Profit before income tax	**176,701**	246,312	93,890	70,496	150,838
Profit for the year	**164,259**	220,654	90,913	60,159	130,008
Profit attributable to:					
Shareholders of the Company	**164,663**	227,358	112,129	75,287	138,708
Non-controlling interests	**(403)**	(6,704)	(21,216)	(15,128)	(8,700)
Total comprehensive income for the year	**169,288**	220,710	77,303	59,858	129,914
Total comprehensive income attributable to:					
Shareholders of the Company	**169,691**	227,414	98,519	74,986	138,614
Non-controlling interests	**(403)**	(6,704)	(21,216)	(15,128)	(8,700)
EBITDA	**237,145**	312,279	157,173	122,256	185,970
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	**RMB 0.1663**	RMB 0.2463	RMB 0.1215	RMB 0.0816	RMB 0.1503

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Total assets	**2,500,701**	1,564,824	1,469,691	1,145,134	1,120,753
Total liabilities	**(492,211)**	(631,676)	(515,259)	(252,652)	(247,699)
	2,008,490	933,148	954,432	892,482	873,054
Capital and reserves attributable to:					
Shareholders of the Company	**2,010,931**	931,525	943,218	872,390	843,554
Non-controlling interests	**(2,441)**	1,623	11,214	20,092	29,500
	2,008,490	933,148	954,432	892,482	873,054

As approved by the extraordinary general meeting on 24 February 2020, the Company adopted the China Accounting Standards for Business Enterprises to prepare its overseas financial statements since the year ended 2019, and made relevant restatement on its consolidated financial statements for the year 2018 according to China Accounting Standards for Business Enterprises. The consolidated financial statements of the Company for the years 2017 and 2016 were prepared in accordance with the International Financial Reporting Standards and no adjustments were made thereto.

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company"), I present the annual report of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2020 (the "Reporting Period") for consideration by the shareholders.

DEVELOPMENT CONCEPTS AND OBJECTIVE

With the ultimate goal to stay as an innovator and a leader in the bio-pharmaceutical industry, the Group has committed to exploring unmet needs and deficiencies of clinical and patients treatment as well as developing novel and more effective treatments/medicines, so as to realize our mission that "The More We Explore, the Healthier Human Beings Will Be".

2020 has become history, during which the Group was listed on the STAR Board of Shanghai Stock Exchange, representing the recognition of our development and business model by the capital market and providing new financial incentives for the development of the Group, which is worth memorising and celebrating. In the same year, the Group also faced great challenges: normal operation of hospitals was greatly affected by the spread of COVID-19 epidemic ("Epidemic") at the beginning of the year, and the policy direction represented by continuous centralized procurement and bidding in the PRC caused significant impact on the Company's sales, operations and R&D strategies. Fortunately, the Group maintained its normal operation in general with the efforts of all employees and progressed towards our goals smoothly. In 2020, the Group has firmly established its long-term value-oriented R&D strategy: as a pharmaceutical enterprise focusing on new drug research and development, the Group has adhered to choosing projects that can meet the unfulfilled needs and deficiencies of clinical and patient treatment. The evaluation system of project progress depends on whether specific accomplishment of treatment will be achieved. It is clear that exploration without perseverance and efforts is hard to make any breakthrough in therapeutics. There must be ups and downs for this development philosophy and the project development model of the same direction. However, if we trust that we are on the right path, we must endure the pain before the final success, and also calmly face and accept the challenges and demands from shareholders. At present, as a public company with dual listing, we need to pay sufficient attention to market feedback. We believe that we can strike a perfect balance between our goals and the interests of shareholders.

The Group's products launched and under development have shown positive prospect and were not affected by policy changes. Our efforts and strategies adopted over the years have laid a solid foundation and became a driving force for the Group's development under the new policy environment. As long as we strengthen our research capability in the fields where we have leading positions, continually expand new clinical indications, adhere to the projects worth spending time on, gradually apply for international drug registration, regard the power of science with awe, keep curious about the unknown, maintain persistence to values, and strengthen target management and responsibility, our products will bring real value to the therapeutic field while demonstrating the Group's value in future.

RESEARCH STRATEGY, REVIEW AND PROSPECTS

During the Reporting Period, the Group's R&D areas mainly focused on antibody-drug conjugates for tumors, photodynamic drugs for skin diseases and CIN, small molecular targeting drugs for autoimmune diseases and tumors, and nano drugs for tumors, and other generic drugs with patents or technological barriers. In the future, we will continue to focus and devote time and resources on the research and development of the above-mentioned fields and projects. Meanwhile, in 2021, we will also enter into the field of slow-release drugs for neurological diseases. In addition, based on our judgment on the direction of future medical development and the application of the latest research achievements, the Group will also explore and do research in the field of gene therapy and gene editing.

ANTIBODY-DRUG CONJUGATES (ADC)

Possessing the powerful lethality of small molecular drugs and targeting property of monoclonal antibodies, ADC has become a hot item in the research and development of targeted tumor therapy over the past decade. However, the development of ADC is not barrier-free. In the ten years since the launch of the first ADC in 2000, there has been no new drug in the ADC field coming on shelf. In 2011, Adcetris (Brentuximab vedotin), the world's second new ADC, was approved by FDA for marketing. It seems that the research of ADC has gradually overcome its limitations, but then it experienced the critical blow from immunosuppressive molecules such as PD-1, which hindered the development direction of ADC again. ADC has not become a real hot spot until the emergence of topoisomerase inhibitor ADC (such as Trop2-SN38 and-Dxd), attributable to their outstanding performance on the clinical treatment and its international transaction volume of over billions of US dollars, which has drawn the attention of the pharmaceutical industry again.

Our research and development of ADC has also gone through a process from simple imitation to innovation:

The Group's first ADC is the Recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Injection ("CD30-MMAE") for the treatment of tumors, which is actually a combination of Adecitris (CD30-MMAE) and Kadcela (Her2-DM1/T-DM1) undergoing clinical trial, and registered as a therapeutic biological product under Category 1. Adcetris is the first new drug approved for the treatment of Hodgkin's lymphoma, filling the gap in this field after nearly 30 years. It is also the first time that a drug targeting CD30 has been approved. It provides other solutions or even a better choice for the treatment of CD30-expressing cHL and ALCL. As a trial project explored for the first time, we recognize that no core technology was developed for this drug nor did it go beyond the general understanding of ADC for the time being.

The second ADC under research is a Trop2-directed antibody drug conjugate for triple negative breast cancer, bladder cancer, gastric cancer and other tumors. According to existing research results, it has pharmacological properties and in vitro pharmacodynamics similar to that of IMMU-132 molecule developed by Immunomedics Inc, and has similar pharmacodynamics and pharmacokinetic characteristics in model animals. This is a generic me-too drug with a linker different from the original drug. The project has applied for clinical research and been registered as a therapeutic biological product under Category 1. This project marks the advancement of our understanding of ADC from antibody + cytotoxic compound = ADC to that ADC requires five elements: 1) antibody, 2) drug, 3) linker, 4) DAR and 5) ways of linkage. We have to admit that ADC is a complex product and human cognition of it is still very limited. The two existing star ADC that have drawn much attention in the market are typical success stories by chance, but not the result of rational design and deduction. Therefore, as far as our real situation is concerned, the me-too approach is first used to carry out research, which is of practical significance at this stage.

In recent years, we have been hoping to seek innovative ways in the research and development of ADC to enable the Group to participate in the innovative research and development of ADC over the world. Fortunately, we have made some meaningful breakthroughs, especially the two brand new linker-drug platforms built by our team in respect of small molecule. Among which, a patented mAb-Dxd ADC drug is highly consistent with the original Her2-Dxd product that has been approved for marketing in terms of in vitro plasma stability, in vitro release/bystander effect, and in vivo PK/PD. This laid the foundation for the Group's subsequent development of me-better or innovative ADC. The ADC projects currently being developed by the Group on the basis of this technology include:

1) Currently based on the effectiveness of Her2 monoclonal antibody drugs in the treatment of metastatic breast cancer and metastatic gastric cancer, Her2 target is a very important clinical classification marker for breast cancer and gastric cancer. T-DM1, an existing ADC that has been approved for marketing, lacks clinical effectiveness in the treatment of gastric cancer with relatively large clinical toxicity, which greatly limits its further clinical application. In view of the therapeutic status of the aforementioned Her2 target and failure in satisfying the clinical requirements of T-DM1, the Company's Her2-directed antibody drug conjugate is undergoing preclinical study and will apply for clinical trials as soon as possible;

2) Obtaining the Her3-Dxd drug by trying to modify the antibody Her3 as a Me-better drug that improves the clinical deficiency, which is undergoing preclinical proof-of-concept;

3) Development of non-drug target Dxd ADC mainly for the treatment of small cell lung cancer, which is undergoing preclinical proof-of-concept;

4) The Trop2-Dxd project for the treatment of solid tumors such as gastric cancer and triple negative breast cancer is undergoing preclinical proof-of-concept.

In addition, although the future of ADC is hard to predict, based on some clinical treatment feedback and feasible scientific inferences, we have designed new ADC plans to be launched in 2021, hoping to make breakthroughs in treatment results:

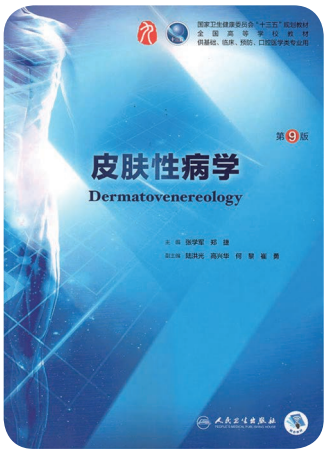
– We are trying to link Golimumab with glucocorticoid or Jak1 to form an ADC for the treatment of moderate to severe rheumatoid arthritis (RA) while reducing the side effects of systemic glucocorticoid. Golimumab was approved for marketing in China in 2018, and its approved indications were ankylosing spondylitis and rheumatoid arthritis. Both ankylosing spondylitis and rheumatoid arthritis are autoimmune diseases which are the third major disease following cardiovascular diseases and tumors. Compared with competing products, its treatment cycle will be extended to once a month.

– Taking into account the outstanding effects of vascular inhibitory drugs in combination with PD-1 in the treatment of lung and liver cancers, we are also studying ADC that can reflect the advantages of such combination.

We have the research and development capabilities in development of biologics agents, small molecules and ADC linkage, and the experience of successfully advancing the candidate drugs from clinical to clinical trials. With the completion of the construction of the Company's industrial base, ADC medicine will become an important product of the Group.

PHOTODYNAMIC DRUGS

The Group has been expanding the drugs development based on photodynamic technical platform. Photodynamic drugs have become the most important product line of the Group. We will continue to exert its feature of "one drug, several indications" and becoming a new scalpel for clinical treatment so that according to the treatment principle of photodynamic drugs, we will design special therapy for some precancerous lesions which cannot be treated or intervened for the moment. The Group is commencing further research on molecular mechanism and their mode of action in order to discover new photodynamic compound to improve the efficacy and overcome the defects. At the same time, exploration of the fundamental research on the relationship between the penetrating power of different light wavelengths and the treatment of tumour is under progress. Meanwhile, we have planned to apply for the international registrations for the launched drugs, which will lay a foundation for the commercialization development of the Group.



As the first commercialization project of the Group, the therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology (艾拉®,brand name of the first product) for the treatment of condyloma acuminate obtained positive market response after it was launched for sale. To expand the application to new indications of this drug is one of the key R&D projects of the Group.

Several years after it was launched to the market, ALA(艾拉®), first in class drug, the first photodynamic drug for the treatment of condyloma acuminate in the world, has become the preferred choice in this area. The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the textbook of Dermatovenercology and relevant clinical treatment guidance from 2013. The latest nineth edition of Dermatovenercology adds the new application of the aforementioned therapy on the acne treatment, and also includes Hemoporfin developed by the Group as new photosensitizer for the treatment of Port Wine Stain ("PWS").

The clinical research progress of Aminolevulinic Acid Hydrochloride used for the treatment of CIN infected by HPV ("CIN") has made significant progress during the Reporting Period. Based on the experimental treatment effect of the real world clinical research, the Company has formulated a new optimized clinical IIc research plan. Cervical precancerous lesion is a barrier in treatment. Adhering to the clinical research and development of this project will benefit the majority of women patients, and we will strive to obtain the registration of new indications as early as we can.

The clinical trial phase I of Aminolevulinic Acid Hydrochloride used for the treatment of moderate and severe acne was completed during the Reporting Period. Meanwhile, taking into account the feedback from clinicians in the actual treatment process, the Group is further studying painless treatment options and the clinical superiority of local medication over system medication.

Aminolevulinic acid hydrochloride photodynamic for treatment of glioma has completed preclinical research and we will apply for clinical application as soon as possible.

As for aminolevulinic acid hydrochloride photodynamic for treatment of actinic keratosis (also known as photokeratosis, actinic keratosis, solar keratosis, and senile keratosis), we will apply for clinical research as soon as possible. Photokeratosis is a precancerous lesion caused by long-term exposure to sunlight and stimulation of ultraviolet radiation, which may eventually be developed into skin cancer. It is more common among the elderly, light-skinned population and those with chronic exposure to sunlight.

FuMeiDa (the brand name of Hemoporfin), first in class drug, the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. PWS is a common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The lesions tend to become darker and thicker with time and rarely fade away for life. PWS occurs in anywhere on the body and particularly in face and neck and is reported about 0.3~0.4% incidence of infants worldwide. Before age 40, over 65% of patients without treatment will face the situation of thicken and modular lesions cause great emotional depression. After injection into the blood, Hemoporfin spreads quickly to the surrounding tissues and tends to distribute specifically in vascular endothelial cells. It would selectively damage the photosensitizer-rich vascular endothelium by the use of laser or LEDs with certain wavelength. The dilated and abnormal capillaries in the lesions of patients will be cleared by photodynamic reaction and further effects of coagulation system. PWS had no good treatment before. As one of the second generation photosensitizers, compared with traditional therapies, Hemoporfin is featured by stable chemical structure, lower photosensitization, rapider metabolism, shorter light-avoidance period requirement, even treatment of lesion, higher cure rate, lower incidence of scar formation and lower recurrence rate. The excellent efficacy of the drug in the market and the high cure rate compared to the traditional laser treatment rejoice the clinicians and researchers. FuMeiDa launched to market in 2017 and clinical trial phase IV is under way. The Group has already made preliminary communication with the Food and Drug Administration of the United States ("FDA"), and the FDA has recognized that FuMeiDa will be the first drug to apply for the treatment of PWS. Therefore, the Group was requested to assist in establishing standards for disease classification and then to make agreement with the FDA. During the Reporting Period, researchers and clinicians in the PRC and U.S. have substantially completed this work, and the Group has also re-developed photovoltaic equipment that meets the European and U.S. standards. Clinical application will be completed as soon as possible with clinical research starting in the U.S. the Group is working hard to complete the preparations before the official clinical application. After the corresponding registration program is improved, the official application will be made as soon as possible.

The Group is also continuing its exploration and screening of new photosensitizers. During the Reporting Period, we signed a cooperation agreement with research institutions of well-known universities in the PRC to jointly carry out the synthesis and screening of a new generation of photosensitizers.

SMALL MOLECULAR TARGETING DRUGS FOR AUTOIMMUNE DISEASES

The selective inhibitor project for JAK1, a small molecular targeting drug, for the treatment of rheumatoid arthritis (RA) has begun clinical trial phase I research. The inhibitors of JAK currently launched are all non-selective inhibitors. We expect that this project can demonstrate stronger activity and better efficacy than competing products in terms of clinical results, and avoid reproductive toxicity based on completely different metabolic mechanism in the body. We hope that an innovative new drug, "me-better" or "me-difference" drug, with therapeutic advantages will be found.

Meanwhile, during the Reporting Period, the Group conducted non-clinical pharmacodynamic trials of the oral and topical selective inhibitor for JAK1 for the treatment of atopic dermatitis (Atopic Dermatitis) and has shown good efficacy. We will expand the research on new indications of the JAK1 project based on the same as soon as possible.

ANTINEOPLASTIC NANO DRUGS

The Group will further develop drugs based on the platform of preparation technology of nano drugs to speed up the ability and the progress of commercialization for the Group.

The progresses of the projects on nano technical platform are summarized as follows:

LIBOd® (里葆多®) for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. LIBOd® is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. According to the requirements of relevant PRC laws and regulations, the Group has carried out the domestic bioequivalence evaluation research on generic drugs and patients have been recruited for clinical trials. Meanwhile, the Group also started the registration for the drug in the U.S.. After the clinical trial being recognized by FDA, the Company will be required to further obtain the verification of quality management system of its production plant by FDA before the drug can be launched in the U.S. market.

Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒) for the treatment of tumors, its improvements have been made in large-scale production processes. Taking into account the production capacity for future bidding and procurement, the production lines of this project will be rebuilt, and bioequivalence study will be launched as soon as possible after completion of the same and then apply for drug registration.

GENERIC DRUGS WITH PATENTS OR TECHNICAL BARRIERS

The bioequivalence study on obeticholic acid with a synthetic patent for the treatment of hepatobiliary disease has been completed, and clinical trials is being carried out a small-scale. It is a generic drug of a medicine developed in the US and listed worldwide for the treatment of primary biliary cirrhosis (PBC). Such drug has a large market in China which is a country with high incidence of hepatobiliary disease. The Company has engaged a third-party research institution to break through the patent restrictions on the original drug and was granted the patent in China. On 15 March 2021, the National Health Commission, in conjunction with the Ministry of Science and Technology, the Ministry of Industry and Information Technology, the State Medical Insurance Bureau, the State Food and Drug Administration and the State Intellectual Property Office, organized experts to select and demonstrate the drugs that are not yet applying for registration and lack of clinical supply (insufficient competition) for the domestic patent due, and formulated the second batch of encouraged imitated drugs catalogue, which clearly defined in the catalogue 17 drugs and formulations encouraged to be imitated, including obecholate, were encouraged.

In the future, we will devote resources to the research and development of improved new drugs by improving bioavailability and dosage.

R&D NEW DIRECTION

– SLOW RELEASE DRUGS FOR PARKINSON'S DISEASE

Parkinson's disease, also known as tremor paralysis, is one of the most common neurodegenerative diseases. People usually get the disease at the age of 50 to 60, caused by lack of dopamine in the brain which prevent brain nerve cells from properly controlling motor functions, resulting in tremor of hands and feet, slow movement, sleep disturbance and other symptoms that affect the quality of life. Epidemiological findings show that with the advent of aging societies across the world, the incidence of Parkinson's disease increases year by year as the average human age, increases and also there has been a growing trend for younger patients in recent years. The "Guidelines for the Treatment of Parkinson's Disease in China (Fourth Edition)" issued in December 2020 provided details of treatment programs with single drug and several drugs. It is also noted that levodopa preparation is one of the basic and most important drugs for the treatment of Parkinson's disease.

The Group invested a pharmaceutical company which has a self-developed drug slow-release platform and drug retention technology platform. Base on the platform, the interaction of this technology can effectively prolong the specific expected retention time of the target drug in the gastrointestinal tract while sustaining stable release, thereby prolonging the effective time of drugs whose absorption window is limited to the upper gastrointestinal tract. Accordingly, we will cooperate in the development of new drugs with certain intellectual property rights for the full-cycle treatment of Parkinson's disease, including Carzodopa slow-release tablets.

– EXPLORATION OF GENE THERAPY AND GENE EDITING

We believe that gene editing and gene therapy will be the most important treatments in the future and a revolutionary tool that truly changes human health and disease treatment. During the Reporting Period, subsidiaries of the Group have used gene editing (CRISPR-Cas) for research on microbial detection for animals, and have developed detection reagents for five infectious diseases of dairy cows, which are planned to be applied in 2021.In the future, the Group will form a team to focus on research in this field and continue to seek for cooperation with external gene therapy research teams and gene editing research teams.

In the future, in the domestic market, the Company will focus on strengthening its core technology advantages, diversifying the product catalog, promoting the industrialization of R&D achievements, and building a world-famous photodynamic brand. Based on the existing products, the Company will continue to strengthen R&D, and provide customers with more valuable and differentiated products and services. In the global market, the Company will make full use of the competitive advantages accumulated over the years, such as product quality, R&D technology, customer resources, chemical synthesis experience, management and talent advantages, to implement the Company's extension expansion and gradually form a multi-dimensional main business with platforms such as photodynamic technology, nano technology, genetic engineering technology and oral solid preparation technology in which pattern, vigorously enhance the core competitiveness and sustainable development ability of the enterprise, become the innovator and leader of the biomedical industry.

By the end of the year 2020, the major drugs under R&D of the Group are summarized as follows:

Technical platform	Technical field	Project name	Registration type	Indications	Progress	Comparing with industry level
Genetic Engineering platform	Genetic engineering	CD30-MMAE	Class 1 innovative biological	Tumors	Clinical trial phase I	International leading level
		Trop2-directed antibody drug conjugate	Class 1 innovative biological	Tumors	Pre-clinical study completed, will submit clinical study application as soon as possible	International leading level
		Her2-directed antibody drug conjugate	Class 1 innovative biological	Tumors	Pre-clinical study	International leading level
Photodynamic technical platform	Photodynamic technology	Hemoporfin (海姆泊芬)	Class 1 innovative chemical drug	Port Wine Stain	Clinical trial phase IV	International leading level: new compounds and new indications
			505(j)		Undergoing U.S. registration	International leading level: new indication
		Aminolevulinic acid	Class 2.4 innovative chemical drug	Cervical diseases infected by HPV	Clinical trial phase II	International leading level: new indication
		Aminolevulinic acid	Class 2.4 innovative chemical drug	Acne	Clinical trial phase I	International leading level
		Aminolevulinic acid	Class 3 innovative chemical drug	Brain gliomas	Pre-clinical study	International advanced level
Nano technical platform	Nano technology	Doxorubicin liposome (鹽酸多柔比星脂質體)	Class 6 generic drug	Tumors	Prepare for domestic bioequivalence evaluation research and registration	International advanced level
			505(j)		Under process of registration in USA	
		Nanoparticle Albumin-bound Paclitaxel (紫杉醇白蛋白納米粒)	Class 4 innovative chemical drug	Tumors	Pre-clinical study	International advanced level
Oral solid preparation technical platform	Small molecular targeting drugs	JAK1 inhibitor	Class 1 innovative chemical drug	Rheumatoid arthritis	Clinical trial phase I	International advanced level
	Generic drugs with patents or technical barriers	Obeticholic acid	Class 3 innovative chemical drug	Hepatobiliarv disease	Bioequivalence study and drug registration completed and will conduct small scale confirmatory clinical research	International advanced level

In a word, we are still exploring and hope our efforts can provide useful help for the treatment of the patients and bring value to the investors. Although facing significant risks and challenges, we still believe our R&D strategy and result will be beneficial to the Company's sustainable development in medium and long term.

OPERATION STRATEGY, REVIEW AND PROSPECTS

The Group's operating strategy is to do a good job of domestic academic promotion of listed products, so that products can be applied among more patients. When conditions are ripe, international (mainly European and the United States) registration of listed products should be carried out as soon as possible to benefit more patients and obtain greater therapeutic value and commercial benefits. Secondly, China has joined the ICH Organization, which lays the foundation for the internationalization of research. Therefore, the medium and long-term research projects being developed by the Group must be able to register at home and abroad (such as the United States) in order to achieve the goal of the internationalization of the long-term development of the Group. Finally, we need to pay close attention to the selection and development of external investment projects, in order to balance the short-term and long-term development plans of the Group, and ultimately achieve the goal of the development of the Group and the realization of shareholders' benefit.

During the Reporting Period, the Group adjusted its R&D system. We realized that clinical research had a significant impact on the progress of the Company's projects. Therefore, we divided the R&D center into drug R&D center and clinical medicine center. In addition, clinical research institutes have been set up in the marketing center to better coordinate and promote the development of new indications for marketed drugs.

During the Reporting Period, product sales revenue of the Group decreased by 19% compared with that of last year. ALA(艾拉®) which is indicated for the treatment of dermal HPV infectious disease and proliferative disease, LIBOd® which is indicated for the treatment of tumor and FuMeiDa which is indicated for PWS are three major products of the Group, and together contributed 99% of the sales revenue of medical products by the Group.

ALA (艾拉®) was launched in the market in 2007. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminate. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, no scar formation, and much lower adverse reaction rate and recurrence rate comparing with previous average level.

LIBOd® (里葆多®) for the treatment of tumors, as the first generic drug of nanomedicine at home and abroad, was launched for sale in August 2009 and it obtained favorable market response and reputation. On 29 October 2018, the Company and Huizheng (Shanghai) Pharmaceuticals Technology Co., Ltd.* (輝正(上海)醫藥科技有限公司) ("Shanghai Huizheng") entered into the market promotion service agreement for Doxorubicin liposome (LIBOd®), to provide the market promotion

services for LIBOd® of the Company in the PRC from 1 November 2018. Shanghai Huizheng is a subsidiary of Zhejiang Hisun Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600267). The cooperation between the parties will help the Company effectively utilize the existing team and resources of Shanghai Huizheng, thus rapidly increasing the end-sales volume and market shares of LIBOd® of the Company and effectively addressing competition from other companies. During the Reporting Period, the contribution of LIBOd® to sales revenue of the Group decreased by 2% for the year 2020 compared with that of last year, which is basically stable.

FuMeiDa (复美达®), the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. FuMeiDa has been launched in the market officially in 2017. We have designed a new sales mode for FuMeiDa, with the integration of treatment and sales, which includes the Company's hospitals and direct distribution systems provided by pharmaceutical companies. During the Reporting Period, FuMeiDa has been sold in many hospitals throughout the country with well postoperative feedback and its contribution to sales revenue of the Group decreased by 7% compared with that of last year due to the spread of Epidemic in 2020. The Group is combining case feedback as soon as possible to optimize the key steps in the process of treatment in order to form a standardized treatment plan. The Company is preparing for its new drug registration in the US.

During the Reporting Period, the Group continues to regard academic promotion as our primary marketing method. The Wechat communication platform for photodynamic technology that the Company maintained serves as a network service system integrated with academic exchanging among dermatology clinician, sharing of clinical case and standard practice video, Q&A platform between doctors and patients, etc. The platform has become a relatively well-known professional Wechat account in China. In addition, we plan to take advantage of doctor resources on the platform to develop a new sales mode to solve some frequently seen problems in current marketing environment and some frequent difficulties for patients in hospital. We believe this kind of investment will have positive significance for products promotion, brand awareness and the Company's recognition as well.

During the Reporting Period, all the product lines for existing products in sale of the Group passed GMP Certification of China Food and Drug Administration. Our objective is to set up the product lines which can meet international standard so that our products could be sold worldwide. The management has considered to apply the GMP certification of FDA to two product lines in Shanghai and Taizhou. In the future, the timetable will be made according to specific commercialization projects.

The subsidiary of the Company, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd* (泰州復旦張江藥業有限公司)("Taizhou Fudan-Zhangjiang") has constructed two production lines for the material and injection of Hemoporfin. To fully exploit the capacity of the two production lines before further new self-developed innovative drugs obtaining production approval, the Group will choose several generic drugs which can be produced with FuMeiDa on the same production line and planned to submit the application of registration. Among them, Parecoxib Sodium (帕瑞昔布鈉) for analgesia has obtained the Drug Registration Certificate issued by National Medical Products Administration

("NMPA") in early 2021, Taizhou Fudan-Zhangjiang will proceed the subsequent production and sales of the such drug as soon as possible. In addition, the new solid preparation production line of Taizhou Fudan-Zhangjiang is ready for the commercialization of obeicholic acid (奧貝膽酸). More investments on production lines will be made in Taizhou in the next few years so as to gradually make Taizhou Fudan-Zhangjiang become the centralized production base of the Group.

The subsidiary of the Company, Tracing Bio-technology Co.,Ltd* (上海溯源生物技術有限公司) ("Tracing Bio-technology") covers all sectors including R&D, production and sales of the diagnostic reagents. During the Reporting Period, several kinds of screening reagents for food-origined antibiotics and their matching testing instruments of Tracing Bio-technology have completed for registration and launched for sale besides keeping exploring the existing dairy tests market. In addition, CRISPR CAS technology has been used in animal microbial detection, and has achieved certain results, and developed the detection of species infectious diseases in dairy cows. The test reagent is planned to go on sale in 2021

The Group has successfully accomplished the transformation from purely R&D to equally stress on both R&D and commercialization with a complete system featuring organic combination of R&D, product manufacturing and marketing. The Group is moving toward a virtuous stage of development.

By the end of the year 2020, the commercialized projects of the Group are summarized as follows:

Technical platform	Project name	Registration type	Indications	Launching time
Photodynamic technique	ALA	Class 3.1 generic drug	Condyloma acuminate	2007
	FuMeiDa	Class 1.1 generic drug	Port wine stain	2017
Nano technique	LIBOd®	Class 6 generic drug	Tumors	2009
Diagnosis and Inspection	Antenatal screening diagnostic reagent, analysis software and equipment including Beixi®, Beiyou	–	Down's syndrome	Launched already
	Several food safety inspection projects	–	Food safety inspection	Launched already
	Several kinds of screening reagents for food-origined antibiotics and their matching testing instruments	–	Antibiotic test	2019

INTELLECTUAL PROPERTY RIGHTS

The Group has been actively protecting its intellectual property rights on its innovative medicines and research achievements. During the Reporting Period, the Group applied for 15 invention patents, and has been granted 6 domestic invention patents. By the end of the year 2020, the Group has cumulatively applied for 102 invention patents, and has been granted 56 invention patents.

GRANTS AND AWARDS

The Group has always been improving its ability of new drugs development in light of the industrial policies of China. During the Reporting Period, the Group obtained the grants and awards from governments at all levels for a number of R&D and commercialization projects approximately amounting to RMB15,829,000.

ACKNOWLEDGEMENT

Lastly, I would like to take this opportunity to express my gratitude to the shareholders and business partners of the Group for all their unreserved support and encouragement. I would also like to express my most sincere thanks to all the Directors, Supervisors and all the staff of the Group for their dedication and contribution.

Wang Hai Bo
Chairman

Shanghai, the PRC
25 March 2021

INDUSTRY LANDSCAPE AND TREND

The global pharmaceutical market has been growing steadily amid the ongoing growth in global population, the development of emerging markets, the rise in people's living standard and the ageing society, resulting in breakthrough in medical technologies and emergence of new products. The statistics of IQVIA showed that global pharmaceutical expenditure has been rising in recent years and is expected to exceed US$1.5 trillion in 2023. The annual growth in total pharmaceutical expenditure of China, the second largest pharmaceutical market in the world, is expected to stay in the range of 3% to 6%. Ageing population saw the emergence of the over-60 age group as it accounts for an increasing portion in the population mix. China's pharmaceutical industry is set to reap benefit from such demographic structure in the next two decades with surging demand and advancement in pharmaceutical technology further driving industry development. Since 2015, China's pharmaceutical industry swiftly experienced segregation, structural upgrade and elimination of outdated capacity. The speeding up of drugs approval process and promulgation of priority approval policy have significantly altered the landscape of China's pharmaceutical industry in recent years, resulting in the surge in imported and domestic products approval. The rise in drugs approval standard, together with the promoting of generic drug consistency assessment, have seen companies with independent pharmaceutical innovation abilities and intellectual property rights protection enjoying significant competitive edges in the future.

During the Reporting Period, the Epidemic has caused significant adverse impact on the industry by delaying work and production resumption, interrupting transportation and hindering non-pandemic hospital prescription. However, driven by factors such as ageing population, constant improvement in people's living standard and enhancement in public health awareness, the prospects of China's pharmaceutical industry remain positive in the long term. Meanwhile, China's pharmaceutical industry is still subject to significant changes amid the promulgation of multiple pharmaceutical reform policies under the objective of "speeding up cost control and structural adjustment while encouraging innovation and transformation". It is anticipated that the pharmaceutical market will experience further structural alignment and faster technological innovation, which will expedite the elimination of weaker industry players along the way.

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial and operational position should be read in conjunction with and take reference to the consolidated financial statements of the Group and the related notes to the consolidated financial statements.

During the Reporting Period, there were no significant changes in the business model of the Group, its three major products, sales model and sales price, composition of major customers and suppliers, and tax policies.

Since the outbreak of the Epidemic, the provinces and cities in China have adopted public health measures for emergencies, including but not limited to the limitation on the travel of citizens and implementation of conditional resumption of work after the Chinese New Year holidays, to curb the spread of the Epidemic. The Company has officially resumed operation since February 2020.

REVENUE

The main operations revenue of the Group for the year 2020 amounted to approximately RMB832,467,000 (representing 99.84% of the consolidated revenue) comparing to approximately RMB1,028,955,000 for the year 2019, representing a decrease of 19%. The major products of the Group, ALA (艾拉®, 鹽酸氨酮戊酸散, ALA) and LIBOd® (里葆多®, 鹽酸多柔比星脂質體, Doxorubicin liposome), have contributed significant operating revenue to the Group, representing 36% and 53% to the total revenue of the Group, respectively.

The operating revenue for the year 2020 mainly came from the sale of medical and diagnostics products. The main source of total revenue for the year 2020 was nearly the same as that for the year of 2019.

During the Reporting Period, due to the fact that the Epidemic control measures are still in place, the number of patients and frequency of treatments in the hospital are significantly lower than the normal level. Although the spread of the Epidemic has been basically brought under control in China, the transportation of products and the treatment of patients have gradually resumed, and the sales volume and terminal use of the medical products of the Group have also gradually recovered, the operating performance of the Group greatly affected in 2020.

REVENUE FROM SALE OF MEDICAL AND DIAGNOSTICS PRODUCTS

Revenue of the Group from the sale of medical and diagnostics products for the year 2020 was RMB820,810,000 (representing 98.60% of the main operations revenue), decreased by 17.68% from that of year 2019 which was RMB 997,065,000. The contribution to the main operations revenue of ALA, LIBOd® and FuMeiDa, which are the major products of the Group, was 36%, 53% and 9% respectively. Affected by the Epidemic, compared with the same period, sales decreased by 35%, 2% and 7% respectively.

The major products of the Group are ALA and FuMeiDa (Hemoporfin) from photodynamic platform and LIBOd® from Nano-drug platform. During the Reporting Period, except for the marketing services for LIBOd® provided by Shanghai Huizheng, the work of sales and distribution of the other products is taken by the sales team of the Group.

Since December 2018, the National Healthcare Security Administration officially implemented the "4+7" concentrated procurement of drugs and local government authorities issued various local purchasing policies. The average price of the generic drugs of the successfully bidders dropped significantly. During the Reporting Period, the medical products of the Company were not included in the national essential drug list nor covered by the policies mentioned above and thus it is unlikely that the products of the Company will have a substantial price reduction under the policies. On the other hand, the Company would also try to avoid price drop due to other reasons.

TECHNOLOGY TRANSFER INCOME

The Group entered into a technology transfer agreement with the third party in March 2019. During the Reporting Period, according to the transfer progress, the income from technology transfer was RMB11,500,000 (2019: RMB29,900,000).

COST OF SALES

For the year 2020, the Group's main operations costs were RMB61,814,000. For the year 2019, the Group's main operations costs were RMB 73,339,000. The operating cost of the Group is mainly the corresponding cost of selling medicine and diagnostic products, which decreased with the decrease of revenue during the Reporting Period. The cost of pharmaceutical and diagnostic products was RMB61,674,000 in 2020 comparing to RMB70,998,000 for the year 2019, representing a decrease of 13%.

The structure of cost of sales is as follows:

Industry	Item	Amount of The Reporting Period	% of Total Cost	Amount of Corresponding Period of Last Year	% of Total Cost in Last Year	Change (%)
Pharmaceutical Manufacturing	Raw Material	14,334,000	23.24	18,563,000	26.15	-22.78
	Labor	8,782,000	14.24	10,651,000	15.00	-17.55
	Overhead	38,558,000	62.52	41,784,000	58.85	-7.72
	Total	**61,674,000**		**70,998,000**		

Product	Item	Amount of The Reporting Period	% of Total Cost	Amount of Corresponding Period of Last Year	% of Total Cost in Last Year	Change (%)
Dermatology products	Raw Material	8,719,000	14.14	11,752,000	16.55	-25.81
	Labor	5,997,000	9.72	7,254,000	10.22	-17.33
	Overhead	19,420,000	31.49	24,646,000	34.71	-21.21
Anti-tumor products	Raw Material	5,253,000	8.52	5,820,000	8.20	-9.74
	Labor	2,384,000	3.87	2,969,000	4.18	-19.71
	Overhead	18,020,000	29.22	16,344,000	23.02	10.26
Others	Raw Material	362,000	0.59	486,000	0.68	-25.45
	Labor	401,000	0.65	427,000	0.60	-6.09
	Overhead	1,118,000	1.81	1,300,000	1.83	-13.94
	Total	**61,674,000**		**70,998,000**		

The ratio of cost of product sales to revenue from sale of medical products increased to 8% from the level of 7% for last year, and the gross profit margin is basically stable. At the same time, the Group has been consistent in strict cost control. Maintaining the current product structure, we will try our best to increase the gross profit margin.

SELLING EXPENSES & GENERAL AND ADMINISTRATIVE EXPENSES

For the year 2020, the selling expenses of the Group was RMB426,929,000, representing a decrease of 20% from RMB530,571,000 for the year 2019. Selling expenses includes market and academic promotion fees, employment expenses, travel expenses, and depreciation and amortization expenses. The market mentioned above and academic promotion fees are mainly derived from the promotion service agreement for LIBOd® signed by the Company and Shanghai Huizheng on 29 October 2018, pursuant to which the promotion fee of LIBOd® agreed is about 50%-65% of the actual net sales income. Based on the proportion of sales revenue contributed by LIBOd® to the Group, the market and academic promotion fees accounted for a large proportion of the sales expenses during the Reporting Period. Meanwhile, the ratio of selling expenses to revenue for sale of products in 2020 decreased from 52% of last year to 51%, which was basically stable. Details are set out in note 5(35) to the consolidated financial statements.

For the year 2020, the general and administrative expenses of the Group were RMB50,759,000, representing a decrease of 8% from RMB54,933,000 for the year 2019. The general and administrative expenses include salary cost, administrative expenses, audit fees, depreciation and amortization expenses, and rent and property expenses. Details are set out in note 5(35) to the consolidated financial statements.

R&D EXPENSES

The Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs of the Group were recognized as expenses as incurred. With the development of R&D projects and the establishment of new projects, R&D expenses of the Group for the year 2020 were RMB139,268,000, representing an increase of 9% compared with RMB127,822,000 for the year 2019. Details are set out in note 5(36) to the consolidated financial statements. The total investment in R&D of the Group in 2020 is RMB154,973,000, representing an increase of 19% compared with 2019. During the Reporting Period, the main R&D projects are shown as follows:

Investment in major R & D projects:

Project name	R&D investment amount	Expense amount of R&D investment	Capitalization amount of R&D investment	% of R&D investment in operating revenue	Change (%)
CD30-MMAE	5,079,000	5,079,000	–	0.61	-35.18
Trop2-directed antibody drug conjugate	23,094,000	23,094,000	–	2.77	16.15
Her2-directed antibody drug conjugate	12,725,000	12,725,000	–	1.53	N/A
Related research on Hemoporfin	19,160,000	19,160,000	–	2.30	-15.92
Related research on aminolevulinic acid hydrochloride	21,913,000	21,913,000	–	2.63	144.84
Related research on doxorubicin liposome	15,433,000	4,619,000	10,814,000	1.85	2,693.31
Nanoparticle Albumin-bound Paclitaxel	3,079,000	3,079,000	–	0.37	-23.63

Project name	R&D investment amount	Expense amount of R&D investment	Capitalization amount of R&D investment	% of R&D investment in operating revenue	Change (%)
JAK1 inhibitor	15,104,000	15,104,000	–	1.81	-9.08
Obeticholic acid	10,624,000	10,624,000	–	1.27	-44.37
Other research	28,762,000	23,872,000	4,890,000	3.45	-6.46
Total	154,973,000				
Proportion of R& D investment in operating revenue during the Reporting Period (%)	18.59				
Proportion of R&D investment in net assets during the Reporting Period (%)	7.72				
Capitalization proportion of R&D investment in the Reporting Period (%)	10.13				

FINANCIAL EXPENSES

For the year 2020, financial expenses of the Group were approximately RMB129,000 compared with approximately RMB5,628,000 for the year 2019, representing a decrease of 98%. The decrease of the financial expenses is mainly due to the receiving of funds raised in the current period, the increase in interest income, and the repayment of bank loans and the decrease in interest expenses. Details are set out in note 5(37) to the consolidated financial statements.

OTHER INCOME

Other income of the Group for the year 2020 was RMB14,928,000, compared with RMB14,035,000 for the year 2019, representing an increase of 6%. The increase in other income was mainly due to the increase in governmental grants recognized for the year. Details are set out in note 5(39) to the consolidated financial statements.

INCOME TAX EXPENSES

Effective from 1 January 2008, Fernovelty (Hong Kong) Holding Co., Ltd ("Fernovelty Holding") is required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (the "CIT Law") as approved by the National People's Congress on 16 March 2007. The Company and its subsidiaries Taizhou Fudan-Zhangjiang and Tracing Bio-technology were recognized as high-tech enterprises, and their applicable tax rates are both 15% in 2020. The applicable tax rates of the other subsidiaries in Mainland China are 25% in 2020.

Fernovelty Holding was incorporated in Hong Kong in October 2016 as a subsidiary of the Group and is subject to Hong Kong profits tax at the rate of 16.5% (2019: 16.5%). Effective from 1 January 2018, a two-tier profits tax rates system is implemented under which the first HK$2 million of assessable profits of corporations will be taxed at 8.25% whereas the remaining amount will be taxed at the standard rate of 16.5%. Since it did not have estimated assessable profit for the years ended 31 December 2020 and 2019, Hong Kong profits tax has not been provided.

As at 31 December 2020, the applicable tax rate and tax policy of the Group remained unchanged.

NET PROFIT AND NET PROFIT RATE

The net profit of the Group for the year 2020 was RMB164,259,000, representing a decrease of 26% compared with RMB220,654,000 for the year 2019. The net profit rate for the year 2020 was 20% (2019:21%). The lower net profit margin in 2020 was mainly due to the decrease of sales income due to the Epidemic, the constant fixed expenditure and the increase of R&D investment, which led to the decrease of net profit margin.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company of approximately RMB164,663,000 was recorded in the consolidated financial statement for the year 2020, compared with approximately RMB227,358,000 for the year 2019, representing a decrease of 28%.

SIGNIFICANT INVESTMENTS

During the Reporting Period, the Group had no significant investment.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Reporting Period, the Group had no material acquisitions or disposals of subsidiaries and associated companies。

FINANCIAL ASSETS MEASURED AT FAIR VALUE

In 2017, Fernovelty Holding, a subsidiary of the Company, entered into the subscription agreement with Adgero to purchase ordinary shares and warrants. On 9 June 2020, Adgero Biopharmaceuticals Holdings, Inc ("Adgero") entered into an Agreement and Plan of Merger and Reorganization with DelMar Phamarceuticals, Inc (Nasdaq Code:DPMI，"DelMar") and its wholly owned subsidiary, and Adgero will become a wholly-owned subsidiary of DelMar after the merger. After the reorganization, the new company applied to change its name to "Kintara Therapeutics, Inc" (NASDAQ Code: KTRA, "Kintara"). The equity held by the Group will be converted into the equity of kintara in accordance with the agreed proportion. The Group holds 629,600 ordinary shares of Adgero as at 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Directors were not aware of any material contingent liabilities.

CHARGE ON ASSETS

As at 31 December 2020, the Group had no charge on assets.

BANKING BORROWINGS

As at 31 December 2020, the Group had no unpaid banking borrowings.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Based on the industrialization process planning for the R&D projects of the Group, as approved and authorized by the Board on 29 October 2020, Taizhou Fudan-Zhangjiang will participate in the bidding process for the adjacent plot of the existing plant in Taizhou Park and go through the relevant procedures, so as to timely build a new production workshop to meet future production needs. As of the publication date of this report, Taizhou Fudan Zhangjiang is participating in the land auction.

Saved as disclosed above, the Group had no other material capital expenditure plan for the moment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from initial public offering of A shares on the STAR Market, proceeds from the share placing, grants from the municipal government authorities and commercial loans.

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB1,396,890,000.

Being consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. As at 31 December 2020 and 2019, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable.

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and to minimize the finance costs, the Group's treasury activities are centralized. The Group's liquidity and financing arrangements are reviewed regularly.

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the domestic market. The operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

EMPLOYEES AND SALARIES

As at 31 December 2020, the Group had a total of 628 employees, as compared to 605 employees as at 31 December 2019. Staff costs including Directors' remuneration for the year 2020 were RMB129,796,000, compared with RMB147,894,000 for the year 2019. The salaries and benefits of employees provided by the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees by the Group.

Details of the remuneration policies are set out in the "Remuneration Committee" section of the "Corporate Governance Report".

OTHER MATTERS

ISSUE OF A SHARES

In order to further broaden the Company's funding channels and enhance its core competitiveness, on 14 May 2020, the Company obtained the reply on approving the registration of the Company's initial public offering (regulatory permission [2020] no. 912) issued by CSRC. The A Shares of the Company have been listed and commenced trading on the STAR Market of the Shanghai Stock Exchange since 19 June 2020 (Stock code: 688505). The number of shares issued this time is 120,000,000 A shares (par value of RMB0.1 per share), and the Company's original 583,000,000 domestic shares were converted into A shares at the same time. The issue price of the Shares is RMB8.95 per share, and the A Shares were issued under the special mandate granted by Shareholders to the Board at the annual general meeting on 26 April 2019 and extended at the annual general meeting on 30 March 2020. The total share capital of the Company was 923,000,000 shares before the issue of A shares, and after the issue, the total share capital of the Company increased to 1,043,000,000 shares, among which the A shares were 703,000,000 shares and the H shares were 340,000,000 shares.

USE OF PROCEEDS

The total proceeds of the issue of A share are RMB1,074,000,000 and the net proceeds are RMB974,323,900 after deducting the issue fees of this offering. The net proceeds raised from the issue of A Shares shall be used in accordance with the plan items described in the circular of the Company dated 4 April 2019 and the announcement of the Company dated 26 April 2019.

Particulars of the proceeds raised were used as follows:

Investment Projects	**Budget** RMB0'000	**Amount that has been utilized as at 31 December 2020** RMB0'000	**Remaining balance as at 31 December 2020** RMB0'000	**Notes**
– The Registration Project of Hemoporfin in the United States	23,000.00	**1,689.40**	**21,310.60**	
– The Innovational Research and Sustainable Development Project in Relation to Biological Medicine	24,000.00	**5,739.74**	**18,260.26**	
– The Project in Relation to Acquisition of Minor Equity Interests in Taizhou Fudan-Zhangjiang	18,000.00	**17,839.30**	**160.70**	
Over-raised funds	–	**–**	**32,432.39**	*Note (1)*
Interest on raised proceeds	–	**–**	**1,080.98**	
Total	65,000.00	**25,268.44**	**73,244.92**	

Notes:

(1) The actual amount of proceeds raised from the issue of A Shares exceeding the needs of the investment projects listed above will be used to supplement the working capital related to the principal business of the Company in accordance with relevant requirements of CSRC and The Shanghai Stock Exchange ("SSE") and subject to the approval of the Board and the Shareholders' meeting. The Company will disclose relevant updates in due course.

(2) The amount that has been utilized included the amount which is used after the listing for replacing the self-owned fund of the Company previously invested in such projects during the Reporting Period.

(3) The Company confirms that the use of proceeds from the issue of A share conforms to the disclosure of the circular of the Company dated 4 April 2019, and that the Company will use the proceeds from the issue of A share in strict accordance with the relevant regulations. The remaining amount of proceeds to be invested is expected to be utilised by 31 December 2023. The expected timeline for the remaining amount of proceeds to be invested is subject to future adjustments if required, and the Company will comply with relevant internal approval procedures and disclosure obligations in due course.

PERFORMANCE OF UNDERTAKINGS

During the application process of A-share issuance, the undertakings of the shareholders, related parties, the Company and other related parties during the Reporting Period or up to the Reporting Period are listed in the section "Significant Events" of the interim report of the Company dated 25 August 2020, which includes the types, contents and duration of undertakings.

CHANGES IN RESTRICTED SHARES DURING THE REPORTING PERIOD

The offline allotment shares were available for circulation from 21 December 2000 which involved 5,205,513 shares, representing 0.4991% of the total share capital of the Company. For details and the list of shareholders, please refer to the overseas regulatory announcement dated 21 December 2020.

Report of the Directors

The Board is pleased to present the directors' report for the year 2020 and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

ACTIVITIES REVIEW

The Group is mainly engaged in innovative research and development, production and marketing of biomedicine. During the Reporting Period, R&D direction, business model of main products and sales model of the Group did not change significantly.

In respect of R&D, the Group adhered to the genetic technical platform, photodynamic technical platform, nano technical platform and oral solid preparation technical platform. The Group has committed to developing new clinical indications for selected drugs and developing new medicines and innovative treatments to tackle selected diseases. At the same time, the Group has explored and developed the fields of molecular targeting, immunotherapy and other fields in order to have a new R&D direction. During the Reporting Period, with an overall consideration of research resources, risks and R&D cycle, the Group has continually focused on drug development on tumors, dermatological and self-immunological diseases, expanding and strengthening the number and progress of commercialized drugs. Given that R&D on innovative drugs faces significant risks and challenges, the Group adopts more prudent and conservative capitalized policy on R&D expenses and will try to make the medium and long-term plans of R&D in view of actual financial position.

In respect of commercialization, the major products of the Company are ALA and FuMeiDa on photodynamic technical platform, LIBOd® on nano technical platform and all kinds of diagnostic reagents on diagnosis technology platform. FuMeiDa for the treatment of PWS, launched to the market in 2017 officially. FuMeiDa and LIBOd® for the treatment of tumors are preparing to apply for U.S. drug registration. Meanwhile, according to the requirements of relevant PRC laws and regulations, the Group also started the domestic bioequivalence evaluation research during the Reporting Period.

During the Reporting Period, since the outbreak of the Epidemic, the provinces and cities in China have adopted public health measures for emergencies, including but not limited to the limitation on the travel of citizens and implementation of conditional resumption of work after the Chinese New Year holidays, to curb the spread of the Epidemic. The Company has officially resumed operation since February 2020.

As the spread of the Epidemic has been basically brought under control in China, the transportation of products and the treatment of patients have gradually resumed, and the sales volume and terminal use of the medical products of the Group have also gradually recovered. However, due to the fact that the Epidemic control measures are still in place, hospitals and their affiliated departments are still in the process of resumption of operation. The number of patients and frequency of treatments in the hospital are significantly lower than the normal level. Considering the overall impact of patients' medical treatment environment, the Group's business performance in the first half of 2020 were greatly affected. The revenue during the Reporting Period was approximately RMB834,000,000 which decreased by 19% compared with the same period of last year.

THE TOTAL REVENUE FOR THE YEAR 2020 MAINLY CAME FROM THE SALE OF MEDICAL PRODUCTS

1. Aminolevulinic Acid Hydrochloride Topical Powder (艾拉®, ALA)

ALA, first in class drug, the first photodynamic drug for the treatment of condyloma acuminate in the world. It has become the preferred choice in the clinical therapy after many years of marketing. Compared with traditional therapy, the ALA photodynamic therapy has remarkably reduced the recurrence rate of condyloma acuminate, solving a clinical problem and filling in the vacancy of condyloma acuminate treatment in special parts on the body (urinary canal, ananl canal and cervix) internationally. The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the text book of Dermatovenercology and relevant clinical treatment guidance from 2013. The latest ninth edition of Dermatovenercology adds the new application of the aforementioned therapy on the acne treatment.

2. Long Circulating Doxorubicin Hydrochloride Liposome Injection (里葆多®, LIBOd®)

LIBOd® for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. Doxorubicin hydrochloride liposome is used for the treatment of Kaposi's sarcoma, breast cancer, ovarian cancer and other kinds of tumors.

3. Hemoporfin For Injection (复美达®, FuMeiDa)

FuMeiDa, the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. After injection into the blood, Hemoporfin spreads quickly to the surrounding tissues and tends to distribute specifically in vascular endothelial cells. It would selectively damage the photosensitizer-rich vascular endothelium by the use of laser or LEDs with certain wavelength. The dilated and abnormal capillaries in the lesions of patients will be cleared by photodynamic reaction and further effects of coagulation system. PWS had no good treatment before. As one of the second generation photosensitizer, compared with traditional therapies, Hemoporfin is featured by stable chemical structure, lower photosensitization, rapider metabolism, shorter light-avoidance period requirement, even treatment on lesion, higher cure rate, lower incidence of scar formation and lower recurrence rate. The excellent efficacy of the drug in the market and the high cure rate compared to the traditional laser treatment rejoice the clinicians and researchers. The latest ninth edition of Dermatovenercology adds Hemoporfin developed by the Group as new photosensitizer for the treatment of PWS.

The Group only operates a single business segment in 2019 and 2020 and hence no segment information is presented.

THE OPERATION MODEL OF THE GROUP IN 2020 DID NOT CHANGE SIGNIFICANTLY

1. Profit model

The Group is mainly engaged in innovative research and development, manufacturing and marketing of biological medicine. Through the industrialization of independent research and development products, the Group finally realizes sales revenue and profit. During the Reporting Period, the main business income of the Group mainly comes from the sales revenue of the Company's pharmaceutical products.

2. Procurement model

The Group's procurement system is mainly divided into raw materials for production procurement, R&D related procurement and daily office supplies procurement. The Group has formulated the Management System of Material Requisition and Purchase Application, the Procedures of Material Procurement Management and Supplier Management under cGMP system to ensure the orderly progress of the Group's procurement activities.

3. Production model

The Group's production system is built in strict accordance with the relevant national laws and regulations. The Company's production system is established by the production department and the quality department. The Company implements the production strategy of "sales oriented production" and formulates the production plan according to the sales orders, the expected sales situation and the inventory volume.

4. Sales and marketing model

The Group mainly relies on distributors for product sales. The Group's photodynamic drugs ALA (艾拉®) and FuMeiDa (复美达®) use the Company relies on distributors for product sales. The Group's photod® (里葆多®) uses an entrusted CSO for market promotion.

5. Management model

The Group is committed to establishing a standardized and stable enterprise management structure. The Group will maintain the interests of all the shareholders by improving standardized operation systems and scientific decision-making systems with greater transparency and the establishment of an effective accountability mechanism.

ANALYSIS OF THE GROUP'S MAJOR PRODUCT RELATED INDUSTRIES IN 2020

1. Current situation of dermatology medicine industry in China

At present, air pollution is becoming more and more serious, which causes the incidence rate of skin diseases to increase, and the factors causing such diseases are evolving. Dermatosis is a common and frequently occurring disease in medical science, which is characterized by a wide range of patients, large number of syndromes and long treatment time. In recent years, the number of patients with skin diseases continues to grow, and their age is becoming younger and younger. Due to the repeated skin diseases, delayed treatment and high treatment costs, skin diseases bring great disadvantages to the rehabilitation of patients.

– *The treatment of condyloma acuminate*

Condyloma acuminate, also known as genital warts or venereal warts, is a sexually transmitted disease caused by human papillomavirus (HPV) infection, belonging to the category of skin and venereal diseases. Up to now, HPV have been discovered, which mainly infect epithelium. Human beings are the only host of such virus. Hpv-6,11,16,18 are the main viruses causing condyloma acuminate. The purpose of the treatment of condyloma acuminate is to remove the wart and reduce or prevent recurrence as much as possible. The treatment of Condyloma acuminate in mainly includes drug therapy, physical therapy and photodynamic therapy. Among them, the representatives of drug therapy are 0.5% podophyllotoxin tincture (ointment), 5% imiquimod cream, 80%-90% trichloroacetic acid (TCA) or dichloroacetic acid (BCA), interferon and fluorouracil; the representatives of physical therapy are surgical treatment, cryotherapy, laser therapy, electrocautery; photodynamic therapy refers to ALA photodynamic therapy.

– *The treatment of PWS*

PWS is a common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The visible manifestation of this disorder is usually relatively flat patches composing of expanded capillaries that rarely swell up. The lesions tend to become darker and thicker with time and rarely fade away during the patient's life. PWS may occur on any part of the body; its appearance on face and neck is reported to be about 75% to 80%, and the incidence rate among infants worldwide is about 0.3~0.4%. There was no proper treatment for this disease before. Over 65% of patients without treatment will face expanded lesion, and before age 40, they will face the situation of thicken and modular lesions causing great negative effect to the patients' appearance and severe emotional depression.

2. *Current situation of China's antineoplastic drug industry*

Malignant tumor is one of the most serious diseases threatening human health and social development. Among the 184 countries and regions in the world, the incidence of malignant tumor in China is in the middle and above the average level, accounting for 21.8%[1] of the global malignant tumor incidence.

– *The current situation of anthracycline antineoplastic drug industry*

Anthracyclines are anti-tumor antibiotics, which are chemical matters produced by microorganisms with antitumor activity. Anthracycline drugs include daunorubicin (DNR), doxorubicin (ADM), epirubicin (EPI), pirarubicin (THP), mitoxantrone (MIT) and carborubicin. Doxorubicin ranks first in the market share of anthracycline anticancer drugs in China. Doxorubicin is commonly used in the treatment of malignant lymphoma, acute leukemia and breast cancer. It has a wide anti-tumor spectrum and good curative effect, but its toxicity is also serious. In addition to myelosuppression, gastrointestinal toxicity and alopecia, doxorubicin can cause serious cardiotoxicity and is a dose limiting drug. When the cumulative dose is large, it can cause myocardial damage and even heart failure, which greatly limits the clinical application of doxorubicin. Liposomes are widely studied and have the most promising future of particle targeted drug carrier. So far, scholars have carried out a lot of basic research in this field. It is found that liposomes have a wide range of application value in the fields of anti-cancer and antimicrobial drugs, such as immunization and clinical diagnosis. Compared with traditional doxorubicin liposomes, pegylated doxorubicin liposomes have the characteristics of long action time, low cardiac toxicity and good tumor targeting. It not only has satisfactory curative effect on lymphoma, Kaposi's sarcoma, multiple myeloma, gynecological tumor, breast cancer and other tumors, but also can effectively improve the related adverse reactions, significantly reduce cardiac toxicity and improve the treatment index.

ANALYSIS OF THE STATUS OF, AND THE MOVEMENT IN, THE INDUSTRY WHICH THE GROUP OPERATES DURING THE REPORTING PERIOD:

1. *Photodynamic technology*

Modern photodynamic therapy stemmed from the findings of Raab, a German scholar, in 1900 that the combination of light and photosensitizers can generate cytotoxic effect. In the 1970s, this technology was gradually used in clinical applications. In 1993, Health Canada approved the use of photofin II, the first photosensitizing drug in the world, for bladder cancer treatment. Photodynamic therapy began to attract extensive attention from scientists around the world, with several photosensitizing drugs being approved for use successively. China commenced its research on photosensitizing drugs in the early 1980s and extended the clinical application of photodynamic therapy from malignant tumors treatment to a variety of benign diseases. Currently, China is one of the most active countries in the world in researching and developing photodynamic drugs.

In recent years, photodynamic therapy has gradually become one of the key treatments for tumors and various benign diseases due to the development of, and advancement in, photosensitive substances, light source and light guide system as well as its minor side effects and protection to organs. It has unique clinical advantages in treating proliferative lesions detected on body surface and superficial cavity.

[1] Data from Mine i comprehensive database

As a pioneer in the development of photodynamic therapy in recent years, the Company is one of the outstanding enterprises in the field of photodynamic technology around the world. The proven photosensitive compounds that currently owns by the Group include Aminolevulinic acid hydrochloride, Hemoporfin and Deuteroporphyrin, of which ALA® (Aminolevulinic acid hydrochloride) and FuMeiDa® (Hemoporfin) are sold in the Chinese market with several key projects under development. With reference to publicly available information, the Company currently has the most product lines in photodynamic drugs in the world.

As at the end of the Reporting Period, the Company has launched 4 types of photodynamic drug in China, namely Hematoporphyrin, Aminolevulinic Acid Hydrochloride, Verteporfin and Hemoporfin. Owing to different indication and emphasis, the Group's products have not yet incurred any direct competition with other photodynamic products.

2. Nano drug production technology

Doxorubicin is a broad-spectrum anti-tumor drug that is used clinically to treat most pf the malignant tumors, including acute leukemia, osteosarcoma, liver cancer and gastric cancer. However, Doxorubicin is relatively strong in side effects, including cardio toxicity, liver toxicity and myelosuppression. In 1995, Doxil (Doxorubicin liposome), the first anti-cancer nano-formulation, was approved by the FDA for treating HIV-related Kaposi's sarcoma, and was subsequently approved for treating ovarian cancer and multiple bone marrow tumor. When compared with common preparations, Doxorubicin liposomes that are PEG-based can allow site-specific drug delivery by evading the phagocytosis by reticuloendothelial system, boosting drug efficacy, prolonging loop retention time and enabling specific tumor targeting ability. When compared with traditional Doxorubicin, PEG-based Doxorubicin liposome contains features such as long efficacy, low cardiac toxicity and excellent tumor targeting ability. It not only has satisfactory curative effect on lymphoma, Kaposi's sarcoma, multiple myeloma, gynecological tumor, breast cancer and other tumors, but also can effectively improve the related adverse reactions, significantly reduce cardiac toxicity and improve the treatment index of Doxorubicin. Currently, the drug is recommended by the National Comprehensive Cancer Network (NCCN) Guidelines for the first-line treatment of lymphoma, multiple myeloma and ovarian cancer as well as the second-line treatment of breast cancer, bone and soft tissue sarcoma and progressive AIDS-related Kaposi's sarcoma and various other cancers. In 2009, the Company released the first generic drug of Doxorubicin liposomes in China.

THE DEVELOPMENT AND FUTURE TREND OF NEW TECHNOLOGIES, NEW SEGMENTS, NEW LANDSCAPE AND NEW MODELS DURING THE REPORTING PERIOD

Other than technological advancement, the development of China's bio-pharmaceutical industry is also driven by industrial policy in the long term:

1) Drugs demand driven by growing and aging population

The development of China's pharmaceutical manufacturing industry has been thriving in light of the organic growth and ageing of China's population as well as the increasing awareness of people in sanitation and healthcare. According to the National Bureau of Statistics[2], China had a population of 1.4 billion as at the end of 2019, registering an natural population growth rate of 3.34‰. The population growth will trigger additional demand in the pharmaceutical market. Meanwhile, China's population is ageing further as the number of people that aged 65 and above has increased from 144 million to 176 million between 2015 and 2019, with the share of that age group in the total population increased from 10.50% to 12.60%. Elderly people will have a relatively stronger demand for drugs as they are prone to illness and subject to multiple diseases. The increasingly severe ageing population will directly lead to a substantial increase in the demand for drugs in China.

2) Gradual rise in income and medical affordability

The per capita disposable income of residents has been increasing amid China's economic development. According to the National Bureau of Statistics, the per capita disposable income in 2019 was RMB30,733, representing an increase of 8.90% over the previous year. The total national health expenditure in 2019 is expected to reach RMB6,584.139 billion, accounting for 6.67% of the GDP. The per capita health expenditure is RMB4,702.79, representing an increase of RMB465.81 over the previous year. It is expected that the consumption power over drugs will be improved alongside with the enhanced medical affordability in China. Moreover, China continues to strengthen its medical and healthcare investment. In 2019, the health expenditure of Chinese government amounted to RMB1,801.695 billion, representing an increase of 9.87% from the previous year. With China constantly increases its investment in medical and healthcare, the consumption on bio-pharmaceutical drugs will continue to rise.

3) New opportunities generated by industrial policy

Since the promulgation of the "Opinions on Deepening the Reform of the Medical and Healthcare System" by the State Council in March 2009, various government authorities have successively introduced policies, plans and other measures to gradually establish and improve the basic medical and health system that covers rural and urban residents, create a well-established rural cooperative medical system and provide urban and rural residents with fundamental public healthcare services such as disease prevention and control, maternal and child healthcare and health education, with the aim to improve the general health and medical standard of residents. In December 2016, the State Council issued the "Thirteenth Five-Year Plan on Deepening the Reform of the Medical and Healthcare System", which demanded breakthroughs in the development of five systems, namely subdivision of diagnosis and treatment,

[2] Source from official website of National Bureau of Statistics : www.stats.gov.cn

modern hospital management, universal medical insurance, drug supply guarantee and comprehensive supervision during the Thirteenth Five-Year Period while planning and making progress in relevant segment reform. The Thirteenth Five-Year Plan suggested that by 2020, China shall, relatively, have a well-established public healthcare system and medical protection system, a standardized drug supply and security system and general supervision system as well as a scientific medical healthcare organization management and operation system.

A series of reform in medical and healthcare system, including industrial development planning, drug distribution and quality control and the establishment of primary pharmaceutical market, have, on the one hand, tightened industry supervision that help improving the competitive landscape, promoting industry integration and enabling the long-term sustainable development of the pharmaceutical manufacturing industry while, on the other hand, with advancement in medical reform, the government has gradually increased investment in healthcare and extended the coverage of fundamental healthcare. These measures will further expand the demand for drugs in the market while create a thriving opportunity for pharmaceutical manufacturing companies with more prominent research and development capabilities as well as more effective quality control.

4) Opportunities incurred by research and development of drugs under the industrial system reform

In August 2015, the State Council promulgated the "Opinions on Reform of the System of Evaluation, Review and Approval of Drugs and Medical Devices", which stipulated that improving the quality of drug and medical device review and approval, resolving the backlog of registration application, enhancing the quality of generic drugs, encouraging the research and production of new drugs as well as raising the transparency of review and approval as the main objectives.

In November 2018, the "Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State" was considered and approved on the Fifth Meeting of the Central Commission for the Comprehensive Deepening of Reform. In the same month, the joint procurement office comprised of delegates from 11 pilot regions, as represented by Shanghai, promulgated the "Centralized Drug Procurement File in 4+7 Cities", which stipulated that "The catalog of generic drugs approved under the new registration classification of chemical drugs shall be approved by the joint procurement meeting and have consulted experts, with the aim to determine the purchase varieties (with specific specifications) and the agreed purchase quantity." This reform enabled people to use high quality drugs at relatively affordable prices by a series of "combined actions" such as insisting on the integration of centralized procurement, quantity and price as well as promoting the consistency assessment of generic drugs. Starting from the "4+7" pilot programme, then expanding to the national level in 2019, and the second batch and third batch of national centralized procurement in 2020, the normalization of centralized production is accelerating, and the gathering will be the main theme of the pharmaceutical industry in the next few years.

On 28 January 2021, the General Office of the State Council promulgated the "Opinions on Promoting the Normalized and Institutionalized Development of Centralized and Volumetric Drug Procurement", which stipulated the important strategies for subsequent volumetric drug procurement that further clarify the normalization mechanism of centralized drug procurement; and explored a combined centralized procurement that is similar to indications, the synergy between bid-winning price and medical insurance payment standard and the intense competition.

The implementation of the above reform will gradually align China's drug pricing model to the globally accepted drug classification pricing model, which separates the pricing of new drugs from generic drugs. Except for new drugs with special clinical value, other drugs will have to face intense price competition. In the future, the competitiveness of pharmaceutical enterprises is subject to their ability of pharmaceutical innovation and industrialization.

ANALYSIS OF CORE COMPETITIVENESS FOR THE REPORTING PERIOD

Thanks to strong support to pharmaceutical companies from the National Guideline on Emerging Sectors of Strategic Importance during the 13th Five-Year Plan period, as a pharmaceutical enterprise focusing on new drug research and development, the Group has adhered to choosing the projects that can meet the unmet needs and deficiencies of clinical and patients treatment since establishment, and the evaluation system of project progress depends on whether specific accomplishment of treatment will be achieved. The Group is seeking a balanced development in the conflict between "me-too" and "first in class". At present, the products of the Company launched or under development of the Group have shown positive prospect and characteristics of less affected by changes of policies. The effort and strategies adopted by the Company over the years have laid a solid foundation and generated a driving force for the Group's development under the new policy environment.

1. Advantages of R&D Innovation

Refer to "major drugs under R&D of the Group" section of the "Chairman's Statement".

2. Core Technology, Advance Level and Changes during the Reporting Period

Since the establishment, the Company has always adhered to the R&D philosophy that based on the premise of clear market demand, the decisive factor in project evaluation is whether a project can reflect unique clinical treatment effect. In addition, the Company also selects products with technical barriers for industrialization. On the premise of meeting clinical needs, the Company will try to realize differentiated competition, utilize R&D resources effectively and maximize economic benefits. Based on the above R&D philosophy, the Company has formed the genetic engineering technical platform, photodynamic technical platform, nano technical platform and oral solid preparation technical platform. The Company's core technologies are obtained by independent research and development.

(1) Genetic Engineering Technical Platform

The Company has been based on genetic engineering technology since its establishment, and has successively developed cytokines, fusion proteins, monoclonal antibodies, antibody coupled drugs products for unmet clinical needs, and established relevant technical platforms. In the early years, the Company transferred a number of genetic engineering technologies, and contributed the revenue for the development of the Company. With the continuous expansion of the Company, the industrialization of genetic engineering technical drugs has a feasible foundation. In the future, the Company will continue to strengthen the research on genetic engineering technical platform projects that have entered clinical practice, and strive to realize the industrialization of gene drugs as soon as possible. ADC is an important research and development direction of the Company's genetic engineering technical platform. Possessing the powerful lethality of small molecular drugs and targeting property of monoclonal antibodies, ADC has become a hot item in the research and development of targeted tumor therapy over the past decade.

(2) Photodynamic Technical Platform

The scientific exploration of photodynamic therapy began at the beginning of the 20th century. In the late 1970s, photodynamic therapy began to be used in clinical practice. The first photosensitive drug was approved for sales in 1993. Based on the unique therapeutic value of photodynamic therapy in some precancerous lesions and non-tumor diseases that cannot be treated or intervened, and the absence unified scientific standard in the world, the Company established a prospective photodynamic technical platform in year 1999.

The Company's photodynamic technology is in the world's leading level. The Company has continued to expand the drug research and development based on the photodynamic technical platform for many years, and photodynamic drugs are one of the Company's important product groups. The main photodynamic drugs of the Company are ALA for condyloma acuminate and FuMeiDa® for PWS. The research projects are mainly phase IV clinical trial and US registration for Hemoporfin, and indication expansion for ALA, etc.

The Company took the lead in promoting ALA in the treatment of condyloma acuminate to clinical research in the world, and successfully obtained the registration approval in 2007 and realized industrialization. It provided a new treatment method for the traditional condyloma acuminate treatment and filled in the lack of clinical treatment of condyloma acuminate. Since 2013, the ALA photodynamic therapy program of the Company has been included in the textbook of Dermatovenercology (Eighth Edition) published by People's Health Publishing House, and the application of acne treatment has been added in its latest ninth edition. The ALA photodynamic therapy program has also been included in the "Condyloma Acuminate Diagnosis and Treatment Guidelines (2014)" and "Condyloma Acuminate Treatment Expert Consensus (2017)" issued by the Chinese Medical Association.

FuMeiDa, another important product from the Company's photodynamic technical platform, has obtained the national chemical drug class 1.1 new drug certificate in 2012, the registration approval in 2016, and achieve industrialization in 2017. FuMeiDa is the only drug approved for the treatment of PWS within the scope of ICH regulatory agencies. It is a new drug with new effect mechanism, new compound and new indication. Based on its obvious technical and clinical advantages, the industrialization of FuMeiDa provides a new solution for the treatment of PWS. The latest ninth edition of Dermatovenercology published by People's Health Publishing House adds Hemoporfin as new photosensitizer for the treatment of PWS developed by the Group as a therapy.

In the future, the Group will continue to emphasize on the features of "one drug for several indications" and "a new scalpel for clinical treatment" of photodynamic drugs and follow the treatment principle of photodynamic drugs to carry out research on multiple indications such as CIN infected by HPV ("CIN") and acne. The Group is commencing further research on molecular mechanism and the effect mechanism of photodynamic drugs in order to discover new photodynamic compound to improve the efficacy and overcome the defects. At the same time, exploration of the fundamental research on the relationship between the penetrating power of different light wavelengths and the treatment of tumour is under progress. Meanwhile, the Company has planned to apply for the international registrations for the launched drugs, which will lay a foundation for the international development of the Group.

(3) Nano Technical Platform

Nano preparation can not only improve the water solubility and bioavailability of the drug, but also use its EPR effect to target delivery of anti-tumor drugs to achieve effect enhancement and toxicity reduction. There are many technical barriers in the research and development of nano drug: 1) the structure of lipsomal formulation is complex and there are few drugs launched into the market, so it is difficult to form a complete technical system; 2) lacking of high-quality excipients, the threshold and the expenses for the development of new lipids is relatively high; 3) lacking production facilities as the application technology and production process of liposomes are quite different due to the differences in design; the production facilities need to be customized; 4) the steps of lipsomes preparation are complex, and there are many quality control points. It is difficult to maintain the quality consistency. The Company started the research and development of liposome drugs under the context of pure fundamental research and lack of industrial application of liposome drugs in China and gradually established a nanotechnical platform. Under this technical platform, LIBOd® for the treatment of tumors, was launched to market in 2009. The Company will further develop drugs based on the platform of preparation technology of nano drugs to speed up the ability and the progress of commercialization for the Group.

(4) Oral Solid Preparation Technical Platform

Although the Company has successfully realized the industrialization of several drugs after years of research and development, there are still problems such as long industrialization cycle and many window periods. In recent years, based on the strategic consideration of the long-term development, the Company has established the oral solid preparation technical platform on which various new drugs and generic drugs with specific clinical value are being developed, so as to shorten the period of industrialization projects. Small molecule targeted drugs and special oral preparations are the sought-after research fields of new drugs nowadays. The Company is developing several new drugs and generic drugs with unique clinical therapeutic value. Oral solid preparation technology will be one of the basic technology platforms for the long-term development of the Company.

Under this technical platform, obeticholic acid (奥贝胆酸) for the treatment of hepatobiliary disease of the Group has obtained a relevant patent in mainland China and formally launched the bioequivalence study. It is a generic drug of a medicine developed in the US and listed worldwide for the treatment of primary biliary cirrhosis (PBC). Such drug has a large market in China which is a country with high incidence of hepatobiliary disease. The selective inhibitor project for JAK1, a small molecular targeting drug of the Group, has been confirmed to have great therapeutic value on the autoimmune disease. The Company is looking forward to finding a new me-better drug containing therapeutic advantages.

3. Advantages of Promotion

The Group continues to regard academic promotion as its primary marketing method. The Wechat communication platform for photodynamic technology that the Company operates serves as a network service system integrated with academic exchanging among dermatology clinician, sharing of clinical case and standard practice video, and a Q&A platform between doctors and patients, etc. The platform has become a relatively well-known professional Wechat subscription account in China. In addition, the Company plans to take advantage of doctor resources on the platform to develop a new sales mode to solve some commonly seen problems in current marketing environment and some commonly seen difficulties for patients in hospital.

4. Advantages of Product Quality Control

The Company has formulated complete production management and quality control rules and regulations which follow the cGMP standards of China as well as refer to cGMP requirements and guidelines of FDA and EMA in Europe. Quality control is an important part of pharmaceutical production activities. The Company's quality management system mainly includes quality control laboratory control, data analysis and quality review, corrective and preventive measures (CAPA), etc.

In order to implement the quality management system, the Company has developed a quality document management system including standard management procedures, standard operating procedures, standard technical procedures and standard operation records, and established corresponding cGMP data management procedures, which cover both paper data and electronic data to ensure data integrity. At the same time, the Company also develops a quality risk management process and systematically applies it to all aspects of quality control. In order to ensure the stability and consistency of product quality, the Company also carries out continuous verification of various production processes. In addition, the Company's production personnel should be fully trained before assuming their posts, and each employee should be trained, assessed and proven qualified according to the post requirements.

A series of management standards and operating procedures established by the Company have realized the standardization, routinization and institutionalization of all production steps under the high standard cGMP management requirements.

5. Advantages of Management and Technical Team

The advanced business philosophy and incentive system of the Company attracted a large number of technical personnels to join, forming a mature R&D technology team, which is the cornerstone of the Company's core technology platform. The long-term stability of the Company's core management provides important support for the sustainable and stable development of the enterprise. The stable and efficient core technical team has laid the foundation for the long-term development of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the percentages of the major customers and suppliers in the Group's total sales and purchases are as follows:

	Percentage in the Group's total	
	Sales	**Purchases**
Largest customer	23.65%	
Total of the five largest customers	48.09%	
Largest supplier		13.95%
Total of the five largest suppliers		35.97%

Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals"), a substantial shareholder of the Company, is a key customer of the Company. The connected transactions with Shanghai Pharmaceuticals have been approved at the Board meeting and Shareholders' meeting (if applicable) of the Company. Save for this, none of the Directors, their respective associates or any shareholder of the Company who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any beneficial interest in any of the Group's five largest customers.

PRINCIPAL RISKS AND UNCERTAINTIES

1. Risk in relation to new drug development

The long-term competitiveness of the Company depends on the successful research and development of new products and their subsequent industrialization and market promotion. According to the Relevant provisions of China's Drug Registration Measures and other laws and regulations, the drug registration shall be subject to pre-clinical research, clinical trial filing, clinical trial, production approval and other stages, which shall be approved by the drug regulatory department under the State Council, and the new drug certificate and drug production approval document shall be obtained before the production of the drug. The whole process from R&D to launch to the market can take a decade or more, with high costs and uncertainties for the result. At present, many of the Company's products are in the stage of pre-clinical research and clinical trial, which are mainly innovative drugs. If the products under research fail to be developed successfully or the new products fail to pass the registration and approval, the initial investment will be at loss, and the Company's future product planning and future growth potential will also be affected.

2. Risk in relation to relatively limited product types and drug price reduction

During the Reporting Period, the product types of the Group are relatively limited. Three main products of the Group, ALA, LIBOd® and FuMeiDa account for a large proportion of the total sales revenue. The decline in the revenue of the above leading products will have an adverse impact on the future operation and financial situation of the Group, if they are impacted by competitive products, suffer from significant policy impact, product quality and intellectual property issues so that the Company cannot maintain the sales volume and pricing level of the leading products, or failure of timely launch of alternative new products.

Drug pricing policy formulation and implementation and the control of the overall drug price level was implemented by the National Development and Reform Commission. On 5 May 2015, the National Development and Reform Commission, the Health and Family Planning Commission, the Ministry of Human Resources and Social Security and other departments jointly issued the Notice about the Opinions of Promoting the Reform of Drug Prices, from 1 June 2015, drugs other than the narcotic drugs and the psychotropic drugs of category I no longer adopted government-designated pricing. Such notice aimed to improve the mechanism of the drug purchase, give play to the role of health care insurance in drug fees controlling, and actual transaction prices of the drugs are mainly determined by the market competition. Although such notice terminated the role of the Pricing Section of the National Development and Reform Commission to set highest drug retail price, but drug prices still are limited by many factors, including the clinical demand, doctors familiarity with the drugs, health insurance payment standard, national or local government public bidding mechanism and third-party payment standard, including commercial insurance, etc., the future drug price forming mechanism could be further reformed, and the final pattern remain uncertain.

In recent years, with national drug price negotiations, medical insurance directory adjustment, evaluation of consistency and the relaxation of large-quantity procurement policy, some of the drug's terminal bidding procurement prices gradually decline, pharmaceutical companies are facing increasingly fierce competition. The Company may face risk of drug prices reduction, the causing a potential negative impact on the income of drugs of the Company.

3. Risk in relation to core technical staff resignation

The Company's core technical personnel is an important part of the Company's core competitiveness, and also the basis and key for the survival and development of the Company. Whether the Company can maintain the stability of the technical staff team and constantly attract outstanding talents to join in is related to whether the Company can continue to maintain its technological leading edge in the industry, as well as the stability and durability of research and development, production and service. If the salary level of the Company is not competitive compared with the same industry competitors, the core technical personnel incentive mechanism cannot implement, or human resources control and internal promotion system is not effectively implemented, the Company's core technical personnel will drain, and thus having an adverse impact on the Company's core competitive ability and sustainable profitability.

4. Foreign exchange risk

The Group mainly operates in the domestic market. Except for the Hong Kong dollar proceeds from the placing of shares, the operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

An analysis on the Company's annual results of 2020 using financial key performance indicators are set out in the section headed "Management Discussion and Analysis" of the annual report.

DIVIDENDS

Dividend Policy

In accordance with the Company Law and other relevant laws and regulations, the Company has been implementing a continuous, stable and positive dividend distribution policy since 2015, and paying attention to reasonable return on investment to Shareholders.

The dividend distribution plan of the Company shall be drawn up and reviewed by the Board, taking full account of the actual business situation and future development needs of the Company. If current year's profit and accumulated retain earning of the Company is positive, the Company shall give priority to the cash distribution of dividends, and the proportion of cash dividends taken every year shall not be less than 10% of the distributable profit realized in that year.

After the resolution on the dividend distribution plan is approved by the Board, it will be submitted to the general meeting of shareholders for deliberation, and implementation after approval.

Dividend Distribution

The resolution in relation to the distribution of a final dividend of RMB0.05 per share (tax inclusive) for the year ended 31 December 2020 has been considered and approved at the meeting of the Board held on 25 March 2021, totaling approximately RMB52,150,000. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2020 annual general meeting to be held on Thursday, 27 May 2021, the final dividend is expected to be distributed on or before Friday, 27 August 2021 to all shareholders whose names appear on the register of the Company on Tuesday, 8 June 2021. To determine the identity of the shareholders entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from Thursday, 3 June 2021 to Tuesday, 8 June 2021 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, 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 Wednesday 2 June 2021. Final dividend for holders of H Shares will be declared and calculated in RMB, and be paid in Hong Kong dollars. Final dividend for holders of A Shares will be declared and calculated in RMB, and be paid in RMB. Relevant income tax will be deducted and paid by China Securities Depository and Clearing Corporation Limited on behalf of the A shareholders (if applicable). The exchange rate shall be determined by the average selling rates promulgated by People's Bank of China within one week before the date of declaration of the dividend. In case of any change to the expected payment date or the period during which the register of holders of H Shares will be closed, further announcement(s) will be published by the Company in due course in respect of such changes. If the total share capital of the Company changes from the date of shareholders' approval of the profit distribution plan to the record date for profit distribution, the Company intends to keep the amount of dividend per share unchanged, and announces the adjustment of the total amount of distribution accordingly.

In accordance with the enterprise income tax law of the people's Republic of China and its implementation regulations, which came into effect on 1 January 2008, and the notice on issues related to dividend distribution and withholding of enterprise income tax by Chinese resident enterprises to shareholders of overseas H-share non-resident enterprises (GSH [2008] No. 897) issued by the State Administration of Taxation on 6 November 2008, when the Company distributes dividends to non-resident enterprise shareholders listed on the list of H-share shareholders, it is obliged to deduct and pay enterprise income tax on behalf of them, with a tax rate of 10%. Any shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other agents or trustees, and other organizations and bodies, are deemed to be held by non-resident enterprise shareholders. Therefore, the Company will deduct and pay 10% corporate income tax.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% individual income tax will be withheld from the final dividend payable to any individual shareholders whose names appear on the register of members of H Shares of the Company 8 June 2021, unless otherwise stated in the relevant taxation regulations, taxation agreements or the notice.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Group's common stock dividend distribution plan in recent three years:

Year	Amount of dividend per share (tax included)	Amount of cash dividends (tax included)	Net profit attributable to holders of ordinary shares of listed company in consolidated statements of the year of distribution	Percentage of net profit attributable to holders of ordinary shares of listed company in consolidated statements
2020	0.05	52,150,000	164,662,782	31.67%[Note]
2019	0.07	64,610,000	227,357,983	28.42%
2018	0.07	64,610,000	112,129,171	57.62%

Note: The dividend distribution plan will come into effect upon approval by shareholders at the 2020 annual general meeting of the Company.

SHARE CAPITAL

In order to further broaden the Company's funding channels and enhance its core competitiveness, the A Shares of the Company have been listed and commenced trading on the STAR Market of the Shanghai Stock Exchange since 19 June 2020 (Stock code: 688505).The number of shares issued is 120,000,000 A shares (par value of RMB0.1 per share), and. The issue price of the Shares is RMB8.95 per share, and the A Shares were issued under the special mandate granted by Shareholders to the Board at the annual general meeting on 26 April 2019 and extended at the annual general meeting on 30 March 2020. The total share capital of the Company was 923,000,000 shares before the issue of A shares, and after the issue, the total share capital of the Company increased to 1,043,000,000 shares, among which the 703,000,000 shares (including the Company's original 583,000,000 domestic shares which were converted into A shares) were A shares and the 340,000,000 shares were H shares. The proceeds raised from the Company's domestic initial public offering of A shares totaled RMB 1,074,000,000. The net proceeds after deducting other issuance costs were RMB 974,323,895, among which RMB12,000,000 was accounted in the share capital and RMB 962,323,895 was accounted in the capital reserve of the Company. Details of the changes in share capital during the Reporting Period are set out in note 5(27) to the consolidated financial statements

DISTRIBUTABLE RESERVES

As at 31 December 2020, the distributable reserve of the Company amounted to RMB655,131,445 (as at 31 December 2019: RMB569,229,480).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the year are set out in note 5(10) to the consolidated financial statements.

MAIN EMPLOYEE

Details of the main employee of the Group ate set out in environmental, social and governance report.

STAFF RETIREMENT BENEFIT SCHEME

Details of the staff retirement benefit scheme of the Group are set out in note 5(22) to the consolidated financial statements.

STAFF QUARTERS

During the year, the Group has not provided staff quarters to its staff. Details of the housing subsidies provided to staff are set out in note 5(22) to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

Directors and Supervisors of the Company during the year and as at the date of this report are as follows:

Executive Directors

Wang Hai Bo *(Chairman)*
Su Yong
Zhao Da Jun

Non-executive Directors

Shen Bo
Yu Xiao Yang

Independent Non-executive Directors

Zhou Zhong Hui
Lam Yiu Kin
Xu Qing
Yang Chun Bao

Supervisors

Tang Yu Kuan *(Chairman, appointed on 30 March 2020)*
Zhou Xi *(Resigned on 30 March 2020)*
Wang Luo Chun
Liu Xiao Long
Huang Jian
Yu Dai Qing

CORPORATE GOVERNANCE

The Company has always been endeavoring in establishing a formal and appropriate corporate governance structure. The Company believes that through enhancing its transparency and establishing effective system of accountability, the Company can operate in a more systematic manner, make decisions in a more scientific way, safeguard the interests of all Shareholders, and boost the confidence of investors. Details of corporate governance of the Group are set out in the following sections of the annual report:

1) Corporate Governance Report;

2) Report of the Supervisory Committee;

3) Report of the Audit Committee;

4) Report of the Remuneration Committee;

5) Report of the Nomination Committee;

6) Report of the Strategy Committee;

7) Report of the Independent Non-executive Directors;

8) Environmental, Social and Governance Report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Refer to "Directors' and Supervisors' Service Contracts" section of the "Corporate Governance Report".

PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Refer to "Profiles of the Directors, Supervisors and Senior Management" section of the annual report.

EMOLUMENTS OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HIGHEST PAID INDIVIDUALS

The Remuneration Committee determines or makes recommendation to the Board (as case may be) on the remuneration and other benefits payable to the Directors and Supervisors by the Group. The committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 9(7) and note 9(8) to the consolidated financial statements.

Details of senior management of the Group are set out as follows:

	Number	
	Year 2020	Year 2019
Directors	**3**	3
Non-directors	**4**	4
	7	7

The emoluments fell within the following bands:

	Number	
	Year 2020	Year 2019
The emoluments range (HKD)		
2,000,001 – 2,500,000	**–**	1
2,500,001 – 3,000,000	**3**	4
3,000,001 – 3,500,000	**3**	1
3,500,001 – 4,000,000	**1**	1
	7	7

Details of emoluments of senior management are set out in note 9(5)(f) to the consolidated financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

Refer to "Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures" section of the "Corporate Governance Report".

DETAILS OF OPTIONS GRANTED BY THE COMPANY

As at 31 December 2020, the Company did not have any share option scheme in force.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Refer to "Directors' and Supervisors' Interests" section of the "Corporate Governance Report".

PERMITTED INDEMNITY PROVISIONS

During the Reporting Period, the Company has purchased liability insurance for Directors and Supervisors and Officers. The insurance covers the liabilities related to the dual listing of H share and STAR Market of A share which provides proper protection for the Directors and Supervisors.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2020, the interests (if any) of the Directors, Supervisors and chief executive of the Company and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (a) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name	Position	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in Domestic Shares	Percentage in total number of issued shares
Wang Hai Bo	Director	A Shares	5,888.06 (L)	Beneficial owner	Personal	8.38%	5.65%
Su Yong	Director	A Shares	2,310.89 (L)	Beneficial owner	Personal	3.29%	2.22%
Zhao Da Jun	Director	A Shares	2,005.68 (L)	Beneficial owner	Personal	2.85%	1.92%
Wang Luo Chun	Supervisor	A Shares	140.87 (L)	Beneficial owner	Personal	0.20%	0.14%
Yu Dai Qing	Supervisor	A Shares	109.84 (L)	Beneficial owner	Personal	0.16%	0.11%

Note:

1. "L" stands for long position.

2. The number of shares held by the Directors and Supervisors in above table included the approximate number of shares calculated based on their respective interests in the Special Assets Management Plan (around 994,200 A Shares, 796,100 A Shares, 796,100 A Shares, 238,700 A Shares and 298,400 A Share being allotted to Mr. Wang Hai Bo, Mr. Su Yong, Mr. Zhao Da Jun, Mr. Wang Luo Chun and Ms. Yu Dai Qing, respectively). For more details, please refer to the announcements of the Company dated 26 April 2019, 21 June 2019 and 6 June 2020, and the circular of the Company dated 5 June 2019.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2020, the persons other than a Director, Supervisor or chief executive of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the respective class of share capital	Percentage in total share capital
Shanghai Industrial Investment (Holdings) Co., Ltd.	A Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	19.85%	20.15%
	H Shares	70,564,000 (L)			20.75%	
Shanghai Pharmaceuticals	A Shares	139,578,560 (L)	Beneficial owner	Corporate	19.85%	20.15%
	H Shares	70,564,000 (L)			20.75%	
China New Enterprise Investment Fund II	A Shares	156,892,912 (L)	Beneficial owner	Corporate	22.32%	15.04%
Yang Zong Meng	A Shares	80,000,000 (L)	Beneficial owner	Personal	11.38%	7.67%
Investco Hong Kong Limited	H Shares	26,930,000 (L)	Investment manager	Corporate	7.92%	2.58%

Note: "L" stands for long position.

TOP 10 SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

Name of shareholder	Change of shareholding during the Reporting Period	Number of shares held as at the end of the period	Percentage (%)	Number of trade restricted shares held	Number of restricted shares including shares lent by refinancing	Shares pledged or frozen		Nature of shareholders
						Status of shares	Number of shares	
HKSCC NOMINEES LIMITED Note 1	484,000	241,867,900	23.19	0	Unknown	Unknown	Unknown	Overseas legal person
Shanghai Pharmaceuticals Note 1	0	210,142,560	20.15	139,578,560	139,578,560		0	Domestic non-state-owned legal person
China New Enterprise Investment Fund II	0	156,892,912	15.04	156,892,912	156,892,912		0	Other
Yang Zong Meng	0	80,000,000	7.67	80,000,000	80,000,000		0	Domestic natural person
Wang Hai Bo	0	57,886,430	5.55	57,886,430	57,886,430		0	Domestic natural person
Shanghai Fudan Asset Management Co., Ltd.	0	30,636,286	2.94	30,636,286	30,636,286		0	Domestic non-state-owned legal person
Investco Hong Kong Limited Note 1	-383,000	26,930,000	2.58	0	Unknown	Unknown	Unknown	Overseas legal person
Shanghai Zhiyuan Investment Center LP	0	26,160,000	2.51	26,160,000	26,160,000		0	Other
Su Yong	0	22,312,860	2.14	22,312,860	22,312,860		0	Domestic natural person
Zhao Da Jun	0	19,260,710	1.85	19,260,710	19,260,710		0	Domestic natural person

TOP 10 SHAREHOLDERS WITHOUT TRADE RESTRICTIONS AS AT THE END OF THE REPORTING PERIOD

Name of shareholder	Number of shares without trade restrictions	Type and number of shares	
		Type	Number
HKSCC NOMINEES LIMITED Note 1	241,867,900	Overseas listed foreign shares	241,867,900
Shanghai Pharmaceuticals Note 1	70,564,000	Overseas listed foreign shares	70,564,000
Investco Hong Kong Limited Note 1	26,930,000	Overseas listed foreign shares	26,930,000
Zhong Ren Mei	861,762	RMB ordinary shares	861,762
Kong Fan Xing	770,005	RMB ordinary shares	770,005
Hong Ming Chun	485,000	RMB ordinary shares	485,000
Wang Jin Quan	477,229	RMB ordinary shares	477,229
Zhou Mei Ying	346,078	RMB ordinary shares	346,078
Zhenjiang Shenjie Enterprise Management Co., Ltd	265,754	RMB ordinary shares	265,754
Pan Dong Li	263,878	RMB ordinary shares	263,878

Note 1: Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 70,564,000 H Shares held by Shagnhai Pharmaceuticals and 26,930,000 H Shares held by Investco Hong Kong Limited. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen.

TOP 10 SHAREHOLDERS WITH TRADE RESTRICTIONS AS AT THE END OF THE REPORTING PERIOD

		The listing and trading of trade-restricted shares			
No.	Name of shareholders holding trade-restricted shares	Number of trade-restricted shares	Time available for listing and trading	Number of additional shares available for listing and trading	Trading restrictions
1	Investco Hong Kong Limited	156,892,912	2023-06-19	0	36 months from the date when the Company's shares are listed at the SSE
2	Shanghai Pharmaceuticals	139,578,560	2023-06-19	0	36 months from the date when the Company's shares are listed at the SSE
3	Yang Zong Meng	80,000,000	2023-06-19	0	36 months from the date when the Company's shares are listed at the SSE
4	Wang Hai Bo	57,886,430	2023-06-19	0	36 months from the date when the Company's shares are listed at the SSE
5	Shanghai Fudan Asset Management Co., Ltd.	30,636,286	2021-06-19	0	12 months from the date when the Company's shares are listed at the SSE
6	Shanghai Zhiyuan Investment Center LP	26,160,000	2021-06-19	0	12 months from the date when the Company's shares are listed at the SSE
7	Su Yong	22,312,860	2021-06-19	0	12 months from the date when the Company's shares are listed at the SSE
8	Zhao Da Jun	19,260,710	2021-06-19	0	12 months from the date when the Company's shares are listed at the SSE
9	Shanghai Dayuan Investment Center LP	15,900,000	2021-06-19	0	12 months from the date when the Company's shares are listed at the SSE
10	Shanghai Chengyuan Investment Center LP	12,470,000	2021-06-19	0	12 months from the date when the Company's shares are listed at the SSE

Note: Shanghai Zhiyuan Investment Center LP, Shanghai Dayuan Investment Center LP, and Shanghai Chengyuan Investment Center LP are employee stock holding platforms of the Company. The Company is not aware whether the other shareholders have related party relationship or acting-in-concert arrangement.

SECURITIES TRANSACTIONS BY DIRECTORS

Please refer to "Securities Transactions of Directors, Supervisors and Senior Management, Major Shareholder" section of the "Corporate Governance Report" for more details.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the Articles of Association or under the laws of the PRC, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

CONNECTED TRANSACTIONS

For the year ended 31 December 2020, the continuing connected transactions of the Group are set out as follows:

Continuing Connected Transactions under Sales and Distribution Agreement with Shanghai Pharmaceuticals:

In order to leverage the established and extensive sales and distribution network of Shanghai Pharmaceuticals, a substantial shareholder of the Company, the Company has been engaging Shanghai Pharmaceutical Co., Ltd.* (上藥控股有限公司), formerly known as Shanghai Pharmaceutical Distribution Co., Ltd.* (上海醫藥分銷控股有限公司), a wholly-owned subsidiary of Shanghai Pharmaceuticals as its distribution agent since 10 August 2010 when the Company entered into a sales and distribution agreement with Shanghai Pharmaceutical Co., Ltd.. The Board approved the Company to enter into the original sales and distribution agreement (the "Original Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 11 September 2019 for the sales and distribution of the Group's pharmaceutical products by the Shanghai Pharmaceuticals for the period from 1 January 2019 to 31 December 2020. For more details, please refer to the announcement dated 11 September 2019 and the circular of the Company dated 11 October 2019. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the two years ending 31 December 2020 are approximately RMB81,000,000 and RMB109,000,000 respectively. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Original Sales and Distribution Agreement are carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. The transactions under the Original Sales and Distribution Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and were approved by the independent shareholders at the extraordinary general meeting on 28 October 2019. During the year 2020, the product sales revenue to Shanghai Pharmaceuticals was RMB87,714,000, which did not exceed the annual cap approved at the extraordinary general meeting.

The Board approved the Company to enter into the renewal sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 29 October 2020 for the sales and distribution of the Group's pharmaceutical products by Shanghai Pharmaceuticals for the period from 1 January 2021 to 31 December 2023. For more details, please refer to the announcement dated 29 October 2020 and the circular of the Company dated 26 November 2020. The annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the two years ending 31 December 2023 are approximately RMB144,000,000, RMB182,000,000 and RMB228,000,000 respectively.

Continuing Connected Transactions under Renewal Agreement of the Research Cooperation Agreement for CD30-DM1 Antibody-Drug Conjugate with Shanghai Jiaolian:

In view that the Recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Injection Conjugate (the "Conjugate") has obtained the clinical trial approval on 18 July 2018, the Company and Shanghai Jiaolian Drug Development Co., Ltd*. (上海交聯藥物研發有限公司) ("Shanghai Jiaolian") decided to have further cooperation in the Recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Injection Conjugate. On 14 March 2019, the Company entered into the renewal agreement of the research cooperation agreement (the "Renewal Agreement of the Research Cooperation Agreement") with Shanghai Jiaolian and further extended the validity of the agreement from 14 March 2019 to 31 December 2021. For more details, please refer to the announcement of the Company dated 14 March 2019. The Company anticipated that the annual caps for the transactions contemplated under the Renewal Agreement of the Research Cooperation Agreement (representing the maximum amounts payable under the Renewal Agreement of the Research Cooperation Agreement by Shanghai Jiaolian to the Company) for the three years ending 31 December 2021 are approximately RMB7,000,000, RMB6,500,000 and RMB3,700,000 respectively. Shanghai Jiaolian is a subsidiary of Shanghai Pharmaceuticals, which is a promoter and substantial Shareholder of the Company and therefore, Shanghai Jiaolian is a connected person of the Company under the Listing Rules. The transactions contemplated under the Renewal Agreement of the Research Cooperation Agreement are carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the highest proposed annual cap for each of the three years ending 31 December 2021 for the continuing connected transactions contemplated under the Renewal Agreement exceeds 0.1% but is below 5%, such transactions are subject to the reporting and announcement requirements, but are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year 2020, the Group received an amount of RMB4,777,000 from Shanghai Jiaolian, the nature of the transaction was in the context of the research cooperation agreement and the amount did not exceed the annual cap which was approved at the Board meeting.

The above connected transactions are closely monitored by the Company's Internal Audit and Control Department. The Audit Committee and Independent Non-executive Directors have reviewed the above mentioned continuing connected transactions along with the report of external auditors and confirmed that the transactions have been entered into:

(1) in accordance with the Group's pricing policies;

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

(3) on normal commercial terms or better; and

(4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange on 25 March 2021. The auditor confirms that the above continuing connected transactions:

(1) have been approved by the Board;

(2) were in accordance with the Group's pricing policy in all material aspects;

(3) were in all material respects in accordance with the agreement governing the transaction; and

(4) The relevant annual cap has not been exceeded.

Progress of the Participation in the Strategic Allotment under the Issue of A Shares by Connected Persons:

References are made to the announcements of the Company dated 29 April 2019 and 21 June 2019 and the circular of the Company dated 5 June 2019 containing, among other things, the participation in the strategic allotment under the Issue of A Shares by connected persons. As approved by the extraordinary general meeting held by the Company on 21 June 2019, the Company may allot not more than 12 million A Shares to its senior management and core employees under the Issue of A Shares, including not more than 1,000,000 A Shares, 800,000 A Shares, 800,000 A Shares, 600,000 A Shares, 300,000 A Shares and 300,000 A Shares to be allotted to Mr. Wang Hai Bo, Mr. Su Yong, Mr. Zhao Da Jun, Mr. Gan Yi Min, Mr. Wang Luo Chun and Ms. Yu Dai Qing (all being connected persons of the Company), respectively.

The Company has determined the final number of shares allotted to the senior management and core employees under the Strategic Allotment Plan on 9 June 2020 is 11,934,962 A Shares, and the details of the participation in the strategic allotment under the Issue of A Shares by the connected persons through a special assets management plan (the "Special Assets Management Plan") are as follows:

Name	Position	Amount of Subscription (RMB)	Approximate percentage of the Special Assets Management Plan	Approximate number of shares allotted (0,000 A Shares)
Mr. Wang Hai Bo	Chairman of the Board and general manager of the Company	9,000,000	8.33%	99.42
Mr. Su Yong	Executive Director and deputy general manager of the Company	7,200,000	6.67%	79.61
Mr. Zhao Da Jun	Executive Director and deputy general manager of the Company	7,200,000	6.67%	79.61
Mr. Gan Yi Min	Deputy general manager of the Company and director of Taizhou Fudan-Zhangjiang, a subsidiary of the Company	5,400,000	5.00%	59.67
Mr. Wang Luo Chun	Employee representative Supervisor and director of research and development of the Company	2,160,000	2.00%	23.87
Ms. Yu Dai Qing	Employee representative Supervisor and quality director of the Company	2,700,000	2.50%	29.84

Note: The connected persons do not directly hold the A Shares, but they hold the A Shares through their interests in the Special Assets Management Plan. The above is the calculation of the number of Shares to be allotted to the Special Assets Management Plan and the amount subscribed by each connected person, for illustrative purpose only.

The Directors (including the independent non-executive Directors) are of the view that the terms of the above-mentioned one-off connected transaction are reached after arm's length negotiation; they are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Details of material related party transactions undertaken in the ordinary and usual course of business are set out in note 9 to the consolidated financial statements. None of the related party transactions constitutes a connected transaction that should be disclosed, except for the above connected transactions, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. The Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director, namely, Mr. Lam Yiu Kin, Mr. Xu Qing and Mr. Shen Bo. Mr. Lam Yiu Kin was appointed as the chairman of the Audit Committee.

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results and financial statements for year 2020 before proposing to the Board for approval.

For more details, please refer to "Report of the Audit Committee" and "Audit Committee" section of the "Corporate Governance Report".

AUDITOR

Considering that the Company has changed the basis for preparing its overseas financial statements to China Accounting Standards for Business Enterprises, as approved by the extraordinary general meeting of the Company held on 24 February 2020, the Company changed its overseas auditor from PricewaterhouseCoopers to PricewaterhouseCoopers Zhong Tian LLP. PricewaterhouseCoopers Zhong Tian LLP became the only auditor auditing the financial statements of the Company in accordance with the Chinese Accounting Standards for Business Enterprises, and undertook the role of the overseas auditor in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The financial statements of the Company for the year ended 31 December 2019 in accordance with the Chinese Accounting Standards for Business Enterprises have been audited PricewaterhouseCoopers Zhong Tian LLP.

For more details, please refer to the announcement of the Company dated 10 January 2020, and the circulars of the Company dated 20 January 2020.

As approved by the annual general meeting of the Company held on 30 March 2020, the Company continued to appoint PricewaterhouseCoopers Zhong Tian LLP as the domestic and overseas auditor of the Group for the year 2020. For more details, please refer to the circulars of the Company dated 4 March 2020 and the announcement of the Company dated 30 March 2020.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the Listing Rules, each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence. The Company has received such confirmations from the Independent Non-executive Directors and has confirmed the independence of Independent Non-executive Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The discussion on the Company's environmental policies and performance during the Reporting Period is set out in the section headed "Social Responsibility" of the "Corporate Governance Report" and "Environment, Social and Governance Report".

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the Reporting Period, the Company has complied with the relevant laws and regulation that have a significant impact on the Company, including but not limited to Pharmaceutical Administration Law of the People's Republic of China and its implementation regulations, Measures for the Supervision over and Administration of Pharmaceutical Production, Law of China on the Protection of the Rights and Interests of Consumers of the People's Republic, Trademark Law of the People's Republic of China, Patent Law of the People's Republic of China and its rules for implementation, etc. Details of the relevant laws and regulations on environment and society with which the Company has complied during the Reporting Period are set out in the "Environment, Social and Governance Report".

By Order of the Board
Wang Hai Bo
Chairman

Shanghai, the PRC
25 March 2021

As at the date of this report, the Board comprises:

Mr. Wang Hai Bo *(Executive Director)*
Mr. Su Yong *(Executive Director)*
Mr. Zhao Da Jun *(Executive Director)*
Mr. Shen Bo *(Non-executive Director)*
Ms. Yu Xiao Yang *(Non-executive Director)*
Mr. Zhou Zhong Hui *(Independent Non-executive Director)*
Mr. Lam Yiu Kin *(Independent Non-executive Director)*
Mr. Xu Qing *(Independent Non-executive Director)*
Mr. Yang Chun Bao *(Independent Non-executive Director)*

Report of the Supervisory Committee

To the Shareholders:

The supervisory committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Supervisory Committee") has performed its duties for the year 2020 in accordance with the relevant provisions and requirements of the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on the STAR Market of the Shanghai Stock Exchange, Hong Kong Listing Rules, the Articles of Association, and the rules of procedure of The Supervisory Committee. The Supervisory Committee abided by the principle of good faith, conscientiously performs its supervisory duties from the perspective of safeguarding the interests of the Company and the rights and interests of all shareholders, closely followed the Company's business decisions, production and operation through attending the Board meetings and the general meeting of shareholders, and put forward opinions and suggestions on relevant matters; actively analyze the financial situation of the company in accordance with the law, timely communicated and inquired with relevant departments or personnel of the Company on problems found, and put forward specific requirements and suggestions; supervised the due diligence of the Directors, general manager and other senior managers of the Company, and safeguarded the interests of the Company and the legitimate rights and interests of all shareholders.

Legal operation of the Company: during the Reporting Period, the Supervisors attended the general meeting of shareholders and the Board meetings of the Company as nonvoting delegates and supervised the convening, holding, voting procedures and resolutions of the general meeting of shareholders and the Board meetings of the Company, the implementation of the resolutions of the general meeting of shareholders by the board of directors, and the performance of the directors and senior managers of the Company in 2020. The Supervisory Committee believed that the Company operated in accordance with the law, the Board operated in accordance with the law, the management decisions were scientific and reasonable, and conscientiously implemented the resolutions of the general meeting of shareholders; the Directors and senior managers of the Company conscientiously performed their duties without abusing their powers, damaging the interests of the Company or infringing the rights and interests of shareholders and employees of the Company.

Financial situation of the Company: during the reporting period, the Supervisory Committee carefully inspected the current financial system, process and financial situation of the Company. The Supervisory Committee believed that the Company had sound financial system, standardized financial management, good financial condition, effective accounting supervision function, and no illegal occupation of Company assets and capital loss. The Company's financial report truly, accurately and completely reflected the Company's financial situation, operating results and cash flow.

Related/connected transactions of the Company: during the Reporting Period, the related/connected transactions of the Company fulfilled the decision-making procedures in accordance with relevant mechanisms, the procedures were legal and effective, the transaction price was reasonable, and there was no damage to the interests of the Company or shareholders.

Use of proceeds: during the Reporting Period, the Supervisory Committee supervised and reviewed the use of the Company's proceeds. The Supervisory Committee held that the deposit and use of the proceeds of the Company in the year of 2020 were in line with the relevant provisions of the CSRC and the Shanghai Stock Exchange on the deposit and use of the proceeds of listed companies, in line with the relevant provisions of the Company's management system for proceeds, and there was no violation of the deposit and use of the proceeds. During the Reporting Period, the Company used the proceeds to replace the self-owned funds devoted in the proceeds projects in advance, and used the temporarily idle proceeds for cash management. The above matters have fulfilled the necessary deliberation procedures and information disclosure obligations in accordance with the requirements of relevant laws and regulations. The use of the Company's proceeds was consistent with the disclosed contents, and there was no violation.

Implementation of internal control: during the Reporting Period, the Supervisory Committee supervised the implementation of the Company's internal control. The Supervisory Committee believes that the Company has maintained effective internal control in all major aspects in accordance with the requirements of the enterprise's internal control standard system and relevant regulations, and the Company's internal control system operates effectively. During the Reporting Period, there were no significant defects in internal control over financial reporting or non-financial reporting.

The Supervisory Committee was of the view that the resolutions passed in all Board meetings for the year 2020 had been made with a view to protecting the Group's interests. No insider dealings, or anything which was prejudicial to the interests of the Group, or loss of Group's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers Zhong Tian LLP were accurate and objective. The Group's financial statements have accurately reflected the Group's financial position.

The Supervisory Committee expressed satisfaction with the work and progress of the group in the year 2020. In 2021, the Supervisory Committee will continue to strictly implement the relevant regulations with the sense of responsibility for all shareholders, faithfully and diligently performs the functions of the Supervisory Committee, strengthens its own study and supervision, promotes the perfection of corporate governance structure and the standardized operation of operation and management, maintains the legitimate rights and interests of the Company and shareholders, and improves the governance level for the Company to effectively play its functions.

SUPERVISORY COMMITTEE

Mr. Tang Yu Kuan *(Chairman)*
Mr. Wang Luo Chun
Mr. Liu Xiao Long
Mr. Huang Jian
Ms. Yu Dai Qing

Shanghai, the PRC
25 March 2021

Report of the Audit Committee

The members of the seventh session of the Audit Committee were re-elected on the Board meeting on 30 March 2020. The composition of the members was the same as that of the sixth session audit committee, and their role remained unchanged. The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo holds a master degree in professional accounting with a qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently an executive Director, a vice president and the chief financial officer of Shanghai Pharmaceuticals. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial management.

The Audit Committee assists the Directors in discharging their duties through independent reviews and supervision of financial reporting, the Group's effective internal control and appointment of external auditors. The Audit Committee reviews issues involving the accounting principles and practice principles adopted by the Group, including studying audit functions, financial reporting, risk management and internal control, participating in the formulation of the corporate governance policy of the Group, and participating in the disclosure compliance in the Corporate Governance Report of the Group, etc. If necessary, the Audit Committee will also invite external auditors, the general manager and senior management to attend meetings. The Rules of Procedure for the Audit Committee which were passed by the Board of the Company specifically laid down the terms of reference of the Audit Committee and elaborated its role and the power as conferred to the Audit Committee by the Board.

The Audit Committee has sufficient resources to carry out its duties. The Audit Committee is accountable to the Board, and the minutes of its meetings were submitted to the Board for circulation.

A summary of the work performed by the Audit Committee in 2020 is as follows:

1) Review the financial statements for the year ended 31 December 2019, the quarter ended 31 March 2020, the six months ended 30 June 2020, and the quarter ended 30 September 2020;

2) Review connected transactions of the Group during the year 2020;

3) Supervise the Group's financial reporting system and internal control procedures;

4) Review the external audit arrangements and related explanations;

5) Review and approve the audit fees for 2020;

6) Discuss the risk management and internal control systems with the management on a regular basis to ensure that the management has performed its duty to establish effective systems.

In addition, the meeting of the Audit Committee held on 10 January 2020 reviewed and approved the proposed change of overseas auditors of the Company and the adoption of Chinese Accounting Standard for Business Enterprises as the basis for preparing overseas financial statements. The meeting of the Audit Committee held on 25 March 2020 reviewed the Company's 2020 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed with the accounting treatments adopted by the Group, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements complies with relevant requirements of the applicable accounting principles and the Listing Rules. Accordingly, the Audit Committee proposed that the Board approved the annual results announcement and the consolidated financial statements for the year ended 31 December 2020.

The Audit Committee held six meetings in 2020

The performance of duty of the Audit Committee in 2020 is as follows:

(1) Supervise and evaluate the work of external audit institutions

During the audit period of the year 2020, the Audit Committee actively performed its duties. Before the external auditor conducted onsite audit, the Audit Committee communicated, analyzed and evaluated with the accountant and the Company's management, listened to the report of the Company's management on the operation, finance, internal control, etc., and fully communicated and reached an agreement on the annual audit work content, audit plan and their respective concerns. During the audit process, the Audit Committee fully discussed and communicated with the external auditors on the audit methods and problems in the audit, and found no significant matters in the audit. After the auditing firm finished the financial audit report, the report was carefully reviewed. The audit institution of the Company has the relevant qualifications to engage in securities and futures business, abide by the standard of independence, objectivity and fairness, and issue relevant audit opinions realistically. The report issued truly reflected the financial situation and operating results of the Company.

(2) Review and opine on the financial reports of the Company

During the Reporting Period, the Audit Committee carefully reviewed the financial report of the Company, and believed that the financial report of the Company was true, complete and accurate, and there was no relevant fraudulent, misleading information or material misstatement, and the Company also did not have major accounting error adjustment, major accounting policies and estimates changes, matters involving important accounting judgment, and audit of non-standard unqualified opinions reported matters.

(3) Review of related/connected transactions of the Company

In 2020, members of the Audit Committee, based on the principles of independence, objectivity and professionalism, consulted the necessary information on the Company's related/connected transactions and communicated with the Company's management. After verification, the Audit Committee considers that the Company's daily related/connected transactions were necessary to the Company's normal business needs, and the pricing of related/connected transactions is objective and fair, which did not affect the independence of the company and did not harm the interests of the Company and its shareholders.

In 2020, the Audit Committee performed its duty diligently and faithfully, played a positive role in promoting the Company's internal control mechanism and improving the Company's audit work by taking an active part in the company's governance and ensuring that the audit work was operated in a standardized and rule-based manner. In 2021, the Audit Committee will continue to fulfill its function of review and supervision, strengthen communication with the Company's management, internal and external audit institutions and the Company's legal advisers, earnestly fulfill its responsibilities within its terms of reference, ensure effective supervision over the business management, and safeguard the legitimate rights and interests of the Company and investors.

AUDIT COMMITTEE

Mr. Lam Yiu Kin *(Chairman)*
Mr. Shen Bo
Mr. Xu Qing

Shanghai, the PRC
25 March 2021

Report of the Remuneration Committee

The members of the seventh session of the Remuneration Committee were re-elected on the Board meeting on 30 March 2020. The composition of the members was the same as that of the sixth session audit committee, and their role remained unchanged. The Remuneration Committee is comprised of 3 members, namely Mr. Zhou Zhong Hui, Mr. Lam Yiu Kin, and Mr. Yang Chun Bao. Mr. Zhou Zhong Hui is the Chairman of the Committee.

The Rules of Procedure for the Remuneration Committee which were passed by the Board specifically laid down the terms of reference of the Remuneration Committee and elaborated its role and the power as conferred to the Remuneration Committee by the Board. The Remuneration Committee has sufficient resources to carry out its duties. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board. The Remuneration Committee is accountable to the Board, and the minutes of its meetings should be submitted to the Board for circulation.

The terms of reference for the Remuneration Committee is: to make recommendations to the Board on the Company's remuneration policy and structure for all Directors, supervisors and senior management and on the establishment of a formal and transparent procedure for developing such a remuneration policy; to formulate the remuneration management policy and remuneration packages of individual Executive Directors and senior management and make recommendations to the Board; such remuneration packages include benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Non-executive Directors and supervisors; in formulating the remuneration policies and standards, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, supervisors and senior management, employment conditions of other positions in the Group and desirability of performance-based remuneration; to review and approve the remuneration packages of the management with reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms or that such compensation is otherwise fair and not excessive for the Company; to review and approve compensation arrangements relating to dismissal or removal of directors and supervisors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms or that any compensation payment is otherwise reasonable and appropriate; to ensure that no Director or supervisor or any of their associates is involved in deciding his/her own remuneration; to research the share incentive plan of the Company and put forward proposals; the scope of work for the Remuneration Committee under the Listing Rules of other places where the Company's securities are listed (as amended from time to time).

A summary of the work performed by the Remuneration Committee in 2020 is as follows:

1) Reviewed the remuneration scheme for the Directors and Supervisors for the year 2019;

2) Formulated the remuneration scheme for the Directors and Supervisors for 2020.

The Remuneration Committee held one meeting in 2020.

In 2020, the Remuneration Committee examined the remuneration of directors and senior managers in 2019, as well as the remuneration plan for directors and senior managers in 2020. The salaries of directors and senior managers in 2020 were consistent with the actual circumstances of the current economic environment, the areas, industries and scales of the Company. In the year of 2020, the Remuneration Committee has effectively fulfilled its duties. In 2021, the Remuneration Committee will continue to perform its duties, set up a transparent remuneration policy on the overall remuneration policy and structure of the Company's directors and senior management, study the performance appraisal standards of directors and senior management, and make recommendations to the board of directors.

REMUNERATION COMMITTEE

Mr. Zhou Zhong Hui *(Chairman)*
Mr. Lam Yiu Kin
Mr. Yang Chun Bao

Shanghai, the PRC
25 March 2021

Report of the Nomination Committee

The members of the seventh session of the Nomination Committee were re-elected on the Board meeting on 30 March 2020. The composition of the members was the same as that of the sixth session audit committee, and their role remained unchanged. The Nomination Committee is comprised of 3 members, namely, Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director), and Mr. Xu Qing (Independent Non-executive Director).

The Rules of Procedure for the Nomination Committee adopted of the Company specifies in detail the scope of powers and responsibilities of the Nomination Committee, its role and the powers delegated to it by the board of directors. The Nomination Committee has sufficient resources to perform its duties. The Nomination Committee shall be responsible to the Board, and its minutes shall be circulated to the directors.

The terms of reference for the Nomination Committee is: with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of diversity factors, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and service term; review the structure, size and composition of the board at least annually and make recommendations on any proposed changes to the Board (including Board diversity) to complement the issuer's corporate strategy; to report to the Board the composition of the Board members and monitor the implementation of the policy on Board diversity; to make disclosure of a summary of the policy on board diversity in the Corporate Governance Report annually, including any measurable objectives that it has set for implementing the policy, and progress on achieving those objectives; to examine the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general counsel, chief economist, assistant to chief executive and secretary of Board and put forward examination opinions and appointment recommendations; to assess the independence of independent non-executive directors; to make recommendations to the Board on the appointment or re-appointment of directors of the Company and the succession planning for directors of the Company, in particular the chairman of the Board and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, as appropriate; to research the standard, procedure and method of selection of directors, chief executive and other members of the senior management of the Company and to put forward proposals to the Board; other authority delegated to the Nomination Committee by the Board and matters assigned by the Board; to comply with the requirements for the scope of work of the Nomination Committee as in the listing rules of the stock exchanges at the place where the shares of the Company are listed (as amended from time to time)

A summary of the work performed by the Nomination Committee in 2020 is as follows:

1) Review and propose the candidates of Independent Non-executive Directors;

2) Review and propose the candidates of shareholder representative supervisors;

3) Assessed the independence of Independent Non-executive Directors;

4) Reported to the Board the composition of the Board members and monitored the implementation of Board diversity policy;

5) Review and propose candidates for senior management of the Company.

The Nomination Committee held two meetings in 2020.

In 2020, the nomination committee reviewed the independence of board members, independent non-executive Directors, and the selection and appointment of directors and senior managers, and effectively fulfilled the responsibilities of the nomination committee. In 2021, the nomination committee will continue to perform its duties, fully taking into account the benefits of diversity of board members; report the composition of board members to the board of directors and supervise the implementation of diversity policy of board members; inspect the candidates of directors, general manager, deputy general manager, chief financial supervisor, general legal adviser, chief economist, assistant general manager and secretary of the board of directors, Other issues such as review opinions and suggestions.

NOMINATION COMMITTEE

Mr. Wang Hai Bo *(Chairman)*
Mr. Zhou Zhong Hui
Mr. Xu Qing

Shanghai, the PRC
25 March 2021

Report of the Strategy Committee

The Strategy Committee is comprised of 3 members, namely, Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhao Da Jun (Executive Director), and Mr. Yang Chun Bao (Independent Non-executive Director).

As approved by shareholders' meeting, the Company established the Strategic Committee on 26 April 2019. Meanwhile, the Rules of Procedure for the Strategic Committee clearly defined the scope of the Strategic Committee, giving detailed account of its role and the power of the board to delegate it to the Committee. The Strategy Committee has sufficient resources to carry out its duties. The strategy committee shall be responsible to the board of directors, and its minutes shall be circulated to the directors.

The terms of reference for the Strategy Committee is: to study corporate development strategies and mid-to long-term development plans of the Company, make recommendations and submit to the board of directors for consideration and approval, and to conduct assessment and monitor the implementation thereof; to study the proposal for increases or reductions of the Company's registered capital, issuance of corporate bonds, merger, division and dissolution, make recommendations and submit to the board of directors for consideration and approval; to study material business restructuring, external acquisition, merger and disposal of assets of the Company and make recommendations and submit to the board of directors for consideration and approval; to study the expansion into new markets and businesses of the Company, make recommendations and submit to the board of directors for consideration and approval; to study the plans on investments, financing and capital operations and other programs of the Company that are subject to the approval of the board of directors, make recommendations and submit to the board of directors for consideration and approval; to study the material organizational restructuring and adjustment proposals of the Company, make recommendations and submit to the board of directors for consideration and approval; to instruct and oversee the implementation of relevant resolutions of the board of directors; other powers as authorized by the board of directors.

The establishment of the Strategic Committee was approved by the Shareholders' meeting on 26 April 2019. It was officially established on the date of the listing of A shares on the Shanghai Stock Exchange, and has not yet held relevant meetings in 2020. In 2021, the Strategy Committee will perform its duties, track and evaluate the Company's development strategy and put forward suggestions for revision; study the Company's investment and financing, external acquisition, asset management and other matters, put forward relevant suggestions and report to the board of directors in a timely manner.

STRATEGY COMMITTEE

Mr. Wang Hai Bo *(Chairman)*
Mr. Zhao Da Jun
Mr. Yang Chun Bao

Shanghai, the PRC
25 March 2021

Report of the Independent Non-Executive Directors

As approved on the Board meeting on 30 March 2020, the composition of the members of the seventh session was the same as that of the sixth session with role unchanged. The seventh session of the board of directors of the Company is composed of nine directors, including four independent non-executive directors (Mr. Zhou Zhong Hui, Mr. Lam Yiu Kin, Mr. Xu Qing and Mr. Yang Chun Bao), accounting for more than one third of the total number of directors, which is in line with the relevant laws and regulations. Each of the independent non-executive Directors has the necessary professional knowledge, work experience and basic quality to perform his duties, keeps Company secrets, does not misuse his position as a Director for personal gain, and does not damage the legitimate interests of the company and shareholders. As independent non-executive Directors, we have no relationship with the Company and its major shareholders, directors, supervisors and senior managers that hinders our independent and objective judgment. We have not served in the Company's affiliated enterprises, which met the requirements of independence. In the process of performing our duties, we adhere to objective and independent professional judgment and safeguard the interests of all shareholders, especially small and medium-sized investors.

The key concerns of the independent non-executive directors in the performance of their duties in 2020 are as follows:

1) Review the related/connected transactions of the Company in 2020;

2) Review and supervise the use of proceeds;

3) To review and approve the nomination of directors, appointment and remuneration of senior management;

4) To review and approve the appointment of external auditors and their fees;

5) To review and approve the dividend payment arrangements;

6) Supervise the rationality and legitimacy of the Company's external information disclosure, and earnestly safeguard the shareholders' rights and interests;

7) Supervise the Company's financial reporting system and internal monitoring procedures;

8) Discuss risk management and internal monitoring mechanism with the management regularly to ensure that the management has fulfilled its responsibilities and established an effective system;

9) Actively perform the responsibilities of the Audit Committee, Nomination Committee, Remuneration Committee and Strategy Committee under the board of directors;

10) Abide by the performance of commitments such as horizontal competition, connected/related transactions and share sales restriction under the rules of science and technology innovation board.

As independent non-executive Directors of the Company, we performed our duties in strict compliance with the company law, the Listing Rules of STAR Market of Shanghai Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the articles of association of the Company, and participated in the meetings of the Board and the general meetings of the Company based on the principles of objectivity, impartiality and independence. At the meeting of the Board, they made decisions on major issues, performed their duties cautiously, faithfully and diligently, gave full play to the role of independent non-executive Directors, and safeguarded the overall interests of the Company and the legitimate rights and interests of shareholders, especially small and medium-sized shareholders. In 2012, the independent non-executive Directors will continue to earnestly perform their rights and obligations as independent non-executive Directors, further strengthen communication and exchanges with minority shareholders, the Board, the Supervisors Committee and the management of the Company, actively carry out their work, provide scientific and reasonable decision-making suggestions for the company by using their respective professional knowledge and experience, and further promote the Company's optimized governance, standardized operation and stable operation Health management.

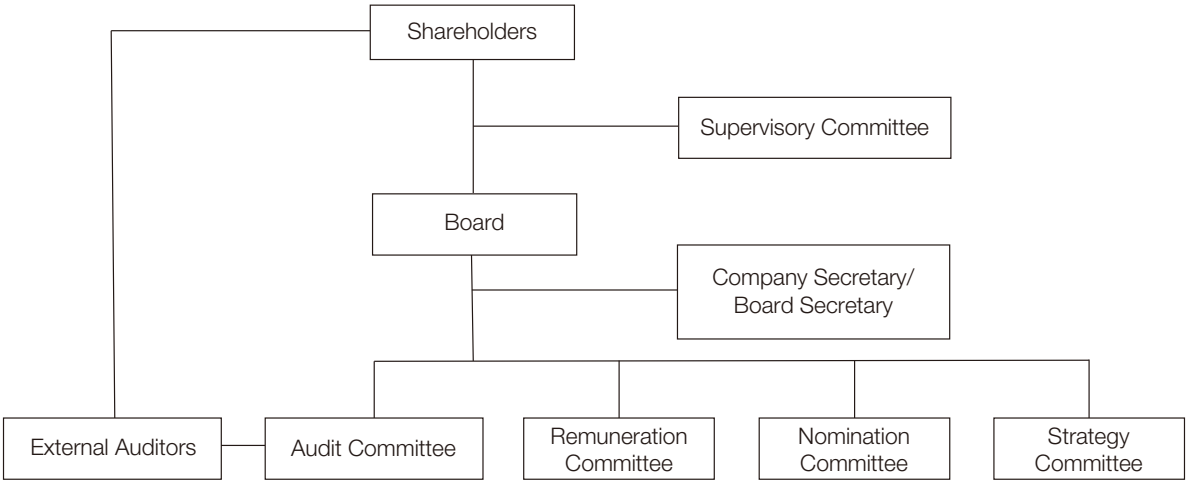
INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Zhou Zhong Hui
Mr. Lam Yiu Kin
Mr. Xu Qing
Mr. Yang Chun Bao

Shanghai, the PRC
25 March 2021

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



The Company's Corporate Governance Code includes but is not limited to the following documents:

a) Articles of Association;

b) Rules of Procedure for the general meeting;

c) Rules of Procedure for the Board of Directors;

d) Rules of Procedure for the Audit Committee;

e) Rules of Procedure for the Remuneration Committee;

f) Rules of Procedure for the Nomination Committee;

g) Rules of Procedure for the Strategy Committee;

h) Rules of Procedure for the Supervisory Committee;

i) Regulations for Directors, Supervisors and Senior Managers in relation to Holding and Transacting the Shares of the Company

j) Regulations for Information Disclosure;

k) Regulations for Inside Information;

l) Regulations for Internal Control Management;

m) Rules and Regulations for Related/Connected Transaction;

n) Other daily management documents of the Company.

The Audit Committee and the Board have reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules.

Major aspect which deviates the provisions as set out in the Code:

The positions of the chairman and the general manager rest on the same person. Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small with its businesses mainly focused on the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider segregating duties of the chairman and the chief executive.

BOARD

The Company is governed by the Board which is responsible for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

DIRECTORS

Currently, the Board comprises the Chairman, two other Executive Directors, two Non-executive Directors and four Independent Non-executive Directors.

As reviewed and approved by the annual general meeting of the Company on 30 March 2020, the members of the sixth session of the Board were re-elected as the members of the seventh session of the Board. On 30 March 2020, the first meeting of the seventh session of the Board elected Mr. Wang Hai Bo as the chairman of the Board. Particulars of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior management" of the annual report. Members of the Board and details of their appointments are as follows:

Directors	Date of first appointment	Date of recent re-appointment	Term
Executive Directors			
Wang Hai Bo (Chairman)	11 November 1996	30 March 2020	Three years
Su Yong	20 January 2002	30 March 2020	Three years
Zhao Da Jun	20 January 2002	30 March 2020	Three years
Non-executive Directors			
Shen Bo	29 June 2012	30 March 2020	Three years
Yu Xiao Yang	30 May 2013	30 March 2020	Three years
Independent Non-executive Directors			
Zhou Zhong Hui	30 May 2013	30 March 2020	Three years
Lam Yiu Kin	9 October 2013	30 March 2020	Three years
Xu Qing	29 May 2015	30 March 2020	Three years
Yang Chun Bao	9 June 2017	30 March 2020	Three years

The Company's Independent Non-executive Directors have a wide range of skills and experience. They are able to provide adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board considers that they can make independent judgments effectively in compliance with the guidelines for assessment of independence under Rule 3.13 of the Listing Rules. All the Directors have the terms of office for no more than three years, and can be nominated for re-election at the annual general meeting.

POWERS OF THE BOARD

The Board reviews the performance of the operating divisions against their proposed budgets and business targets on a regular basis, and also exercises a number of reserved powers pursuant to the Articles of Association, including:

1) Responsible for convening shareholders general meetings, and presenting reports at the meetings;

2) Implementing the resolutions of the general meetings;

3) Determining the operation plans and investment plans of the Company;

4) Formulating annual financial budget plans and final accounting plans of the Company;

5) Formulating profit distribution plans and loss compensation plans of the Company;

6) Setting up liability and financial policies of the Company, plans for the increase or reduction of the Company's registered capital and plans for the issuance of the Company's bonds;

7) Formulating material acquisition or disposal plans of the Company, and the Company's merger, demerger and dissolution plans;

8) Determining deployments of the Company's internal management;

9) Appointing or removing the Company's managers, and appointing or removing the Company's deputy managers, financial controller, Board secretary in accordance with the nomination of the general manager, and deciding on their remunerations;

10) Setting the basic management policies of the Company;

11) Formulating the amendment plans to the Articles of Association;

12) Deciding other material affairs and management affairs of the Company other than those to be resolved at the general meeting pursuant to the Company Law and the Articles of Association, and signing other important agreements.

The Board is responsible for leadership and control of the Group as well as promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, approving the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the management. The Board is responsible for the completeness of financial information and the effectiveness of the Group's internal controls system and risk management processes. The Board is also responsible for preparing financial accounts of the Company. Achievement of the Company's business objectives and the daily management of business are delegated to the general manager (chief executive). The Board regularly reviews the duties of the general manager and the powers delegated to the general manager, so as to ensure the appropriateness of such arrangements.

Powers of the Management

Pursuant to the Articles of Association，the management (i.e. one general manager，with a certain number of deputy general managers, one financial controller who will assist the general manager in his work) shall be accountable to the Board of directors and exercise the following functions and powers:

(1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the Board of directors;

(2) to organize the implementation of the Company's annual business plan and investment plan;

(3) to draft plans for the establishment of the Company's internal management structure;

(4) to draft the Company's basic management system;

(5) to formulate basic rules and regulations of the Company;

(6) to propose the appointment or dismissal of the Company's deputy general managers and the financial controller;

(7) to appoint and dismiss management personnel other than those required to be appointed or dismissed by the Board of directors;

(8) other functions and powers conferred by the Articles of Association and the Board of directors.

Chairman and the General Manager

Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small, with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider segregating duties of the Chairman and the chief executive.

Board Diversity

The Board has adopted a Board diversity policy which became effective on 9 October 2013. The Company seeks to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 9 directors. One of them area female Director and two of them resides in Hong Kong. Four of them are Independent Non-executive Directors and are able to promote a critical review and control of the management process. The composition of the Board is diversified in terms of gender, nationality, professional background and skills.

Board Meetings

The Chairman is responsible for the leadership of the Board and ensuring the Board to perform its duties effectively. The Chairman is also responsible for setting agenda for the Board meetings and considering matters which are proposed by other directors for inclusion in the agenda. The agenda and accompanying Board documents of regular Board meetings are circulated where possible at least ten days prior to the Board or committee meeting. The Chairman is also responsible for making sure that all Directors are properly briefed on issues which will be discussed at Board meetings. The Chairman ensures that the Directors can receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their ongoing participation at Board and committee meetings, and through meeting key employees in the divisions.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to all Committees.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting Board documents, are available to all Board members. Board meetings are structured to encourage open discussion and frank debate among the Directors, such that the Non-executive Directors can put forward effective queries to each Executive Director effectively. The Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibilities when necessary,

In furtherance of good corporate governance, the Board has established four sub-committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee. All of them have terms of reference which accord with the principles set out in the Code. The Company Secretary takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

The Board held 8 meetings during 2020, 7 meetings were held with on-site and online communication and 1 meeting was held through teleconference. The attendance of individual directors at the Board meetings in 2020 is set out in the table below:

Members of the Board	Required number of attendance for the year	Attendance in person	Attendance by teleconference	Attendance by proxy	Absence	Attendance rate
Executive Directors						
Wang Hai Bo *(Chairman)*	8	8	1	0	0	100%
Su Yong	8	8	1	0	0	100%
Zhao Da Jun	8	8	1	0	0	100%
Non-executive Directors						
Shen Bo	8	8	3	0	0	100%
Yu Xiao Yang	8	8	8	0	0	100%
Independent Non-executive Directors						
Zhou Zhong Hui	8	8	3	0	0	100%
Lam Yiu Kin	8	8	8	0	0	100%
Xu Qing	8	8	2	0	0	100%
Yang Chun Bao	8	8	3	0	0	100%

Note: Attendance by proxy is not be counted as attendance rate.

The table below sets out the date and major agenda of Board meetings in 2020:

Date of Board meetings	Major agenda
Regular Board meetings	
28 February 2020	Reviewed the report of the Directors; Reviewed the annual report of 2019; Reviewed the 2019 audited financial statements and the results announcement in accordance with the China Accounting Standards for Business Enterprises according to the Hong Kong Listing Rules; Reviewed the 2017, 2018 and 2019 financial statements and audit reports prepared in accordance with the China Accounting Standards for Business Enterprises according to the relevant requirements of the STAR Market; Reviewed the distribution plan of dividend; Reviewed the connected transactions of 2019; Considered the re-appointment of auditor; Reviewed the corporate governance report; Reviewed the environmental, social and governance report; reviewed the remuneration for directors, supervisors and senior management in the year of 2020; reviewed the list of members of the seventh session of the Board and its special committees; Reviewed the resolution on extending the validity period of the authorization of issue of A-share (STAR Market) and the proposal on authorizing the board of directors to handle matters related to the issue of A-share (STAR Market); Reviewed the proposals for convening the annual general meeting and class meeting of shareholders of the Company.
28 April 2020	Reviewed the financial statements and reports of the Company and its subsidiaries prepared in accordance with the China Accounting Standards for Business Enterprises for the three months ended 31 March 2020 in accordance with the relevant requirements of the STAR Market; Reviewed the proposal of senior management and core staff participating in the strategic placement plan of the Company's initial public offering of A shares Reviewed and authorized the general strategic investors to participate in the strategic placement of the Company's initial public offering of a shares.
25 August 2020	Reviewed the interim results of 2020; Reviewed of the report on the actual use of r proceeds for the half year of 2020.

Date of Board meetings	Major agenda
29 October 2020	Reviewed the third quarterly results of 2020; Reviewed the Sales and Distribution Agreement with Shanghai Pharmaceutical; Reviewed the proposal for convening the extraordinary general meeting of the Company.
Interim meetings	
10 January 2020	Reviewed the proposal to adopt China Accounting Standards for Business Enterprises to prepare overseas financial statements; Reviewed the proposed change of overseas auditor of the Company from PricewaterhouseCoopers to PricewaterhouseCoopers Zhongtian LLP; Reviewed the proposed amendments to the Articles of Association; Reviewed the proposed amendments to the Articles of Association (Draft); Reviewed the proposed amendments to the Rules of Procedure for the General Meeting of the Company; Reviewed the proposal for holding the extraordinary general meeting and class meeting of the Company.
18 March 2020	According to the relevant requirements of the STAR Market, reviewed the amendment for 2017, 2018 and 2019 financial statements and audit reports prepared in accordance with the China Accounting Standards for Business Enterprises;
30 March 2020	To elect Mr. Wang Haibo as the chairman of the seventh session of the Board； Reviewed and appointed members of the special committees of the seventh session of the Board; Reviewed the proposal on the appointment of senior management of the Company upon nomination by the Nomination Committee.
24 June 2020	Reviewed the motion on using the proceeds to replace the self-owned funds invested in the projects that intends to invested with proceeds in advance; Reviewed the proposal on the use of temporarily idle proceeds for cash management.

Directors' Training

The Company provides introduction and information to newly appointed Directors on their legal and other responsibilities as directors and their functions. In addition, the Company invites legal adviser to answer in detail the questions about the above documents and the questions raised by the newly appointed directors.

During the Reporting Period, all directors participated in the continuing education program to develop and update their knowledge and skills. The Company secretary arranged on-site training once, and sent the documents such as industry latest information, Director's responsibilities to the directors for reference by e-mail once during the Reporting Period. The attendance of the training was as follows:

Members of the Board	Attendance/ Times of trainings	Attendance rate
Wang Hai Bo *(Chairman)*	3/3	100%
Su Yong	3/3	100%
Zhao Da Jun	3/3	100%
Shen Bo	3/3	100%
Yu Xiao Yang	3/3	100%
Zhou Zhong Hui	3/3	100%
Lam Yiu Kin	3/3	100%
Xu Qing	3/3	100%
Yang Chun Bao	3/3	100%

The Company has kept training record to assist the Directors to record the training sessions they participated in. The attendance record above does not include any external training which the Directors participated in by themselves.

Directors' and Supervisors' Interests

All Directors must disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organizations and such declarations of interests are updated annually (if any). When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director needs to declare his interest, abstain from voting, and withdraw from the meetings as appropriate. The Company will seek confirmation from Directors in every financial report period in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates (if any). This practice is also applicable to the Supervisors.

The Group has not entered into any transaction agreement or contract of significance in which the Group's Directors or Supervisors have direct or indirect material interests during any time in 2020.

Directors' and Supervisors' Service Contracts

All the Directors and Supervisors have entered into service contracts with the Company, which are renewable upon expiry, subject to re-election at the general meeting. The terms of the service contracts are approved by the Remuneration Committee. The Company did not enter into any relevant service contract which is not terminable within a year without payment of any compensation (Other than statutory compensation).

Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures

None of the Directors, chief executive or Supervisors or their spouse or children under age of 18 years has been authorized by the Company or any subsidiary any right to purchase shares or debentures in the Company or any other body corporate, or have exercised such rights within the year 2020.

Interests of Directors, Chief Executive and Supervisors in the Shares of the Company

Please refer to the section headed "Directors, Chief Executive and Supervisors" in the "Report of the Directors".

SUPERVISORY COMMITTEE

Currently, the Supervisory Committee comprises the Chairman (Shareholder representative Supervisor), two Employee representative Supervisors, and two Independent Supervisors.

As considered and approved by the employees' representative meeting of the Company on 25 March 2020, Mr. Wang Luo Chun and Ms. Yu Dai Qing were elected as the employee representative supervisors. Mr. Zhou Xi 's term as a shareholder representative supervisor expired upon conclusion of the 2019 annual general meeting of the Company, and he did not participate in re-election. As considered and approved by the annual general meeting of the Company on 30 March 2020, Mr. Tang Yu Kuan, Mr. Liu Xiao Long and Mr. Wang Jian were elected as the members of the seventh session of the Supervisory Committee. On 30 March 2020, the first meeting of the Supervisory Committee elected Mr. Tang Yu Kuan as the chairman of the Supervisory Committee. Particulars of the Supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior management" of the annual report. Members of the Supervisory Committee and their appointments are as follows:

Supervisors	Date of initial appointment	Date of latest re-appointment	Term
Shareholder representative Supervisor			
Tang Yu Kuan (Chairman, appointed on 30 March 2020)	30 March 2020	30 March 2020	3 years
Zhou Xi (Resigned on 30 March 2020)	29 May 2015	–	
Employee representative Supervisor			
Wang Luo Chun	22 February 2016	30 March 2020	3 years
Yu Dai Qing	9 June 2017	30 March 2020	3 years
Independent Supervisor			
Liu Xiao Long	13 May 2016	30 March 2020	3 years
Huang Jian	9 June 2017	30 March 2020	3 years

The Supervisory Committee held eight meetings during 2020, the attendance of each of the Supervisors was as follows:

Members of the Supervisory Committee	Attendance in person/Times of meetings	Attendance rate
Tang Yu Kuan (Chairman, appointed on 30 March 2020)	5/5	100%
Zhou Xi (Resigned on 30 March 2020)	2/3	67%
Wang Luo Chun	8/8	100%
Yu Dai Qing	8/8	100%
Liu Xiao Long	8/8	100%
Huang Jian	7/8	88%

The Supervisory Committee takes the view that the financial statements presented by the Company give a true and fair view of the state of affairs, operation performance and cash flows of the Group.

SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, MAJOR SHAREHOLDER

On 26 April 2019, the Board approved "Regulations for Directors, Supervisors and Senior Managers in relation to Holding and Transacting the Shares of the Company", which came into effect when the A shares of the Company were listed and traded on the STAR Market of the Shanghai Stock Exchange (Before that, the Company implemented the "Code of transactions in the Company's securities", which was passed on 11 August 2009 by the Board). Both codes have terms no less strict than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules. Directors and relevant employees shall comply with this code. A copy of the code is sent to each Director upon his appointment and thereafter, a notification not to deal in the securities of the Company until after the half-year results have been published would be sent to the Directors 60 days immediately preceding the date of the Board meeting in which the annual results will be approved or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and 30 days immediately preceding the date of the Board meeting in which the half-year results will be approved half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results,

Under such codes, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the delegated directors and receive a dated written acknowledgement before any dealing.

Securities transactions of Supervisors, senior management and major shareholder of the Company should comply with the codes mentioned above. All the relevant employees, if any, having any price-sensitive information of the Group which is not yet disclosed should also comply with the code for the Directors.

All Directors, Supervisors, senior management, major shareholder and relevant employees have complied with the relevant requirements in 2020. There is no evidence showing that the Directors, the Supervisors, senior management or the relevant employees violating the above regulations

RISK MANAGEMENT AND INTERNAL CONTROL

The responsibilities of the Board of the Company include the establishment of complete risk management and internal control and its effective implementation. During the Reporting Period, the Board was responsible for evaluating and determining the nature and extent of the risks the Group wants to take for achieving its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. Meanwhile, the Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the Board on the effectiveness of these systems. The Audit Committee of the Board oversaw the Group's risk management and internal control systems on an ongoing basis and conducted a review of the effectiveness of the Group's risk management and internal control systems during the Reporting Period. The review covered all material controls, including financial, operational and compliance controls and ensured the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Company can only provide reasonable and not absolute assurance against material misstatement or loss.

In February 2011, the Company established the Internal Audit and Control Department of the Company (the "IACD") to enhance its internal control system and guarantee the effectiveness of the Group in respect of financial, operational, compliance and risk management. The IACD reports important points in risk identification to the Audit Committee on a quarterly basis and elaborates on corresponding measures and subsequent improvements. During the Reporting Period, the IACD made four reviews in the Audit Committee meetings focusing on risk management, risk identification and the effectiveness of internal control and the Audit Committee summarized and reported the results to the Board. Furthermore, the IACD discussed risk management and internal control systems with the Audit Committee and reviewed the effectiveness of the risk management and internal control systems. In addition, the IACD was continually working on risk management and internal control, organizing and coordinating with each department on risks identification, analysis, assessment, alert and treatment as well as renewing the risks list in order to help the IACD perform more effective risk identification and internal control for forming a risk management culture of active and steady operation.

The Company's Audit Committee and the Board have reviewed the effectiveness of the risk management and internal control systems of the Group during the year 2020 and the Board considers the current risk management and internal control systems of the Group are effective and adequate. The Company will further enhance the Group's risk management and internal control systems pursuant to the requirements of the Listing Rules on internal control, to ensure that the Group's financial, operational, compliance and risk management are under effective control during the process of its continuing development, and to protect the interests of shareholders.

DAILY SUPERVISION FOR INFORMATION DISCLOSURE

In strict accordance with relevant laws and regulations according to listing rules, Articles of Association, and regulations for information disclosure, the Company truly, accurately, completely and timely disclosed relevant information which ensure all shareholders and other stakeholders have equal access to Company's information.

REGULATIONS FOR INSIDE INFORMANTS

The Company has formulated the "regulations for inside information" and other relevant systems to minimize the insiders of inside information, strengthen the confidentiality of inside information, and improve the registration and management of insiders of inside information. The Directors, Supervisors, senior management and other relevant personnel of the Company can strictly abide by the obligation of confidentiality in the preparation of regular reports, interim announcements and the planning of major events.

CORPORATE GOVERNANCE MEASURES TO MANAGE POTENTIAL CONFLICTS OF INTERESTS

There are no controlling shareholders or actual controllers in the Company, and there are no shareholders or individuals who have made decisions independently on the Company's business issues and caused substantial impact. Therefore, there is no potential conflict of interest between the Company and shareholders or individuals.

The largest shareholder of the Company is Shanghai Pharmaceutical, with a shareholding ratio of 20.15%. Since becoming a shareholder of the Company in October 1999, the shareholding ratio of Shanghai Pharmaceutical has not exceeded 30%; Shanghai Pharmaceutical only nominated one director to participate in the daily supervision and decision-making of the Board; In addition, Shanghai Pharmaceutical has never used its status as the largest shareholder or the nominated Director to seek terms or conditions from the Group or offer conditions or terms to the Group that are superior to the terms offered to or provided by an independent third party. All connected transactions of Shanghai Pharmaceutical shall be considered in accordance with the procedures stipulated in the Listing Rules.

Meanwhile, Shanghai Pharmaceutical issued a letter to avoid competition in 2019:

a) Shanghai Pharmaceutical will not actively increase its shareholding in the Company or sign a concerted action agreement with other shareholders of the Company on the exercise of shareholders' rights;

b) Shanghai Pharmaceutical will strictly and actively cooperate with the Company in complying with the review procedures under the Listing Rules for connected transactions entered by the Company and Shanghai Pharmaceutical;

c) Shanghai Pharmaceutical will not engage in unfair competition or benefit transfer with the Company.

During the Reporting Period, the Company has adopted a number of corporate governance measures and regularly communicated with a) Shanghai Pharmaceutical and reviewed its public information to confirm its compliance with its commitment to avoid horizontal competition.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Except as disclosed in this Annual Report, during the Reporting Period, none of the directors or their contacts had any interest in any business which directly or indirectly competes with or may compete with the business of the Group.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial report, internal control and corporate governance issues and making relevant recommendations to the Board. The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Yiu Kin and Mr. Xu Qing) and one Non-executive Director (Mr. Shen Bo). Mr. Lam Yiu Kin is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants in Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Shen Bo holds a master's degree in professional accounting with qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently a Director, a vice president and the chief financial officer of Shanghai Pharmaceuticals. Mr. Xu Qing is currently a professor of Tongji Unversity Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People's Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. All of them have extensive experience in accounting, industry, and financial management.

The Company has formulated specific "Rules of Procedure for the Audit Committee" as a guideline for the Audit Committee in dealing with various matters. The updated rules of procedure for the Audit Committee were passed by the Board on 26 April 2019.

The Audit Committee held six meetings in 2020. Senior management and/or external auditors were invited to attend each meeting. In 2020, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, internal controls to check whether they comply with the Listing Rules and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group's 2020 interim results and 2019 annual results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the audit fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2020:

Audit Committee	Attendance in person/Times of meetings	Attendance rate
Lam Yiu Kin *(chairman)*	6/6	100%
Shen Bo	6/6	100%
Xu Qing	6/6	100%

Connected transactions

The Audit Committee has reviewed the connected transactions during the Reporting Period. For the year ended 31 December 2020, the connected transactions comply with relevant rules and regulations and have been approved by the Board or shareholders' general meetings (if applicable).

External auditors

Considering that the Company has changed the basis for preparing its overseas financial statements to China Accounting Standards for Business Enterprises, as approved by the extraordinary general meeting of the Company held on 24 February 2020, the Company changed its overseas auditor from PricewaterhouseCoopers to PricewaterhouseCoopers Zhong Tian LLP. PricewaterhouseCoopers Zhong Tian LLP became the only auditor auditing the financial statements of the Company in accordance with the Chinese Accounting Standards for Business Enterprises, and undertook the role of the overseas auditor in accordance with the Listing Rules.

As approved by the annual general meeting of the Company held on 30 March 2020, the Company continued to appoint PricewaterhouseCoopers Zhong Tian LLP as the domestic and overseas auditor of the Group for the year 2020.

The consolidated financial statements for the year ended 31 December 2020 according to China Accounting Standards for Business Enterprises has been audited by PricewaterhouseCoopers Zhong Tian LLP

The fees on the audit services, non-audit services and related expenses of the Group for the year and the previous year are set out as follows:

Auditors	**Audit fees and non-audit fees in 2020**	Audit fees and non-audit fees in 2019
PricewaterhouseCoopers Zhong Tian LLP	**RMB3,896,000**	RMB2,034,000
PricewaterhouseCoopers Business Consulting (Shanghai) Co. Limited	**RMB108,491**	RMB108,491
Other auditors	**RMB264,532**	RMB575,669

Details of the audit fees and non-audit fees are set out as follows:

	Fees in 2020	Fees in 2019
Audit fees		
Annual statutory audit	**RMB3,880,000**	RMB2,010,000
Other audit	**RMB264,532**	RMB575,669
Non-audit fees		
Environmental, Social and Governance ("ESG") Report	**RMB108,491**	RMB108,491
Counting services at annual general meeting and extraordinary general meeting	**RMB16,000**	RMB24,000

The Group has formulated the policy of appointment of auditors to provide non-audit services which stipulates the principle in appointing auditors to provide non-audit services. The policy included the rules to ensure the independence of external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for formulating the Group's remuneration policy, recommending and approving the remuneration of all the Directors and senior executives, including the annual allocation of share options under the share option scheme (if feasible). The Remuneration Committee reviews the existing remuneration policy annually, and makes proposals to the Board for changes to the remuneration policy and system. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board.

The staff salaries of various level of the Group have been determined by reference to those of the comparable companies, especially companies located in Shanghai and Zhangjiang Hi-tech Park which have direct comparability. In order to retain the expertise for the Company's successful operation, salary level of the Company has to be competitive, which normally comprises three parts, namely fixed portion, unfixed portion and statutory benefits. The fixed portion is the basic salary, which is mainly determined by reference to the level of salaries of similar type of works in comparable companies. Individual salaries may be different due to the difference in position, performance, skills and experience. Certain adjustments may be made each year to the basic salaries based on the performance of the Company's business, market competition and inflation. In addition to the fixed portion, bonus may also be released to the relevant people as an incentive to their performance and to enhance their loyalty to the Company. The Company also provides other benefits such as free lunch and transportation allowances. Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds for the staff.

The Board established the Remuneration Committee, and stipulated the "Rules of Procedure for the Remuneration Committee" with specific terms of reference of the Remuneration Committee. The Remuneration Committee comprised of 3 members, namely Mr. Zhou Zhong Hui (Chairman, Independent Non-executive Director), Mr. Lam Yiu Kim (Independent Non-executive Director) and Mr. Yang Chun Bao (Independent Non-executive Director). The updated rules of procedure for the Remuneration Committee were passed by the Board on 26 April 2019.

The Remuneration Committee held one meeting during 2020 (held on 28 February 2020), the attendance of which was as follows:

Remuneration Committee	Attendance in person/Times of meetings	Attendance rate
Zhou Zhong Hui *(chairman)*	1/1	100%
Lam Yiu Kin	1/1	100%
Yang Chun Bao	1/1	100%

Pursuant to the principles above, recommended by the Remuneration Committee and approved by the Board and general meeting, the remuneration of some senior management of the Group have been adjusted during the year 2020. Please refer to note 9(7) and note 9(8) to the consolidated financial statements for the emoluments of Directors and senior management for 2020.

Remuneration Policy for Executive Directors

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to motivate and retain Executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a director is not allowed to approve his own remuneration.

The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus, share option (if appropriate), and statutory benefits. In determining guidelines for each element, the Remuneration Committee refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

Basic salaries

Basic salaries are determined mainly by reference to the salary levels of comparable companies. There are some adjustments to the basic salaries for each year based on the Company's business performance, market competition, and inflation. The Remuneration Committee reviews the remunerations for Directors annually, under which circumstance that the Directors concerned should abstain.

Discretionary bonus

The computation of discretionary bonus is based on measurable performance contributions of business units headed by the respective Executive Directors.

Statutory benefits

Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds. The ratios of such benefits to the salaries are also subject to adjustments pursuant to relevant regulations.

During the Reporting Period, none of the Executive Directors of the Company charged any Director's fee.

Remuneration for Non-executive Directors

The remuneration of Non-executive Directors is subject to annual assessment and recommendation by the Remuneration Committee for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at the Company meetings.

The Company has only paid remuneration to the Independent Non-executive Directors and has not paid any statutory benefit to the Non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee is responsible for that with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of diversity factors, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and service term; review the structure, size and composition of the board at least annually and make recommendations on any proposed changes to the Board (including Board diversity) to complement the issuer's corporate strategy; to report to the Board the composition of the Board members and monitor the implementation of the policy on Board diversity; to make disclosure of a summary of the policy on board diversity in the Corporate Governance Report annually, including any measurable objectives that it has set for implementing the policy, and progress on achieving those objectives; to examine the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer, general counsel, chief economist, assistant to chief executive and secretary of Board and put forward examination opinions and appointment recommendations; to assess the independence of independent non-executive directors; to make recommendations to the Board on the appointment or re-appointment of directors of the Company and the succession planning for directors of the Company, in particular the chairman of the Board and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, as appropriate; to research the standard, procedure and method of selection of directors, chief executive and other members of the senior management of the Company and to put forward proposals to the Board; other authority delegated to the Nomination Committee by the Board and matters assigned by the Board; to comply with the requirements for the scope of work of the Nomination Committee as in the listing rules of the stock exchanges at the place where the shares of the Company are listed (as amended from time to time).

The Board of the Company established the Nomination Committee in April 2012 and approved the "Rules of Procedure for the Nomination Committee" which stipulated the terms of reference for the Nomination Committee. The updated "Rules of Procedure for the Nomination Committee" were passed by the Board on 26 April 2019. The Nomination Committee is comprised of 3 members, who are Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhou Zhong Hui (Independent Non-executive Director) and Mr. Xu Qing (Independent Non-executive Director).

The Nomination Committee held two meeting during 2020 (held on 28 February 2020 and 30 March 2020), the attendance of which was as follows:

Members of the Nomination Committee	Attendance in person/Times of meetings	Attendance Rate
Wang Hai Bo *(chairman)*	2/2	100%
Zhou Zhong Hui	2/2	100%
Xu Qing	2/2	100%

Pursuant to the Code Provision A.5.6 under Appendix 14 of the Listing Rules, the Nomination Committee should be with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of factors, including but not limited to, gender, age, cultural and educational background, races, professional experience, skills, knowledge and service term.

Strategy Committee

The Strategy Committee is responsible for that to study corporate development strategies and mid-to long-term development plans of the Company, make recommendations and submit to the board of directors for consideration and approval, and to conduct assessment and monitor the implementation thereof; to study the proposal for increases or reductions of the Company's registered capital, issuance of corporate bonds, merger, division and dissolution, make recommendations and submit to the board of directors for consideration and approval; to study material business restructuring, external acquisition, merger and disposal of assets of the Company and make recommendations and submit to the board of directors for consideration and approval; to study the expansion into new markets and businesses of the Company, make recommendations and submit to the board of directors for consideration and approval; to study the plans on investments, financing and capital operations and other programs of the Company that are subject to the approval of the board of directors, make recommendations and submit to the board of directors for consideration and approval; to study the material organizational restructuring and adjustment proposals of the Company, make recommendations and submit to the board of directors for consideration and approval; to instruct and oversee the implementation of relevant resolutions of the board of directors; other powers as authorized by the board of directors.

As approved by shareholders' meeting, the Company established the Strategic Committee on 26 April 2019. Meanwhile, the Rules of Procedure for the Strategic Committee clearly defined the scope of the Strategic Committee, giving detailed account of its role and the power of the board to delegate it to the Committee. The Strategy Committee is comprised of 3 members, namely, Mr. Wang Hai Bo (Chairman, Chairman of Board of Directors), Mr. Zhao Da Jun (Executive Director), and Mr. Yang Chun Bao (Independent Non-executive Director).

The Strategy Committee didn't hold meeting during 2020.

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between Board members, and investors with the Company as well. In addition, the company secretary should be responsible for the compliance with the policies and procedures of the Board of directors as well as all applicable regulations. During the year 2020, the company secretary has completed over 15 hours training provide by the professional agents.

RIGHTS OF INVESTORS

Shareholders requisitioning the convening of extraordinary general meetings of shareholders or class meetings shall abide by the following procedures:

(1) The shareholders singly or jointly holding more than 10% of the shares of the Company with voting rights at the extraordinary general meeting or class meetings to be held shall have the right to propose in writing to the board of directors the convening of the extraordinary shareholders' general meeting or the class meeting. The board of directors shall, in accordance with the provisions in laws, administrative rules and these Articles, provide feedback in writing on the approval or disapproval within 10 days from the receipt of such proposal;

(2) Where the board of directors disapproves the convening of the extraordinary shareholders' general meeting or the class meeting or fails to provide feedback within 10 days from the receipt of the said proposal, the shareholders which singly or jointly hold more than 10% of the shares of the Company shall have the right to propose in writing the convening of the extraordinary shareholders' general or the class meeting to the board of supervisors and shall raise their request in writing to the board of supervisors;

(3) Where the board of supervisors fails to send the said notice within the prescribed time limit, it shall be deemed that they failed to convene and preside over the shareholders' general meeting and shareholders which singly or jointly hold more than 10% of the Company's shares for more than 90 consecutive days may convene and preside the meeting independently.

All reasonable expenses incurred in connection with a meeting convened by any shareholders themselves by reason of the failure of the Board of directors to convene a meeting pursuant to a requisition shall be borne by the Company and shall be set off against sums owed by the Company to the directors in default.

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with shareholders is through the Company Secretary. In addition, the Company Secretary may respond to the various enquiries of shareholders, and provide relevant information.

When the Company convenes a shareholders' general meeting, shareholders severally or jointly holding 3% or more of the shares of the Company, may raise the interim proposals and submit them in writing to the Board prior to the date of the shareholders' general meeting; the Board shall, within two days after receipt of such proposals, notify other shareholders, and ensure to announce the content of the interim proposals ten (10) business days prior to the date of shareholders' general meeting. The contents of the interim proposals shall be within the scope of the functions and powers of the shareholders' general meeting, and contain clear issues and specific matters for resolutions.

PUBLIC FLOAT OF THE COMPANY

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended 31 December 2020 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

RELATIONSHIP WITH INVESTORS

In recent years, the Company has attracted much higher attention from the capital markets. Investors home and abroad addressed invitations to the Company through various means, including on-site surveys, telephone surveys, and invitations to participate in investment strategy forums. Based on the principles of active communication and information disclosure, the Company enhanced the efforts on the reception of investors to improve its market image.

As approved by the extraordinary general meeting and class meetings of the Company on 24 February 2020, the Company amended its Articles of Association and the amendments took effect upon approval by the extraordinary general meeting and class meetings. As approved by the annual general meeting and class meetings of the Company on 26 April 2019, the Company amended its Articles of Association and formulated the Articles of Association (Draft); as approved by the extraordinary general meeting and class meetings of the Company on 24 February 2020, the Company further amended its Articles of Association (Draft). The amendments to the Articles of Association (Draft) has taken effect on the date of official listing of A Shares on the STAR Market of the Shanghai Stock Exchange upon approval of the Issue of A Shares of the Company by the Shanghai Stock Exchange and the registration of A Shares with the CSRC.

All the issues should be individually raised by resolutions and voted by poll at the annual general meeting. The Company's PRC counsels are required to attend the meeting and witness the results of voting, and issue their legal opinion.

In 2020, the Company has held an annual general meeting, details of which is as follow:

Time	10:00 a.m., 30 March 2020
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	Resolutions of the annual general meeting; To consider and approve the proposed profit distribution plan for the year ended 31 December 2019 and the final dividend distribution plan for the year ended 31December 2019, and to authorize the Board to distribute such final dividend to the Shareholders; To consider and approve the election of auditors (domestic and overseas) and authorize the Board to fix their remunerations for the year 2020; To consider and approve the proposal in relation to remuneration of the Directors and Supervisors for the year 2020, and to authorize the Board to implement the proposal; To consider and approve the re-election of the Directors of the seventh session of the Board; To consider and approve the re-election and election of the Supervisors of the seventh session of the Supervisory Committee; To consider and approve the consideration and approval of related-party transactions of the Company for the year 2019; To consider and approve the extension of the validity period of the resolution in respect of the proposed issue of A shares; To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares.

In 2020, the Company has held two extraordinary general meetings, details of which are as follows:

Time	10:00 a.m., 24 February 2020
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Extraordinary general meeting
Way of voting	Poll
Major issues	To consider and approve the proposed amendments to the Articles of Association; To consider and approve the proposed amendments to the Articles of Association (Draft); To consider and approve the proposed amendments to the Rules of Procedure for the General Meeting of the Company; To consider and approve the proposed change of overseas auditor of the Company from PricewaterhouseCoopers to PricewaterhouseCoopers Zhongtian LLP which will hold office until the conclusion of the next annual general meeting, and to authorize the Board to fix its remuneration.

Time	10:00 a.m., 14 December 2020
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Extraordinary general meeting
Way of voting	Poll
Major issues	To consider and approve: (1) the entering into of the Sales and Distribution Agreement dated 29 October 2020 between the Company and Shanghai Pharmaceuticals, a copy of which has been produced to the EGM for the purpose of identification, and the proposed annual caps for the three years ending 31 December 2023 for the continuing connected transactions contemplated thereunder be and are hereby approved and confirmed; and (2) any one of the directors of the Company be and is hereby authorized to do, approve and transact all such acts and things as the director may in his/her absolute discretion consider necessary or desirable in connection therewith.

In 2020, the Company has held two class meeting of holders of H Shares, details of which are as follows:

Time	11:00 a.m., 24 February 2020
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of H Shares
Way of voting	Poll
Major issues	To consider and approve the proposed amendments to the Articles. To consider and approve the proposed amendments to the Articles of Association (Draft); To consider and approve the proposed amendments to the Rules of Procedure for the General Meeting of the Company;

Time	11:00 a.m., 30 March 2020
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of H Shares
Way of voting	Poll
Major issues	To consider and approve the extension of the validity period of the resolution in respect of the proposed issue of A shares; To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares.

In 2020, the Company has held two class meeting of holders of Domestic Shares, details of which are as follows:

Time	11:30 a.m., 24 February 2020
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of Domestic Shares
Way of voting	Poll
Major issues	To consider and approve the proposed amendments to the Articles of Association; To consider and approve the proposed amendments to the Articles of Association (Draft); To consider and approve the proposed amendments to the Rules of Procedure for the General Meeting of the Company;

Time	11:30 a.m., 30 March 2020
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Shanghai, the PRC
Nature	Class meeting of holders of Domestic Shares
Way of voting	Poll
Major issues	To consider and approve the extension of the validity period of the resolution in respect of the proposed issue of A shares; To consider and approve the extension of the authorization period to the Board to deal with matters relating to the Issue of A Shares.

The attendance of individual directors at the general meeting during the year 2020 is set out in the table below:

Member of the Board	Attendance in person/Times of meetings	Attendance rate
Executive Director		
Wang Hai Bo *(chariman)*	7/7	100%
Su Yong	7/7	100%
Zhao Da Jun	7/7	100%
Non-executive Director		
Shen Bo	7/7	100%
Yu Xiao Yang	7/7	100%
Independent Non-executive Director		
Zhou Zhong Hui	7/7	100%
Lam Yiu Kin	7/7	100%
Xu Qing	7/7	100%
Yang Chun Bao	7/7	100%

Arrangements for the dates of the annual results in 2020, the interim results in 2021 and the annual general meeting are as follows:

Items	Proposed time
Announcement of 2020 results	25 March 2021
Annual general meeting	27 May 2021
Announcement of 2021 interim results	Around 25 August 2021

SOCIAL RESPONSIBILITY

Environment and Society

As a listed company, the Company has been active to fulfill its social responsibilities, focusing on environmental protection for many years. We take into account this responsibility as an important factor in all aspect. This means that we not only focus on daily production, but also focus on all the other aspect ranging from procurement to administration. The Group will adopt the best practice measures as far as possible and reasonable. The relevant functional departments will consider the environmental management by assessing the policy, strategies, objectives, implementation and measurement method in terms of the pollution of water, air, noise and the other wastes.

During the Reporting Period, the Group has always followed the environment policy, strictly complied with national laws and regulations and emission standards. The Group has been inspected many times by relevant government institutions on sewage discharge during the year and no violation of laws, regulations has been found. In addition, the Company also appointed a third party professional institution to assess the environmental indicators including noise, air and water regularly. Our objective is to control environment risks effectively and ensure the pollutant can reach the standard of discharge.

Details please refer to "Environmental, Social and Governance Report".

Social public welfare

During the Reporting Period, the Group cooperated with Beijing Huakang public welfare foundation to launch the "Baowei tomorrow patient assistance project", which aims to help patients in need of doxorubicin hydrochloride liposome injection to get more lasting and effective medical treatment, so as to reduce the economic burden of patients and improve their quality of life. The project was launched in April 2020. During the Reporting Period, the total value of donated drugs exceeded RMB 140 million.

During the Reporting Period, the party members of the Group, led by the comprehensive Party committee of Zhangjiang Park in Pudong, Shanghai, organized the Company volunteers to actively participate in the epidemic prevention inspection work of Zhangjiang Park, and raised donations to support the Party committee's anti epidemic materials and contribute to the epidemic prevention work of the Park.

For many years, the Group has been actively involved in the fund-raising activity, "Love in Sky", organized by Shanghai Charity Foundation. During the reporting period, the Group participated in the 26th charity fundraising activity of "Love in Sky, thousands of people donate to help thousands of families " and donated RMB50,000 for the project. All the donations in this activity were used to help the extremely needy families in Pudong District.

During the Reporting Period, the trade union of the Group actively responded to and participated in the targeted poverty alleviation plan by purchasing agricultural products planted by farmers of Shanghai Zhongfu grain, forest and fruit production cooperative and farmers of Lu'an fruit industry cooperative in Rongjiang County, Guizhou Province, a national poverty alleviation county.

During the Reporting Period, the Company prepared ESG report pursuant to Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules.

By order of the Board
Xue Yan
Secretary

Shanghai, the PRC
25 March 2021

DIRECTORS

Executive Directors

Wang Hai Bo, aged 60, was appointed as an Executive Director of the Company in November 1996. He is also the chairman of the Board and general manager of the Company. He is concurrently appointed as the chairman of Board of directors of Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. as well as the director of Fernovelty (Hong Kong) Holding Co., Ltd, which are the subsidiaries of the Company. He founded the Company in November 1996. He was an associate professor at Fudan University from May 1995 to June 1996. He has published numerous articles, and thus earned awards such as the State Star Fire Grade III Award (國家星火三等獎), Education Committee Grade II Award (教委二等獎) and Technology Advancement Award of the Shanghai Municipality (上海市科技進步獎). He graduated from Fudan University with a bachelor's degree in Biology in July 1983 and master's degree in July 1986. He was the former chief technology officer of Zhejiang Shenghua Biok Biology Co., Ltd., a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600226).

Su Yong, aged 56, was appointed as an Executive Director in January 2002. He is also the deputy general manager of the Company. He joined the Company in April 1997. He has been working in the field of genetic engineering for over twenty years. He was the chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd. from January 1994 to April 1997, during which he was responsible for managing the genetic engineering department. He graduated from Northwest Normal University with a bachelor's degree in Biology Science in July 1985, from Fudan University with a master's degree in Biochemistry in July 1993, and from Zhejiang University with a Ph.D. in Oncology in June 2000.

Zhao Da Jun, aged 50, was appointed as an Executive Director in January 2002. He is also the deputy general manager and an authorized representative of the Company. At the same time, he is concurrently appointed as the chairman of the Board of directors of Shanghai Tracing Bio-technology Co., Ltd., a subsidiary of the Company. He is a cofounder of the Company. He was a teaching assistant at the Law School of Fudan University from August 1995 to October 1996. He was awarded the National Education Committee on Technology Advancement Grade II Award (國家教委科技進步二等獎) in 1997. He graduated from Fudan University with a bachelor's degree in Biology in July 1992, a master's degree in Biology in July 1995, and from University of Hong Kong with a master's degree in Business Administration in November 2001.

Non-executive Directors

Shen Bo, aged 48, was appointed as a Non-executive Director in June 2012. He was a non-practising member of the Chinese Institute of Certified Public Accountants. He is an executive director, a vice president and the chief financial officer of Shanghai Pharmaceuticals Holding Co., Ltd., and concurrently appointed as an executive director of China International Pharmaceutical (Holding) Corporation Limited, chairman of Shanghai TCM Co., Ltd.; chairman and legal representative of Shanghai Harvest Pharmaceutical Co., Ltd.; chairman of SPH Changzhou Pharmaceutical Co., Ltd.. He was the deputy manager of the financial department of Shanghai Jinling Co., Ltd. from 1996 to 2000, the financial director of Shanghai Jinling Tai Ke IT Development Co., Ltd. from May 2000 to January 2001; the general manager of finance department of Shanghai Industrial United Holdings Co., Ltd. from January 2006 to November 2006; the financial controller of Shanghai Industrial Pharmaceutical Investment Co., Ltd. from November 2006 to March 2010. He graduated from the Shanghai Institute of Construction Materials Industry with a bachelor's degree in Economics in July 1996, and Chinese University of Hong Kong with a master's degree in Professional Accounting in December 2007.

Yu Xiao Yang, aged 64, was appointed as a Non-executive Director in May 2013. She has over 20 years of banking and investment experience. She was a founding partner of China New Enterprise Investment and a founder and managing partner of Victoria Capital Limited, a corporate finance advisory firm in 1998. She was among the first mainland Chinese to embark on a professional career with major international financial institutions. She served at Paris Bank in Geneva, Dresdner Bank in Frankfurt, London and New York from 1980 to 1985, and Salomon Brothers from 1987 to 1991, working in the areas of mergers and acquisitions and corporate finance. She graduated from International Management Institute (Geneva), predecessor of International Institute for Management Development, with a master's degree in Business Administration in May 1982.

Independent Non-executive Directors

Zhou Zhong Hui, aged 73, was appointed as an Independent Non-executive Director on 30 May 2013. He is currently a member of the Financial Advisory Expert Committee of the China Association for Public Companies, managing director of China Appraisal Society. He was appointed as a member of the International Advisory Committee of the China Securities Regulatory Commission, the Audit Standard Committee of Chinese Institute of Certified Public Accountant. He used to be the chief accountant of the China Securities Regulatory Commission from 2007 to 2011, a partner, the general manager and chief accountant of PricewaterhouseCoopers Zhong Tian CPAs Limited Company from 1992 to 2007 and a professor of Shanghai University of Finance and Economics from 1989 to 1998. He has been an independent director of S.F. Holding Co., Ltd., a company listed on the Shenzhen Stock Exchange (Shenzhen Stock Code: 002352) since 28 December 2016. He has been an independent non-executive director of COSCO SHIPPING Holdings Co. Ltd., a company listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange (Shanghai Stock Code: 601919, Stock Code: 01919) since 25 May 2017. He has been an independent non-executive director of CITIC Securities Company Limited, a company listed on the Shanghai Stock Exchange (Shanghai Stock Code: 600030) and the Main Board of the Stock Exchange (Stock Code: 6030). He graduated from Shanghai University of Finance and Economics with a master's degree in Economics in November 1983, and a Ph.D. in Economics in January 1993.

Lam Yiu Kin, aged 66, was appointed as an Independent Non-executive Director on 9 October 2013. He is a fellow member of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Institute of Chartered Accountants of Australia and New Zealand (ICAA), and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Lam has extensive experiences in accounting, auditing and business consulting. He was a member of the Listing Committee of the Stock Exchange from 1997 to 2003, a committee member of HKICPA from 1994 to 2009, a member of the Financial Reporting Advisory Panel of the Stock Exchange from 1997 to 2003 and a partner with PricewaterhouseCoopers from 1993 to 2013. He graduated from Hong Kong Polytechnic University with a higher diploma in June 1975 and he was awarded the honorary fellow of Hong Kong Polytechnic University in November 2002. He has been an independent non-executive director of Vital Innovations Holdings Limited (formerly known as Vital Mobile Holdings Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 6133) since 19 September 2014. He has been an independent non-executive director of Spring Asset Management Limited, which is the manager of Spring Real Estate Investment Trust whose units are listed on the Main Board of the Stock Exchange (Stock Code: 1426) since 12 January 2015. He has been an independent non-executive director of Global Digital Creations Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8271) since 27 July 2015. He has been an independent non-executive director of Shougang Concord Century Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0103) since 1 August 2015. He has been an independent non-executive director of

COSCO Shipping Ports Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1199) since 14 August 2015. He has been an independent non-executive director of Nine Dragons Paper (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2689) since 3 March 2016. And he has been an independent nonexecutive director of WWPKG Holdings Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8069) since 16 December 2016. He has been appointed as an independent non-executive director of CITIC Telecom International Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1883) since 1 June 2017. He has also been appointed as an independent non-executive director of Bestway Global Holding Inc., a company listed on the Main Board of the Stock Exchange (Stock Code: 3358) since 18 October 2017. he has been an independent non-executive director of Topsports International Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6110) since 26 September 2019.

Xu Qing, aged 56, was appointed as an Independent Non-executive Director on 29 May 2015. Mr. Xu was appointed as an independent supervisor in May 2008. He is currently a professor of Tongji University Medical School, doctor-postgraduate supervisor, deputy director of the Oncology Department and Tumor Institute, and director, chief physician of Medical Oncology Department of the Tenth People s Hospital affiliated to Tongji University. And he is director of Medical Oncology Department of Shanghai Dermatology Hospital affiliated to Tongji University. He used to serve as a deputy director, a deputy chief physician, and a deputy professor of the Medical Oncology Department of Chang Zheng Hospital of The Second Military Medical University. He has been engaged in the fundamental and clinical research on tumor for a long time. He has published over 100 articles in medical journals both domestic and abroad. He did his postdoctoral research in the H.Lee. Moffitt Cancer Center of University of South Florida as a visiting scholar. He graduated from The Second Military Medical University in August 1989 with a bachelor s degree of medicine. He obtained a doctor s degree of internal medicine in August 1997.

Yang Chun Bao, aged 51, was appointed as an independent non-executive director on 9 June 2017. He is a national first-class lawyer and currently as a senior partner of Dentons Law Firm Shanghai Office. He was a practice lawyer successively in Shanghai Zhongjian Law Firm and Shanghai Haworth & Lexon Law Firm from 1995 to 2015. And he served as an in-house counsel in Southeast Branch of CMST Shanghai from 1992 to 1995. Mr. Yang is a part-time professor of Law School of East China University of Science and Technology, a part-time tutor of Law School of Fudan University, a part-time post-graduate supervisor of East China University of Political Science & Law, a lecturer of private equity president class of Shanghai Jiaotong University, and a panel mediator with mediation center of CCPIT and CCOIC. He graduated from Fudan University with L.L.B in July 1992 and received J.M of East China University of Political Science and Law in June 2001 and L.L.M of University of Sydney Technology in May 2001.

SUPERVISORS

Tang Yu Kuan, aged 46, was appointed as a shareholder supervisor on 30 March 2020. He is currently the deputy general manager of Shanghai Fudan Asset Operating Limited (上海復旦資產經營有限公司), the deputy director of the Centre of Urban and Regional Studies of Fudan University. He is also the chairman of Shanghai Fudan Enterprise Development Company Limited and the general manager of Shanghai Fudan Venture Capital Limited. Prior to that, he was seconded to The Municiple Government of Zhuhai as the deputy secretary-general. and the deputy director of the Development Department of the School of Economics at Fudan University, assistant to the president of the School of Social Development and Public Policy of Fudan University. He is a visiting lecturer of University of Cambridge. He graduated from Fudan University with a master s degree in Management and a Ph.D. in Economics.

Wang Luochun, aged 51, was appointed as an employee representative Supervisor on 22 February 2016. He is the director of bio-technology research and development and president of the worker's union of the Company. He joined the Company in March 1997 and has been engaged in the research and development for biopharmaceutical drugs. He graduated from Fudan University with a bachelor s degree in Biology in July 1992.

Liu Xiao Long, aged 63, was appointed as an independent Supervisor on 13 May 2016. He is the chairman of the Board and the chief executive officer of Jiuyou Capital Co., Ltd. (上海久有股權投資基金管理有限公司). He worked as the general manager of Shanghai Wai Gao Qiao Free Trade Zone New Development Co., Ltd. (上海市外高橋保税區新發展有限公司), the chairman of the Board of Shanghai Zhangjiang Hi-tech Park Development Co., Ltd.(上海張江高科技園區開發股份有限公司) (a company listed on the Shanghai Stock Exchange whose stock code is 600895) and the deputy director of Shanghai Zhangjiang Hi-tech Park management committee. He was also a member of the standing committee of Shanghai Association for Science and Technology. He graduated from Shanghai Jiao Tong University mechatronics branch campus with a bachelor degree.

Huang Jian, aged 51, was appointed as an independent Supervisor on 9 June 2017, is Professor and Doctoral supervisor in the Biochemistry and Molecular Cytology Department of School of Medicine of Shanghai Jiao Tong University and evaluator of National Natural Science Foundation of China. He conducted his postdoctoral research in the Shanghai Institute of Biochemistry and Cell Biology of Chinese Academy of Sciences and Karolinska Institute in Sweden. He works on molecular oncology for a long time and takes charge of multiple national and provincial research projects as chief researcher. He has published more than 40 published papers on journals home and aboard. He graduated from Fudan University with a degree of bachelor in science in 1992, a degree of master in science in 1995 and a PhD in science in 1999.

Yu Daiqing, aged 49, is the quality director of the Company. She joined the Company in November 2001, and successively engage in quality research and analysis of new drug development, quality control of pharmaceutical manufacturing, establishment of quality management system and daily operation management relating to pharmaceutical manufacturing. She graduated from Shandong University with a bachelor degree in Chemistry in July 1995 and a master degree in Analytical Chemistry in July 1998.

SENIOR MANAGEMENT

Li Jun, aged 52, as a deputy general manager of the Company, he is a cofounder of the Company. He has been responsible for several research projects of the Natural Science Fund, and has published numerous articles. He is a certified pharmacist. He was a teaching assistant and lecturer at Fudan University from August 1993 to November 1996, during which he also served as deputy chief technology officer of Zhejiang Shenghua Biok Biology Co. Ltd. and was involved in the research and manufacture of three new drugs. He graduated from Fudan University with a master s degree in Biology in July 1993. Mr. Li Jun has not held any directorships in listed public companies in the past three years.

Yang Xiao Lin, aged 58, joined the Company in January 2006. He is a deputy general manager of the Company. He is also the directors of Derma Clinic. He has participated in and been in charge of several merger, acquisition and restructuring projects for pharmaceutical companies. He has also been responsible for marketing and selling prescribed and OTC medicine in many sectors, and has obtained good results. He used to be the marketing director of Fosun Pharmaceutical Group from December 2001 to January 2005, and the general manager of Zhejiang Kanglaite Pharmaceutical Co., Ltd. from January 2005 to January 2006. He graduated from Chinese Academy of Social Sciences with an MBA degree in 1999. Mr. Yang Xiao Lin has not held any directorships in listed public companies in the past three years.

Gan Yi Min, aged 58, joined the Company in 2010. He is a deputy general manager of the Company. He is also the directors and general manager of Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd., which is the subsidiary of the Company. He used to be the general manager of Haini Pharmaceutical Co., Ltd. (Shanghai) from 2003 to 2009, responsible for completion of construction of production workshops, laboratories and workstations, recruitment of staff and managers, and establishing a performance evaluation system. He was the production manager of Xi an Janssen Pharmaceutical Co., Ltd. from 1995 to 2003, responsible for organizing and implementing a number of media and large technological transformation projects. He obtained a bachelor s degree in Industrial Automation from Xi'an Technology University in December 1990, an MBA from Xi an Jiaotong University in December 2001, an EMBA from Antwerp University (Belgium) in October 2002, and a master s degree in Pharma Engineering from Beijing Chemical Engineering University in December 2006. Mr. Gan Yi Min has not held any directorships in listed public companies in the past three years.

COMPANY SECRETARY

Xue Yan, aged 39, was appointed as company secretary in August 2010. She is the Chief Financial Officer and an authorized representative of the Company. She is also the director of Fernovelty (Hong Kong) Holding Co.,Ltd, which is the subsidiary of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow of the Association of Chartered Certified Accountants (ACCA), and a member of the Chinese Institute of Certified Public Accountants (CICPA). She is qualified as an international certified internal auditor. She has extensive professional experience in accounting as well as experience in corporate compliance. She graduated from Shanghai University of Finance & Economics with a bachelor degree in International Accounting in 2004 and obtained an MBA from the University of Hong Kong in November 2018. Ms. Xue Yan has not held any directorships in listed public companies in the past three years.

ABOUT THE ESG REPORT

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. hereby issues the 2020 Environmental, Social and Governance Report (the "ESG Report") of the Group, to demonstrate Group's philosophy and practice for sustainable development and social responsibility to its stakeholders from both environmental and social areas.

For related information on corporate governance, please refer to the Corporate Governance Report.

Reporting Scope

The ESG report covers our main businesses for the period from 1 January 2020 to 31 December 2020 (the "reporting period"). The key performance indicators ("KPIs") disclosed in the report cover Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. ("Shanghai FDZJ"), Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou FDZJ") and Shanghai Tracing Bio-technology Co., Ltd. ("Shanghai Tracing") for the reporting period.

There is no significant adjustment to the reporting scope as compared to the ESG Report included in the 2019 Annual Report of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

Reference and Principles

This report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* set out in Appendix 27 to the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Reporting Guide on Environmental Information for Listed Company* issued by *Shanghai Stock Exchange*. The ESG report complies with the principles of "Materiality", "Quantitative" and "Consistency". The description on how to comply with the principles of "Materiality", "Quantitative" and "Consistency" is as follows:

- **Materiality:** The Group determines material ESG issues by stakeholder engagement and materiality assessment, the process and results of which are detailed illustrated in the "Responsible Governance" chapter;

- **Quantitative:** Information on the standards, methodologies and source of conversion factors used for the reporting of emission and energy consumption has been disclosed;

- **Consistency:** The statistical methods and KPIs are in consistency with those of the previous years.

RESPONSIBLE GOVERNANCE

Governance Framework

We uphold the ESG management policy of sustainable development, incorporate ESG risks and opportunities into the Group's business strategy, and are committed to providing employees with a safe and healthy working environment and scientific and practical training plans. We are also committed to establishing a transparent, standard and environmental-friendly supply chain and a positive industry environment and providing safe and healthy products for customers.

The Group has established a top-down three-layer ESG management structure to properly manage ESG issues:

The Board of Directors	It is the top decision-making body, taking full responsibility for ESG strategy and reporting	✓ Assessing, prioritising and managing material ESG issues and their risks on the business of the Group; ✓ Developing ESG management policies, strategies and objectives; ✓ Regularly assessing the Group's performance against relevant objectives; ✓ Reviewing and approving the annual ESG report.
Senior Management	It organises the ESG Working Group to carry out relevant work pursuant to the ESG strategies made by the Board	✓ Implementing ESG risk management and internal control system, and reporting to the Board about ESG trends, risks and opportunities; ✓ Regularly reporting to the Board on the progress and achievement of ESG work; ✓ Reporting the annual ESG report to the Board.
ESG Working Group	It is composed of the heads of each department of the Group	✓ Implementing ESG strategies and policies made by the Board; ✓ Carrying out ESG work in according to the arrangement of senior management; ✓ Preparing annual ESG report; ✓ Reporting on the ESG working progress and annual ESG report to senior management.

Stakeholders Engagement

We keep revising and improving the internal governance in accordance with the *Company Law of the People's Republic of China*, the *Code of Corporate Governance for Listed Companies*, the *Rules for Stock Listing in Shanghai Stock Exchange STAR Market* and other laws and regulations. Independent directors and the Board of Supervisors monitor the daily operating and managing activities of the Company, providing a significant guarantee for the legal rights and interests of the Company and its shareholders, especially the minority shareholders. Interactive communication is carried out through a variety of channels, such as general meetings, investor hotline, investor mailboxes, Shanghai Stock Exchange E-interactions, etc. Consequently, the communication has been enhanced and transparent relationship has been established between the Company, shareholders and investors. With attention attached to the comments and suggestions from investors, the Group will strive to feed investors.

We actively establish a diversified communication mechanism and communicate with various stakeholders to understand their opinions and suggestions on our sustainable performance and future development strategies.

Stakeholders	Expectation and concerns	Communication channels
Governments and regulators	Compliance with laws and regulations Tax expense Product compliance Leading the healthy development of industry Epidemic prevention and control	Compliance management Proactive in tax payment Implementation of national policies Continuous R&D and innovation Risk analysis reporting Timely reporting adverse events Active participation in government projects
Shareholders and investors	Operational compliance Return on investment Corporate governance Information disclosure	Annual report, announcements and circulars General meeting Roadshows Investor meeting
Employees	Protection of employee rights and interests Career development channel Employee capacity training Healthy and safe working environment Epidemic prevention and control	Employee satisfaction survey Regular meetings and trainings Employee care activities Intranet websites
Distributors and consumers	Product quality and safety Protection of customer rights and interests Compliance promotion R&D and innovation Privacy protection	Satisfaction survey Compliance channel On-site communication Academic seminar Proper information management

Stakeholders	Expectation and concerns	Communication channels
Suppliers	Business ethics Win-win cooperation	Business visit Daily meeting Academic exchange conference
Community	Promoting community harmony Improving public welfare awareness Poverty reduction	Charitable activities Supporting farmers for poverty alleviation
Environment	Environment protection Improving energy efficiency Climate change mitigation	Concentrating on environmental protection Energy conservation and emissions reduction Risk and opportunity identification

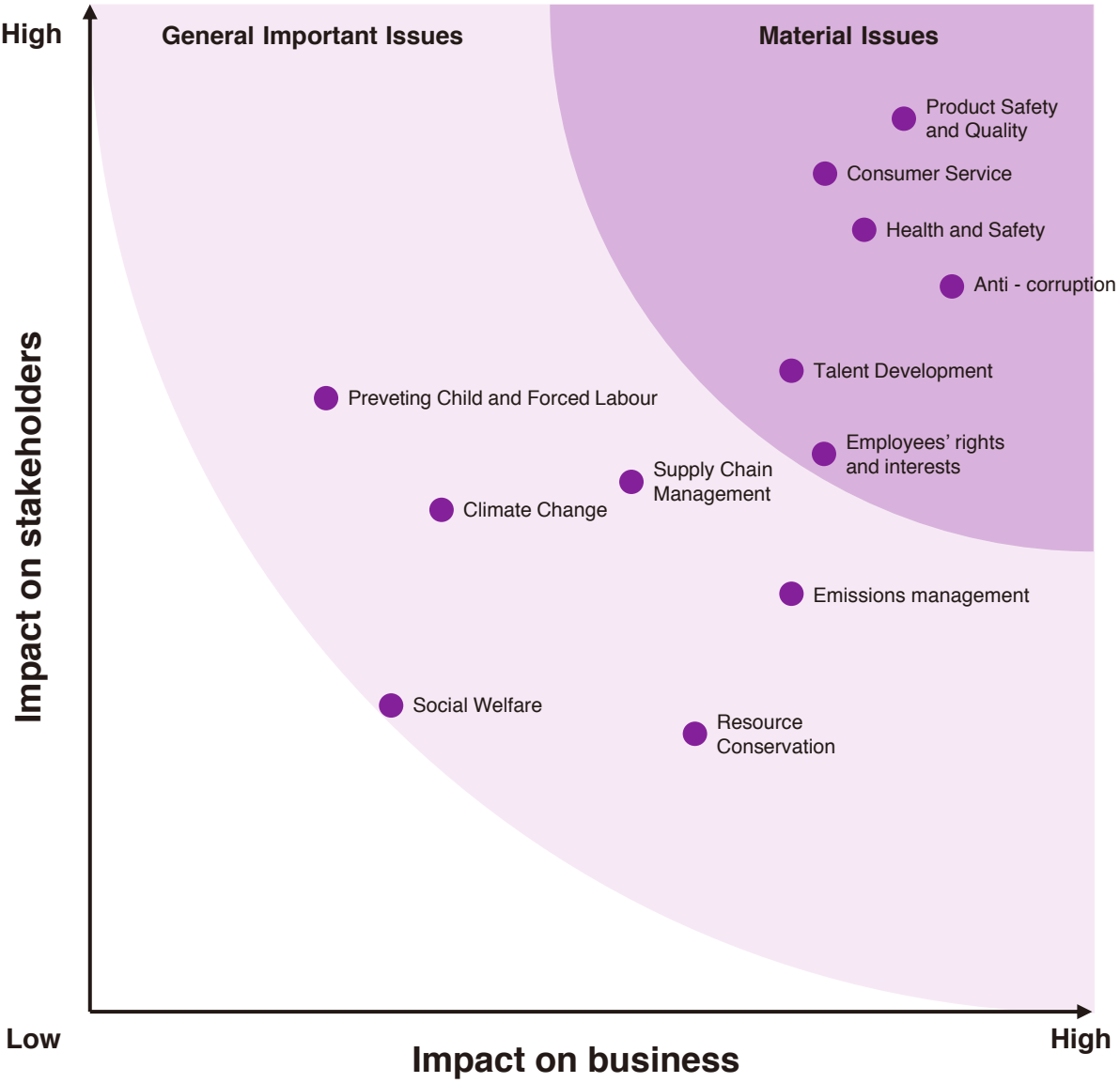
Materiality Assessment

In 2020, we conducted a materiality assessment through the following steps to identify material ESG issues to guide the Group's ESG work:

Step 1: Identifying ESG issues related to the Group according to the requirements of *Environmental Social and Governance Reporting Guide* and *Reporting Guide on Environmental Information for Listed Company*, combined with the Group's actual business and industrial characteristics;

Step 2: Through the way of online questionnaire survey, we collected the opinions of internal and external stakeholders on the materiality of various ESG issues and their suggestions on our ESG work. In view of the results of the questionnaire survey, we analysed the results from two dimensions of "impact on the Group's business" and "impact on stakeholders" to form a materiality assessment matrix.

Step 3: The Group's senior management and the ESG working group reviewed the materiality assessment matrix, determined the materiality of each issue based on experts' opinions and reported to the board.



Materiality Assessment Result

PRODUCT ASSURANCE

Full-Cycle Product Quality Control

With the tenet of "The More We Explore, the Healthier the People Will Be", the Group constantly develops new drugs on multiple research and development platforms. To ensure product quality and safety, we are in strict compliance with the *Drug Administration Law of the People's Republic of China*, the *Regulations for Implementation of the Drug Administration Law of the People's Republic of China*, the *Law of the People's Republic of China on Product Quality*, the *Good Manufacturing Practice for Drugs* ("GMP"), the *Administrative Measures for Reporting and Monitoring Adverse Drug Reactions* and other laws and regulations.

To provide the best products to customers, we have developed a full set of GMP quality management system according to the GMP and the principle of quality management. The system covers all the factors affecting medicine quality, including personnel, equipment, materials, production, testing, quality assurance, ongoing monitoring, etc., to provide guidelines for management and operation of every step and minimise risks such as pollution, cross contamination, confusion and errors in drug production.

In the production process, we strictly control product quality which helps us win the market. The small-dose injection (antineoplastic drugs), bulk drug (Aminolevulinic Acid Hydrochloric) and powders have got GMP certificates from the State Food and Drug Administration ("SFDA").

Material and Product Inspection Management

According to the *GMP* and the *Chinese Pharmacopoeia*, we have formulated the management procedure – *Material and Product Inspection*, to regulate inspection basis, requirements and result processing operation procedure for materials and products such as raw materials, packaging materials, intermediate products and finished products.

For materials and products, sampling inspection is carried out on site and physical and chemical inspection and microbiological inspection are finished in laboratory. Inspection procedures and related records should comply with GMP management regulations and relevant requirements in the *General Notice of Chinese Pharmacopoeia*. Inspection report should be prepared after inspection and quality certificate should be issued for finished products to ensure the quality of materials and products.

We strictly implement the *Materials and Products Destruction Management* developed according to the *GMP* to regulate and control the destruction procedure of materials and products.

Quality Risk Control

We have established a sound quality risk management procedure which is applied to whole quality management in a systematic manner, and specified the product manufacturing process and responsibilities of every department, including supplier management, corrective and preventive measures, quality complaint, validation, production management, laboratory management, intermediate control, change control, etc.

- Supplier management: All suppliers which provide materials for the products to be marketed are audited. Only qualified and approved suppliers could provide products to the Group. For details of management measures, please refer to the Section "Supply Chain Management";

- Material release management: When receiving materials, Logistics Department is responsible for checking materials, and storing them according to specified conditions; Quality Management Department is responsible for sampling and testing, and finally determining whether the materials can be used.

- Production and release management: Manufacturing Department ensures that products are manufactured and packaged with satisfactory manufacturing techniques and equipment in satisfied environment, and stores them under appropriate conditions; Quality Management Department takes samples at key control points during production to test intermediate products or finished products; product release is decided by authorised personnel;

- Return and recall: Customers or distributors could file complaint or return products if they are not satisfied with the products in use or sales; the Group recalls the products in time if they find risks lying in products delivered to customers. In 2020, there was no product recall in the Group for safety and health reasons.

Innovative Technical Platform

We provide a steady stream of scientific and technological impetus for new drug innovation based on the following four fully advanced technical platforms:

- **Photodynamic technical platform:** We pay close attention to the trend of international scientific research. We have gradually set up the Photodynamic therapy (PDT) R&D platform, established a complete R&D system including photosensitiser synthesis and screening, research on indications and mechanism of action, process development, clinical studies, and development of supporting laser equipment and medical devices. The Group has been expanding development of drugs based on photodynamic technical platform.

- **Nano technical platform:** Our nano-drug R&D platform mainly consists of the lipid-based drug delivery system and albumin-based delivery system. Phospholipids and HAS (human serum albumin) with good biocompatibility and safety were respectively selected as drug carriers to form a new nano drug delivery system, which improved the therapeutic efficacy of original agents, reduced their side effects and improved compliance.

- **Genetic engineering technical platform:** The platform has established the two major technology systems, prokaryotic cell expression system and eukaryotic cell expression system. It has undertaken one thematic subject and one important subject of China state 863 funds, and State Projects For Essential Drug Research and Development (a key technical research work of mammalian cell industrialized culture and drug manufacture, research on antibody-drug conjugate).

- **Oral solid preparation technology platform:** In the past few years, we have gradually established the technology system in cooperation with a third-party, and been in the process of developing a number of new drugs and generic drugs with unique clinical treatment value. Oral solid formulation technology will be one of the basic technology platforms for the long-term development of the Group.

Protection of Consumer Rights and Interests

Upholding the principle of integrity, we try the best to provide accurate consumption information, protect consumer's right to know, and provide a reliable service environment for consumers. In accordance with the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* and other laws and regulations, we have developed the management procedure of *Product Complaint* to regulate procedure of complaint registration, evaluation, investigation and treatment, under which problems from consumers should be solved immediately and effectively to improve consumers' satisfaction. During the reporting period, the Group received a total of two complaints from various channels, all of which were handled properly in a timely manner.

- Any department or personnel informed of customers' complaints should forward them to Sales Department and Quality Management Department;

- Quality Management Department takes charge of organising investigation on the complaints, making and approving relevant corrective and preventive action plans if necessary, assisting Sales Department to reply to customers and reporting to competent authorities if necessary;

- Sales Department assists Quality Management Department to investigate complaints, provides and implements sales measures, communicates with customers and answers the complaints;

- Customers can file complaints by oral, telephone, mail, fax, visiting or in other forms;

- We regularly review and analyse the trend of product complaints in product quality review.

We pay great attention to medical safety of patients and monitoring and reporting of adverse drug reactions. In accordance with the *Administrative Measures for Reporting and Monitoring Adverse Drug Reactions* and other laws and regulations, we have developed relevant management regulations on reporting and monitoring of adverse drug reactions, established procedure of reporting and monitoring of adverse drug reactions. We actively monitor adverse reactions and report them to national adverse reaction monitoring centre in a timely manner.

We effectively protect customers' privacy by regarding their information as the Group's secret, keeping it secure through proper measures, and granting access to authorised personnel only.

Advertising and Labelling Management

We manage labelling and advertising by laws to protect consumers' rights and maintain brand image. The Group conforms to requirements of *Advertisements Law of the People's Republic of China, Regulations on Management of Medical Advertising, Drug Administration Law of the People's Republic of China, Provisions for Drug Advertisement Examination, Good Manufacturing Practices (2010 revision)* and other laws and regulations. The Group formulated *Design and Change of Packing Materials* to manage design and change of packaging materials used for new products or additional existing products to make the product package conform to characteristics of products, demand of market, technical conditions and provisions of national laws and regulations. Design draft of label, manual and package should include product specifications, packaging specifications, size requirements, material requirements, appearance requirements, packaging safety requirements and other specific contents which are reviewed by marketing department, manufacturing department, logistics department, quality management department and quality authorised personnel.

Supply Chain Management

Supplier management is one of the most important parts of quality management for pharmaceutical enterprises. Stability, safety and effectiveness of product is directly influenced by the selection of suppliers. The Group formulated *Supplier Management Policy* to regulate the operational procedures of evaluation and approval for material suppliers, and clarify the suppliers' qualification, selection principle, quality evaluation methods, evaluation standard, and approval procedure for material supplier. In the procedure of selecting suppliers, the Group requires the suppliers should have relevant qualification certificates and be able to guarantee uniform source and controllable quality. Priority is given to suppliers passing GMP examinations and suppliers with good reputations. As the end of the reporting period, the Group had 591 suppliers. The number of suppliers by geographical region is shown as below:

Region	Number
Shanghai	236
Jiangsu	93
Guangdong	44
Others	218

Supply Chain Integrity Management

We focus on Supply Chain Integrity Management. When the Group cooperated with distributors and promotion agents, we make clear agreement about anti-commercial bribery in the distribution agreement and promotion agreement. In the agreement, all parties promised to strictly comply with regulations on anti-commercial bribery, such as the *Unfair Competition Law of the People's Republic of China* and create fair and honest marketing environment. We strengthen our due diligence on new suppliers and clients and develop *Regulations on Anti-Commercial Bribery*. While selecting cooperative partners, the Group paid close attention to its internal management and compliance commitment including anti-corruption, anti-commercial bribery, anti-unfair competition and other compliance issues. The Group placed emphasis on integrity management in the contract, requiring both parties to comply with related laws and regulations on anti-corruption, anti-commercial bribery and anti-unfair competition, etc.

Supply Chain Risk Assessment

We conduct risk assessment for suppliers and assess and control suppliers based on the assessment result. Quality management department conducts nominal audit and on-site audit for material suppliers based on the result of risk assessment:

- Nominal Audit: Quality management department evaluates supplier based on information from completed supplier questionnaires.

- On-site Audit: Quality management department organizes related departments (logistics department and manufacturing department) to set up audit team. The audit covers personnel institutions, facilities and equipment, material management, production process and management, equipment, instruments and documents management of quality control laboratory. The audit verifies authenticity of qualification certificates and testing reports of suppliers, and checks if they have testing condition.

We conduct continuous testing to performance of approved suppliers, including annual review and regular audit. Annual review includes testing result of quality testing, quality complaints and unqualified management records etc., by which the risk of supplier is further assessed. We will increase audit frequency or change nominal audit to on-site audit or immediate audit in the circumstances where suppliers have quality issues or their production condition, technology, quality standard, inspection methods and other significant factors influencing quality have great change.

Supply Chain Environmental and Risk Management

In order to promote suppliers to reduce environmental pollution and fulfill relevant requirements of social responsibilities, we formulate *Regulations on Environmental and Social Responsibility of Suppliers*, and raise strict requirements of environmental responsibility to suppliers. For instance, it is required that the pollutant discharged by suppliers should comply with relevant standards, and priority selection should be given to environmental-friendly and energy saving technologies. During storage and transportation process, the suppliers should ensure that the discharge meets relevant standards and the process is safe. In addition, for the suppliers' social responsibility, the Group requires all suppliers to prevent child and forced labour, ensure employees' health and safety, strictly fulfil the responsibilities to their product, etc.

The Group formulated *Supplier Questionnaire* for the evaluation of the suppliers' quality system. The questionnaire is set up to investigate and manage relevant qualifications of suppliers and investigate the EHS management situation of suppliers, requiring them to strengthen environmental and social risk management. The Group formulated *Materials Purchase Management* to regulate management and procedure of material purchase and control rationality and normalisation of purchasing process.

CARING FOR EMPLOYEES

Safeguarding Employees' Safety and Health

We make efforts to safeguard employees' occupational health and safety, provide safe working environment and equipment, and implement safe working behaviours. We strictly observe the *Production Safety Law of the People's Republic of China*, the *National Emergency Plan for Work Safety Accidents* and other laws and regulations. In combination with the Group's operational characters, we have developed a sound emergency management system for safety accidents and a strict hazardous chemicals management procedure, continuously carry out safety education and emergency exercises, and provide employees with health examinations and examinations for occupational diseases, to ensure the safety of employees, equipment and assets. Between 2018 and 2020, there was no work-related fatality. During the reporting period, the number of lost days due to work injury was 240.

Protecting Employees' Health

We develop an occupational health prevention and control plan every year to provide medical examinations for our employees, which includes orientation examination and on-the-job examination under the GMP as well as orientation, on-the-job and exit examinations to prevent employees from occupational diseases. We entrust qualified inspection and testing institution with regular inspection and testing on occupational hazard equipment, protection equipment and personal protection equipment. Occupational hazard factors testing report is provided by the institution. In addition, for employees' physical fitness, we carry out sports activities and encourage employees' participation including swimming, badminton, table tennis, billiards, basketball, etc.

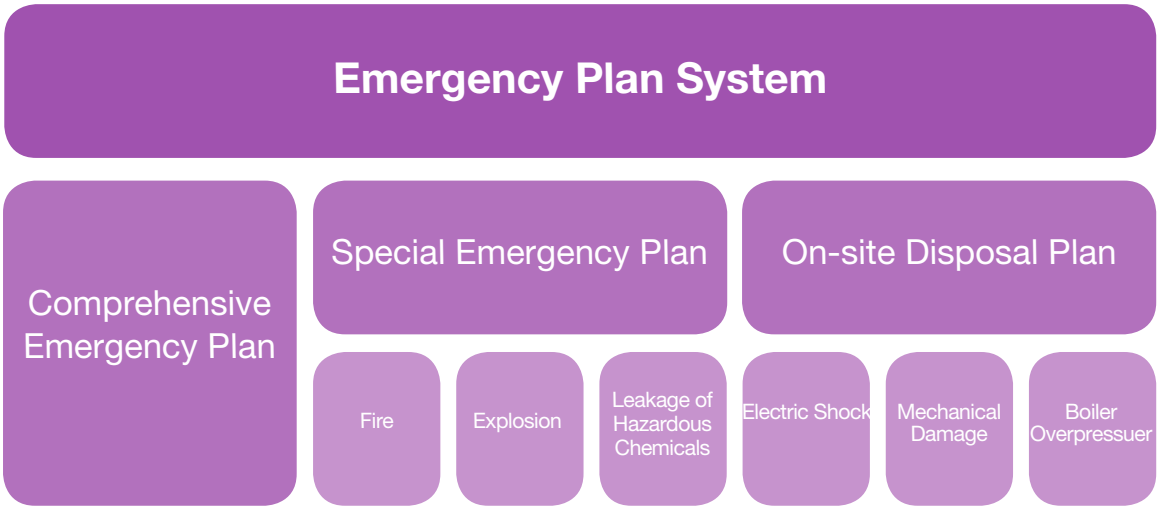
Strengthening Pandemic Prevention and Control

After the outbreak of COVID-19 in 2020, with the principle of "Prevention First and Safety Foremost", the Group persisted on putting the life and health of employees in the first place, and issued the *Rules for the Prevention and Control of COVID-19 Pandemic* and other regulations on pandemic prevention and control. In addition, we conducted a series of effective measures to create a comfortable and safe office environment for employees, such as:

- ✓ Reasonable arrangement of the procurement, distribution and management of personal protective items such as disposable disinfectant, masks, etc., providing enough personal pandemic-prevention materials;
- ✓ Publicity of pandemic prevention and control knowledge through various approaches such as hanging banners and posting the knowledge on infectious pandemic prevention and control on publicity boards;
- ✓ Reduction of people-gathering meetings and adoption of staggered working hours to reduce the risk of cluster infection;
- ✓ More frequent disinfection of corridor handrails, door handles, elevator buttons, rest rooms and other public areas;
- ✓ Strict access management to working areas such as offices, factories, etc., with temperature check points arranged at the entrance and exit to strictly monitor the health of people;
- ✓ Arrangement of a quarantine area in the Company. The person with high temperature or suspicious person will be immediately transferred to quarantine area and reported to relevant authorities in a timely manner.

Management for Safety Accidents

We have established an emergency command centre based on the principle of "reporting in time, responding rapidly and human oriented", to strengthen the organisation and management of emergency response activities. We popularise our accident emergency operation procedures among employees through the *Emergency Plan for Work Safety Accidents*, so that emergency rescue can be implemented rapidly, efficiently and orderly after an accident to protect employees' life safety and reduce property loss.



Conforming to the principle of "Prevention First and Human-oriented", we have developed the *Emergency Plan for Fire, Explosion and Chemical Accidents* and the *Hot Work Management Policy* and other regulations so that we can respond to and control accident rapidly and orderly, prevent pollution, protect production safety and employee life safety, and minimise loss and damage in case of any chemical, fire or explosion accident.

We combine accident emergency response with prevention work, enhance management of hazardous sources, and carry out accident prevention, prediction, warning and forecast. We have equipped fire-fighting equipment at work places such as fire pump station, fire hydrant, fire hammer, fire telephone, voice-activated alarm, fire sprinkler, smoke detector, etc. We have also posted evacuation map at visible places. Supplies and equipment are checked once every month to ensure that employees could use nearest emergency supplies in case of emergency accident. We also organised fire protection training and drill to raise employees' fire protection awareness and knowledge. In June 2020, Taizhou FDZJ carried out fire emergency evacuation drill; in December, Shanghai FDZJ carried out evacuation drill of fire accident.

To standardise management regulations for hazardous materials and protect the safety of life, production and property, we have formulated the *Management Regulations for Toxic, Inflammable and Explosive Hazardous Materials* to regulate the purchase, acceptance, entering, storage, distribution and usage of hazardous materials as well as subsequent treatment and emergency treatment. We have developed standard safety protection operation procedures specifically for particular categories of hazardous materials.

- Hazardous materials should be managed by special personnel who have attended relevant training and obtained job skill certificate;
- Hazardous materials should be stored by category according to minimum safe storage amount, and enough safety distance should be arranged for passageway between stackings;
- Safety measures should be taken for places dedicated to storing chemicals, such as ventilation, anti-explosion, fire protection, lightning protection, extinguishment and sunblock according to materials' type and property;
- Hazardous chemicals, which easily burn, explode and produce toxic gas in case of fire or moist, should not be stored in any place which is open, humid, low-lying and easy to collect water.

Production Safety Education

We ensure safe production and strengthen safety awareness education by implementing the *Management Policy for Production Safety Education and Training*. We organise emergency exercises to strengthen employees' safety awareness and emergency ability. We have established a safety production leading group, which takes charge of propaganda of laws, regulations, prevention of production safety accidents, risk avoidance, disaster avoidance, and common sense of self-rescue and mutual-rescue among all employees and organises safety education and training irregularly.

We organise safety education and training on three levels, including company level (level 1), workshop or department level (level 2), section or group level (level 3). Employees should take relevant training and pass the examination before taking up the posts. Pressure vessel operator, electrician, high matches electrician, metering personnel, driver and other special operation personnel should take technical training and get certificates from competent authority before taking special operation.

In December 2020, Shanghai FDZJ invited the Medical Emergency Centre of Pudong New District, Shanghai to conduct training on first-aid knowledge popularisation for employees, introducing the purpose of first-aid, various emergency scenarios and treatment methods.

Creating a Honest Environment

The Group strictly complies with laws and regulations relating to anti-corruption, anti-extortion, anti-fraud and anti-money laundering, including but not limited to these on anti-commercial bribery, such as the *Criminal Law of the People's Republic of China*, the *Anti-money Laundering Law of the People's Republic of China*, and the *Anti-Unfair Competition Law of the People's Republic of China*, etc. The Group continuously strengthens internal control and supervision mechanism, upholds integrity management, and strictly conforms to rules of fair competition. According to Employee Handbook and Regulations on Anti-Commercial Bribery, the Group requires the employees to be honest and self-disciplined, comply with laws/regulations and the Group's management regulations on honesty and self-discipline, follow principles of law-abiding, honest, fair and scientific, resolutely refuse to accept commercial bribery, accept bribery and commit other improper business practices. The Group will report personnel suspected of crimes to relevant authorities. During the reporting period, the Group did not have any no case regarding corrupt practices.

Internal audit and control department is responsible for supervision of commercial bribery, internal dissemination and implementation of relevant national laws, regulations and policies on commercial bribery, and revision of the Group's relevant regulations in reaction to change of policies. In addition, it is also responsible for supervision and management personnel on important positions and practical implementation of anti-corruption and anti-commercial bribery work in business.

We actively carry out relevant training and learning activities to strengthen employees' compliance awareness and risk identification ability. Every year, we conduct trainings for board members and employees on anti-corruption and business ethics to ensure compliance operations. The Group's Admin & HR department makes arrangements for new employees to study regulations on anti-commercial bribery before induction, records the training and requires each new employee to sign on the record.

Development and Training

We respect talents and apply sound regulations to select talents and explore employees' potential. Various types of training are provided based on work and employees' career needs. *Management Policy for Education and Training* was formulated to regulate training and continuing education. The following types of training are already in place:

Internal Training: Internal training includes routine training by internal trainer and external trainer.

Induction Training: Within one week after any employee joins in the Group, Admin & HR department jointly with employing department conduct system trainings on policy and business.

Professional Training: Arrangements are made for employees to take external professional trainings based on employees' technical and business development demand.

Work License Training: Work license training and continuing education should be taken according to work demand.

Moreover, in order to promote employees' interpersonal communication and teamwork, Shanghai FDZJ has founded teamwork training fund to provide expenditure for every department, and developed *Regulations of Use of Teamwork Training Fund* to specify fund amount and usage.

In 2020, Taizhou FDZJ organised middle and senior management personnel, personnel in charge of research and development (R&D) and technology to participate in the industrial talent training programme of "Excellent Talents and Brilliant Craftsman" of Jiangsu Province – "Advanced Seminar on the Full Life Cycle Management of Biomedicine Industry". The training programme covered the trends of the industry, policy interpretation, R&D and quality management, clinical management, production management, business development, as well as frontier topics and case studies, which greatly improved employees' professionalism.

During the reporting period, the percentage of employees trained of the Group was 100%. The percentage of employees trained and the average training hours completed per employee by gender and employee category are shown as below:

Employment Type		Percentage of Employees Trained	Average Training Hours Completed per Employee
Gender	Male	45%	14.7
	Female	55%	8.7
Employee category	Senior management	1%	22.9
	Middle management	8%	10.6
	Junior employees	91%	11.3

Note: Percentage of Employees Trained = the number of employees trained in the specified category during the reporting period/the total number of employees trained *100%

Protection of Employees' Rights and Interests

We strictly comply with the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and relevant laws and regulations, and have developed a series of staff management policies to protect the lawful rights and interests of the Group's employees:

- ✓ Labour Management Policy
- ✓ Employee Handbook
- ✓ Employee Compensation Management Policy
- ✓ Employee Evaluation Policy
- ✓ Attendance Management Policy
- ✓ Evaluation Policy for Department Managers
- ✓ Policy for Team Building
- ✓ ……

Recruitment and Dismissal

We adhere to the principle of equality in the recruitment process and make recruitment plan conforming to the principle of "capable, efficient and putting quality before quantity", and recruit talents through open recruitment and employee referral according to the principle of "compete openly and select the best". We select employees by work attitude, applicable ability, knowledge, experience, potential and teamwork. All employees of the Group are entitled to an employment contract according to relevant laws and regulations at the start of their employment. Resignation and dismissal are processed according to the standard procedures of work handover to meet requirements of relevant laws and regulations and internal policies.

As of the end of the reporting period, the Group had a total of 629 employees, of which 628 were full-time employees and 1 were part-time employees. The total workforce by gender, age group and geographical region as the end of the reporting period, and the employee turnover rate during the reporting period are shown as below:

Employee Category		Total Workforce	Employee Turnover Rate
Gender	Male	284	13%
	Female	345	9%
Age Group	<30	180	13%
	30-50	430	9%
	≥50	19	11%
Geographical Region	Shanghai	557	12%
	Taizhou	72	1%

Note: Employee Turnover Rate = Number of employees lost during the reporting period/Total number of employees at the end of the period

Compensation and Promotion

We implement classified job subsidy system. The job subsidy levels are determined according to position responsibilities and ability requirements. The remuneration system consists of standard salary, subsidy, benefit, performance distribution and award.

In accordance with national regulations, we contribute to various public funds for each employee, including a public pension fund, a public housing fund, a medical insurance fund, an unemployment insurance fund, labour union expenditure, education expenditure, benefit expenditure and other commercial insurance and subsidies beside mandated benefits.

We perform evaluation on department managers and employees annually and comprehensively quantify the work completion, work quality and attitude through self-evaluation, mutual evaluation among superiors and subordinates and scoring by supervisors, as the basis of performance management and employee promotion.

Anti-discrimination

In strict compliance with national and local regulations, every department, organisation and personnel of the Group allow no biases against any employee based on race, gender, skin color, age, family background, tradition, religion, physical quality, national origin and other personal characteristics, so as to ensure that employees are treated in a fair and open manner in every aspect such as recruitment, duty performing, remuneration, training, promotion and compensation.

Labour Standard

In accordance with the *Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China, Provisions on the Prohibition of Using Child Labour* and other laws and regulations, we avoid any use of child labour and forced labour. According to *Labour and Personnel Regulations*, all new employees' identification cards will be checked before they join in the Group to ensure their ages meet requirements of laws and regulations. If any child labour occurs by accident, we will immediately terminate the employment contract and handle it properly according to the laws and regulations. Besides, according to *Attendance Regulations*, if any employee has to work overtime, he/she should apply to department manager and get the manager's approval. In the reporting period, the Group did not use child labour and forced labour.

Working Hours and Holidays

We employ the standard working hours system to regulate attendance management. Employees are entitled to overtime pay if they obtain prior approval. We provide employees with paid days off from work for national public holidays, maternity leave and accompanying maternity leave, compassionate leave, medical treatment period and sick leave, personal leave and injury leave. Employees working for more than one year are entitled to paid annual leave and marriage leave.

Caring for Employees

We pay close attention to demands of employees and organise meaningful events for employees, with an aim to share a warm family feeling among employees. We hold annual meeting every year to summarise and recognise the employees' work; organise various group activities and a 3-5 day department-wide outing according to actual situation; arrange team building expenditure for every department every year; organise employee tour expenditure every year; provide donations and help to employees who have difficulties due to illness, delivering love and mildness.

In 2020, under the premise of strictly following the requirements of epidemic prevention, we organised employees to travel to Liaoning, Tibet and other places in batches to relieve work pressure and strengthen staff communication.

LOW-CARBON ENVIRONMENTAL PROTECTION

In accordance with the *Energy Conservation Law of the People's Republic of China, Environmental Protection Law of the People's Republic of China, Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Water Pollution Prevention and Control Law of the People's Republic of China* and other relevant laws and regulations, the Group always pays much attention to environmental protection. A leadership team for environmental protection management has been set up to work with department heads and form a sound management network. The list of the team members is updated every year.

Environmental Objectives

Emissions

- All waste water shall be treated and discharged in compliance with the stansards;
- Gradually reduce Greenhouse Gas (GHG) emissions, reduce GHG emissions intensity by 5% by 2025 (based on benchmark in 2020)

Wastes

- All bazardoes and non-bazardous waste are entrusted to a qualified organization for disposal;
- Gradually reduce the discharge deseity of bazardous wastes.

Energy

- Gradually reduce energy consumption, reduce the intensity of energy consumption and GHG-emissions by 5% by 2025 (based on benchmark in 2020).

Water Resources

- Gradually reduce water usage, reduce water intensity by 5% by 2025 (hased on benchmark in 2020).

Proper Emissions Management

The Group continuously improves design, uses clean energy and resources, adopts advanced technologies and equipment, improves management and comprehensive utilisation in production, by which pollutions are reduced from the source, resources are used more efficiently, and generations and emissions of pollutants in production and services are reduced or avoided. The Group formulated *Environmental Protection Management Regulation* to guarantee the practical implementation of normalised measures and provide a basis for emission management.

Wastewater, exhaust gas, greenhouse gas, solid waste etc. consist of most of the pollutant discharge in the Group. In accordance with national standards, local standards and biopharmaceutical discharge standards, the Group invites qualified institutions to monitor effluents and air emissions. The Group has established environmental emergency response plans and emergency response flows for various discharges. In the reporting period, the Group did not commit violations related to emissions.

➢ *Effluents and Air Emissions*

Industrial effluents and domestic sewage from drug development and production consist of most of the wastewater in the Group. *Environmental Pollution Prevention Regulations* and *Standard Operation Regulation of Effluent Comprehensive Treatment Equipment* are developed to strictly control effluent emissions and comprehensively treat the effluents. Sewage is discharged into the municipal sewer system after being treated and reaching the discharge standards. In accordance with the *Discharge Standard of Pollutants for Bio-pharmaceutical Industry*, the Group adopts primary treatment to effluents which cannot be directly discharged and accepts irregular monitoring by relevant authorities.

Exhaust gas from drug development and production consists of most of the air emissions in the Group. In accordance with *Industrial Air Emissions Standard of Shanghai*, the Group developed *Standard Operation Procedures of Air Emission Treatment Equipment* to regulate and control operation of air treatment equipment to make the air emissions reach relevant standard.

During the reporting period, the Group's KPIs related to emissions are shown as below:

Types of Emissions	**2020**	2019	2018
Wastewater (ton)	**40,827.90**	61,471.80	46,910.90
COD (kg)	**1,643.62**	1,991.30	1,421.43

Note: The Group's COD emissions data is calculated according to the amount of wastewater multiplied by the concentration of COD detected periodically.

➢ *Wastes*

Hazardous and non-hazardous wastes are produced from drug research and production by various departments in the Group.

The Group has registered with Solid Waste Management Information System in Shanghai and Taizhou to monitor the treatment of wastes, and conducted strict management over wastes as per *Regulations on Treatment and Management of Industrial Wastes* and *Regulations on Management of Wastes*. The Group requires departments to fill in the *Application Form for Industrial Waste Treatment* which requires material name, packing specification, chemical property, component, content, amount, waste form and waste reason. The form is checked and archived by dedicated management personnel. After being approved and signed by leader of competent authority, wastes are stored in specified waste storage room or neutralisation tank.

The Group entrusts professional institutions which have *Shanghai Hazardous Wastes Disposal Permit* and hazardous treatment qualification certificate to treat hazardous wastes. These institution Non-hazardous wastes are collected and treated by sanitation department.

In 2020, Taizhou FDZJ improved the configuration and cleaning operation process of the normal phase chromatography column in the raw material workshop, which was expected to reduce the generation of 15 tons of hazardous waste per year.

During the reporting period, the Group's KPIs related to hazardous and non-hazardous waste discharge are shown as below:

Wastes	**2020**	2019	2018
Hazardous Waste Emissions in Total (ton)	**117.05**	98.02	65.04
Intensity (ton/million RMB of revenue)	**0.14**	0.10	0.09
Non-hazardous Waste Emissions in Total (ton)	**34.01**	34.01	34.01
Intensity (ton/million RMB of revenue)	**0.04**	0.03	0.05

Notes:

1. The types and emissions of hazardous wastes of the group are calculated according to the hazardous wastes transfer form;

2. The Group's non-hazardous wastes are collected and disposed by the local Municipal Environmental Sanitation Department, which estimates the total amount of wastes and charge the Group. During the reporting period, the non-hazardous wastes emission of the Group estimated by the Department kept consistency with that in the prior reporting period, so did the fees charged for the non-hazardous waste treatment. Thus, the total emission of non-hazardous waste during the reporting period had no significant difference with that in the prior reporting period.

Resources Conservation

Resources used by the Group are principally electricity, water and natural gas. The Group has developed *Management Procedure of Energy and Resources* to use energy/resource effectively and reasonably, improve usage efficiency, reduce waste and implement the principles of saving energy, reducing consumption, reducing pollution, and improving efficiency.

The Group motivates departments to save energy through an energy-conservation performance management system. Historical data and the actual production conditions are considered to set energy-conservation target for departments. Department heads should develop energy-conservation target for their department according to the Group's energy-conservation target. Departments of using production resources should improve utilisation of raw materials, take measures to reduce unqualified product rate, gradually reduce resources used for unit product, promote regular statistics and analysis on resources loss, make solutions and decide the agenda and responsible person. Resource consumption in departments is monitored and measured regularly. Reason analysis should be conducted for the projects which do not complete energy-conservation plan. Relevant measures should be made and the implementation of the measures should be supervised and examined.

The Group seasonally adjusts the high electricity consumption equipment such as air conditioner in clean plant to reduce load. After energy-conservation reconstruction, warm water generated in heat source of water equipment, such as heat exchange of cooling water in distilled water machine and pure steam generator, is used as boiler makeup water. This could recycle boiler water, reduce cooling water discharge, cut down boiler heat consumption, save energy and reduce emissions.

Taizhou FDZJ installed photovoltaic grid-connected power generation facilities on the roof of the factory. It is estimated that the average annual power generated to the power grid will be about 500,000 KWh, which not only reduces the emission resulted from power generation but also mitigates the pressure of municipal power supply. In 2020, Taizhou FDZJ completed the technical modification of the air-conditioning system for the purpose of energy saving, which effectively reduced the failure rate of the air-conditioning system and increased the reliability of the ambient temperature controlling of the equipment located in certain area. It is expected to save 50,000 KWh of electricity per year. In addition, Taizhou FDZJ optimised and upgraded the disinfection procedure of the purified water system, reducing the times of disinfection, effectively reducing the risk of rusting in the system, and saving 120t of steam per year.

During the reporting period, the Group's KPIs for resources usage are as follows:

Resource Consumption	**2020**	2019	2018
Diesel (MWh)	**0.13**	0.07	0.02
Gasoline (MWh)	**78.43**	82.92	89.13
Natural Gas (MWh)	**3,424.52**	4,041.72	3,976.63
Total Direct Energy (MWh)	**3,503.08**	4,124.71	4,065.78
Electricity (MWh)	**11,108.52**	10,816.47	10,817.22
Total Indirect Energy (MWh)	**11,108.52**	10,816.47	10,817.22
Total Energy Consumption (MWh)	**14,611.60**	14,941.18	14,883.00
Intensity (MWh/Million RMB of Revenue)	**17.52**	14.52	20.06
Total Water Consumption (ton)	**73,931.00**	94,727.00	82,137.00
Intensity (ton/Million RMB of Revenue)	**88.67**	92.03	110.72
Packaging Materials in Total (ton)	**48.76**	71.25	49.95

Notes:

1. Total energy consumption is calculated based on the amount of electricity purchased and the consumption of natural gas, diesel and gasoline considering the default parameter values to fossil fuel as shown in Attached Table 1 and default fuel densities as shown in Attached Table 2 to the Accounting Methods and Reporting Guide for Greenhouse Gas Emissions from Chemical Industry Enterprises issued by the NDRC.

2. During the reporting period, the total packaging material was disclosed according to the provisions A2.5 total packaging material used for finished products in the ESG reporting guide. The types and usage of packaging material was not disclosed and the subsequent periods will be consistency with this reporting period.

3. As the Group's production activities only involve the development and production of drugs and the Group does not use other environmental and natural resources, A3 The Environmental and natural resources and A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them is not disclosed in this report.

Response to Climate Change

Global climate change has a profound impact on human survival and restricts sustainable development on enterprise. Accelerating adaptation to climate change is a common global issue. We continue to monitor the impact of climate change trends and regulations evolution at home and abroad on the pharmaceutical industry and our business operations. The ESG working group of the Group actively identifies the risks and opportunities that the Group faces in relation to climate change, develops the desired response, and reports regularly to senior management and the Board.

Since the Group is not involved in large-scale production activities, does not consume much energy and produce a large amount of emissions, we face low risks from policies, regulations, technology, markets, reputation, etc. In order to cope with the operational risks that may arise from extreme weather and natural disasters such as typhoons, rainstorms and floods, we have developed corresponding emergency procedures and protective measures to minimize losses.

Energy Indirect greenhouse gas emissions (scope II) mainly resulted from electricity consumption of production equipment and in workplaces of the Group. Direct greenhouse gas emissions (scope I) resulted from natural gas used by boiler, naphtha and diesel oil used by vehicles and small number of fire extinguishers. The Group makes efforts to reduce greenhouse gas emissions by improving energy efficiency. Detail energy-conservation measures are shown in section "Resources Conservation".

During the reporting period, the Group's KPIs related to greenhouse gas emissions are shown as below:

Greenhouse gas	**2020**	2019	2018
Direct Greenhouse Gas Emissions (Scope I) (tCO_2e)	**703.91**	828.39	816.89
Energy Indirect Greenhouse Gas Emissions (Scope II) (tCO_2e)	**7,814.85**	7,609.38	7,609.91
Total Greenhouse Gas Emissions (tCO_2e)	**8,518.76**	8,437.77	8,426.80
Intensity (tCO_2e/million RMB of revenue)	**10.22**	8.20	11.36

Note: Greenhouse gas emissions are presented in CO_2e, accounting method and conversion factors come from the *Accounting Methods and Reporting Guide for Greenhouse Gas Emissions from Chemical Industry Enterprises* issued by the National Development and Reform Commission (NDRC).

PARTICIPATION IN CHARITABLE ACTIVITIES

At the same time of creating value for shareholders and creating wealth for customers, the Group actively devotes itself to public services, pays attention to vulnerable groups and poverty-stricken people, fulfils social responsibilities, and promotes harmonious development of community, company and regional economy. The Group established *Management Regulations of Charity* and *Public Benefit Activities* to regulate community investment activities.

Fight against Pandemic

In 2020, under the leadership of the Comprehensive Party Committee of Zhangjiang High-tech Park in Pudong, Shanghai, the Party Branch of the Group actively organised volunteers to participate in the pandemic-prevention inspections in Zhangjiang High-tech Park in order to guarantee the resumption of production, and support the Party Committee in purchasing pandemic-prevention materials, making contribution to the pandemic prevention of the park.

Donation of Medicines

The Group cooperated with Beijing Public Health Foundation to launch a charity programme named "For Their Tomorrow" in April 2020 to help the low-income patients obtain longer and effective medical treatment, alleviate the economic burden of patients and improve the quality of life. During the reporting period, the total value of donated drugs by the Group exceeded RMB140 million.

Charitable Fundraising

For a long time, the Group has been actively participating in the charity fundraising activities of "Love in Sky" organised by Shanghai Charity Foundation. In 2020, the Group participated in the 26th charity fundraising of "Love in Sky-thousands of people donate to help thousands of families" and raised RMB 50,000, which was used to help the poor families in Pudong New District.

Poverty Alleviation in Rural Areas

In 2020, the labour union of the Group purchased more than RMB70,000 of products from farmers in the Shanghai Zhongfu Grain and Fruit Production Cooperative and the Lv'an Fruit Farmers Cooperative in poverty-stricken Rongjiang County, Guizhou Province for the purpose of alleviating poverty and helping the development of rural areas.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.,

OPINION

What we have audited

We have audited the accompanying financial statements of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (hereinafter the "Company"), which comprise:

- the consolidated and company balance sheets as at 31 December 2020;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company and its subsidiaries (the "Group") as at 31 December 2020, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

KEY AUDIT MATTERS

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

KEY AUDIT MATTERS (continued)

A key audit matter identified in our audit is capitalisation of development costs:

Key Audit Matter	How our audit addressed the Key Audit Matter
Capitalisation of development costs Refer to Note 2(13)(g), Note 2(24)(a)(i) and Note 5(13) (Development costs) to the consolidated financial statements As part of its principal activities, the Group researches and develops various bio-pharmaceutical know-how and medical techniques for future commercialisation. The Group incurred total research and development expenditure of RMB 154.97 million during the year ended 31 December 2020, of which RMB 139.27 million was expensed whereas RMB 15.70 million was capitalised, the balance as at 31 December 2020 of the development cost was RMB 30.68 million. Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the conditions are satisfied. Management judges whether development expenditure can be capitalized based on the future economic benefits and technical feasibility of development expenditure. We focused on this area mainly due to the size of the research and development expenditure incurred, a portion of which being capitalised and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards for capitalisation of development costs for each individual project have been met, particularly: • The technical feasibility of the project; and • The likelihood of the project delivering sufficient future economic benefits.	We obtained a detail listing of all individual research and development projects with expenditure incurred and amounts capitalised in the year, reconciled to the general ledger and agreed sample items to supporting evidence. For projects with amounts capitalised during the year, we challenged management's assessment as to why they considered those amounts were development costs to be capitalised in nature, in particular on technical feasibility and future economic benefits of the projects. We assessed the appropriateness of management's judgement on technical feasibility by reference to relevant available approval, certificate or registration from/with government authorities, technical milestone reports or the Group's past history of successful development projects. For management's judgement on future profitability, we challenged key assumptions used. We corroborated the key assumptions of market scale, market share, gross profit and challenged whether these were appropriate in light of historical experiences, relevant market studies or other similar products. We also evaluated the sensitivity analysis around the key assumptions used in the forecast to ascertain the extent of change in those assumptions that would have negative impacts on the future profitability. We found that management's accounting for capitalisation of development costs was properly supported by the available audit evidences.

OTHER INFORMATION

Management of the Company is responsible for the other information. The other information comprises all of the information included in 2020 annual report of the Company other than the financial statements and our auditor's report thereon.

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Company'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 management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs 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 financial statements.

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

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

- Identify and assess the risks of material misstatement of the 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 management.

- Conclude on the appropriateness of management's 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 these 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 (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

PricewaterhouseCoopers Zhong Tian LLP Shanghai, the People's Republic of China	Signing CPA	Antoney Zhu (Engagement Partner)
25 March 2021	Signing CPA	Keane Zhou

CONSOLIDATED BALANCE SHEET

As at 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2020 Consolidated	31 December 2019 Consolidated
Current assets			
Cash at bank and on hand	5(1)	**1,396,890,192**	576,799,410
Notes receivables	5(2)	**124,175,082**	127,592,684
Accounts receivables	5(3)、9(6)	**458,920,891**	377,006,911
Advances to suppliers	5(4)	**7,429,378**	16,411,027
Other receivables	5(5)	**2,908,453**	8,250,226
Inventories	5(6)	**36,009,341**	31,869,051
Other current assets	5(7)	**240,837**	310,035
Total current assets		**2,026,574,174**	1,138,239,344
Non-current assets			
Other equity instruments	5(8)	**5,253,127**	–
Long-term equity investments	5(9)	**61,459,426**	28,078,902
Fixed assets	5(10)	**227,748,639**	254,359,522
Construction in progress	5(11)	**1,827,729**	329,602
Right-of-use assets	5(12)	**19,189,934**	5,517,981
Intangible assets	5(13)	**56,177,941**	60,460,278
Development costs	5(13)	**30,675,655**	14,970,803
Goodwill	5(14)	**–**	–
Long-term prepaid expenses	5(15)	**1,849,810**	2,414,319
Deferred tax assets	5(16)	**62,973,789**	58,181,130
Other non-current assets	5(17)	**6,970,813**	2,272,672
Total non-current assets		**474,126,863**	426,585,209
TOTAL ASSETS		**2,500,701,037**	1,564,824,553

Consolidated Balance Sheet

As at 31 December 2020

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2020 Consolidated	31 December 2019 Consolidated
Current liabilities			
Short-term borrowings	5(19)	**–**	148,942,573
Accounts payables	5(20)	**5,267,823**	6,827,902
Contract liabilities	5(21)、9(6)	**1,948,705**	2,042,726
Employee benefits payable	5(22)	**35,464,873**	48,123,497
Taxes payable	5(23)	**17,490,231**	36,301,432
Other payables	5(24)、9(6)	**361,660,803**	325,079,482
Current portion of non-current liabilities	5(25)	**6,093,386**	4,031,927
Total current liabilities		**427,925,821**	571,349,539
Non-current liabilities			
Lease liabilities	5(25)	**13,597,392**	2,121,534
Deferred income	5(26)	**50,687,981**	58,205,366
Total Non-current liabilities		**64,285,373**	60,326,900
Total liabilities		**492,211,194**	631,676,439
Owners' equity			
Share capital	5(27)	**104,300,000**	92,300,000
Capital surplus	5(28)	**1,200,120,029**	237,796,134
Other comprehensive income	5(29)	**(770,722)**	(13,950,235)
Surplus reserve	5(30)	**52,150,000**	46,150,000
Undistributed profits	5(31)	**655,131,445**	569,229,480
Total equity attributable to equity owners of the Company		**2,010,930,752**	931,525,379
Minority interests		**(2,440,909)**	1,622,735
Total owners' equity		**2,008,489,843**	933,148,114
TOTAL LIABILITIES AND OWNERS' EQUITY		**2,500,701,037**	1,564,824,553

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

COMPANY BALANCE SHEET

As at 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2020 Company	31 December 2019 Company
Current assets			
Cash at bank and on hand		**1,332,082,127**	524,036,350
Notes receivables	16(1)	**124,175,082**	127,592,684
Accounts receivables	16(2)	**428,853,571**	348,545,015
Advances to suppliers		**6,402,340**	16,297,676
Other receivables	16(3)	**125,420,054**	157,685,608
Inventories		**21,039,006**	21,272,140
Total current assets		**2,037,972,180**	1,195,429,473
Non-current assets			
Long-term receivables		**25,000,000**	–
Long-term equity investments	16(4)	**309,798,444**	285,677,396
Fixed assets		**115,186,837**	120,166,184
Construction in progress		**1,827,729**	329,602
Right-of-use assets	16(5)	**18,257,369**	5,517,981
Intangible assets		**9,651,282**	9,752,170
Development costs		**10,814,470**	–
Long-term prepaid expenses		**1,013,253**	1,390,576
Deferred tax assets		**72,290,559**	67,197,900
Other non-current assets		**6,148,883**	2,120,672
Total non-current assets		**569,988,826**	492,152,481
TOTAL ASSETS		**2,607,961,006**	1,687,581,954

Company Balance Sheet

As at 31 December 2020

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2020 Company	31 December 2019 Company
Current liabilities			
Short-term borrowings		–	148,942,573
Accounts payables		4,453,920	5,494,686
Contract liabilities		1,765,742	1,622,099
Employee benefits payable		30,607,519	44,442,590
Taxes payable		14,813,122	33,190,001
Other payables		348,299,393	313,542,721
Current portion of non-current liabilities	16(6)	5,682,425	4,031,927
Total current liabilities		405,622,121	551,266,597
Non-current liabilities			
Lease liabilities	16(6)	13,064,281	2,121,534
Deferred income		41,928,643	46,846,675
Total Non-current liabilities		54,992,924	48,968,209
Total liabilities		460,615,045	600,234,806
Owners' equity			
Share capital		104,300,000	92,300,000
Capital surplus		1,278,310,385	315,986,490
Surplus reserve		52,150,000	46,150,000
Undistributed profits		712,585,576	632,910,658
Total owners' equity		2,147,345,961	1,087,347,148
TOTAL LIABILITIES AND OWNERS' EQUITY		2,607,961,006	1,687,581,954

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

CONSOLIDATED INCOME STATEMENTS

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

	Note	2020 Consolidated	2019 Consolidated
Revenue	5(32)	**833,802,693**	1,029,294,769
Less: Cost of sales	5(32)、5(38)	**(62,838,517)**	(73,340,503)
Taxes and surcharges	5(33)	**(4,083,907)**	(5,297,439)
Selling expenses	5(34)、5(38)	**(426,929,169)**	(530,571,185)
General and administrative expenses	5(35)、5(38)	**(50,758,831)**	(54,933,261)
Research and development expenses	5(36)、5(38)	**(139,268,429)**	(127,821,947)
Financial expenses – net	5(37)	**(128,702)**	(5,627,946)
Including: Interest expenses		**(5,601,026)**	(6,298,820)
Interest income		**6,131,391**	2,086,043
Add: Other income	5(39)	**14,928,183**	14,035,376
Investment income	5(40)	**17,228,911**	11,058,615
Including: Share of loss of associates and joint ventures		**(2,619,476)**	(6,921,098)
Credit impairment losses	5(41)	**(12,247,142)**	(2,519,741)
Asset impairment losses	5(42)	**(1,274,322)**	(7,585,524)
Gains on disposals of assets	5(43)	**4,600,006**	790,301
Operating profit		**173,030,774**	247,481,515
Add: Non-operating income	5(44)	**4,697,515**	1,086,695
Less: Non-operating expenses	5(45)	**(1,027,179)**	(2,256,628)
Total profit		**176,701,110**	246,311,582
Less: Income tax expenses	5(46)	**(12,441,826)**	(25,657,487)
Net profit		**164,259,284**	220,654,095
Classified by continuity of operations			
Net profit from continuing operations		**164,259,284**	220,654,095
Net profit from discontinued operations		**–**	–
Classified by ownership of the equity			
Attributable to equity owners of the Company		**164,662,782**	227,357,983
Minority interests		**(403,498)**	(6,703,888)

	Note	2020 Consolidated	2019 Consolidated
Other comprehensive income, net of tax			
Other comprehensive income that will not be reclassified to profit or loss			
Disposal and changes in the fair value of other equity investments		**5,253,127**	–
Other comprehensive income that will be reclassified to profit or loss			
Translation differences on translation of foreign currency financial statements		**(224,431)**	56,181
		5,028,696	56,181
Total comprehensive income for the year		**169,287,980**	220,710,276
Attributable to equity owners of the Company		**169,691,478**	227,414,164
Attributable to minority interests		**(403,498)**	(6,703,888)
		169,287,980	220,710,276
Earnings per share			
Basic and diluted earnings per share	5(47)	**0.17**	0.25

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

COMPANY INCOME STATEMENTS

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

	Note	2020 Company	2019 Company
Revenue	16(7)	**761,842,615**	950,411,129
Less: Cost of sales	16(7)	**(49,510,936)**	(52,858,674)
Taxes and surcharges		**(1,558,077)**	(2,645,970)
Selling expenses		**(401,819,776)**	(509,833,535)
General and administrative expenses		**(37,265,496)**	(32,810,925)
Research and development expenses		**(134,862,719)**	(129,007,520)
Financial expenses – net		**(280,668)**	(5,360,508)
Including: Interest expenses		**(5,575,462)**	(5,926,993)
Interest income		**5,929,404**	1,923,715
Add: Other income		**9,928,384**	10,429,383
Investment income	16(8)	**28,221,990**	17,095,652
Including: Share of income/(loss) of joint ventures		**1,121,048**	(748,804)
Credit impairment losses		**(12,074,649)**	(28,719,246)
Asset impairment losses		**(4,600,000)**	(12,200,000)
Gains on disposals of assets		**898,832**	869,214
Operating profit		**158,919,500**	205,369,000
Add: Non-operating income		**4,313,830**	1,059,761
Less: Non-operating expenses		**(806,586)**	(2,066,513)
Total profit		**162,426,744**	204,362,248
Less: Income tax expenses		**(12,141,826)**	(20,047,487)
Net profit		**150,284,918**	184,314,761
Classified by continuity of operations			
Net profit from continuing operations		**150,284,918**	184,314,761
Net profit from discontinued operations		**–**	–
Other comprehensive income, net of tax		**–**	–
Total comprehensive income for the year		**150,284,918**	184,314,761

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

	Note	2020 Consolidated	2019 Consolidated
Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**802,045,045**	968,262,544
Cash received relating to other operating activities	5(48)(a)	**22,912,575**	39,642,281
Sub-total of cash inflows		**824,957,620**	1,007,904,825
Cash paid for goods and services		**(455,211,207)**	(415,210,397)
Cash paid to and on behalf of employees		**(143,007,517)**	(145,910,046)
Payments of taxes and surcharges		**(66,087,487)**	(109,733,885)
Cash paid relating to other operating activities	5(48)(b)	**(47,648,115)**	(67,817,885)
Sub-total of cash outflows		**(711,954,326)**	(738,672,213)
Net cash flows from operating activities	5(48)(f)	**113,003,294**	269,232,612
Cash flows from investing activities			
Net cash received from disposal of fixed assets		**12,026,152**	2,618,284
Net cash received from disposal of subsidiaries		**–**	6,796,383
Cash received relating to other investing activities	5(48)(c)	**3,104,949,369**	1,669,829,279
Sub-total of cash inflows		**3,116,975,521**	1,679,243,946
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(42,410,752)**	(40,385,647)
Cash paid to acquire joint venture		**(36,000,000)**	–
Cash paid relating to other investing activities	5(48)(d)	**(3,085,100,000)**	(1,660,000,000)
Sub-total of cash outflows		**(3,163,510,752)**	(1,700,385,647)
Net cash flows from investing activities		**(46,535,231)**	(21,141,701)

	Note	2020 Consolidated	2019 Consolidated
Cash flows from financing activities			
Cash received from capital contributions		**996,190,000**	–
Cash received from borrowings		**51,057,427**	151,567,573
Sub-total of cash inflows		**1,047,247,427**	151,567,573
Cash repayments of borrowings		**(200,000,000)**	(150,000,000)
Cash payments for distribution of dividends, profits or interest expenses		**(69,766,270)**	(70,197,535)
Cash payments relating to other financing activities	5(48)(e)	**(23,634,007)**	(190,939,136)
Sub-total of cash outflows		**(293,400,277)**	(411,136,671)
Net cash flows from financing activities		**753,847,150**	(259,569,098)
Effect of foreign exchange rate changes on cash and cash equivalents		**(224,431)**	56,181
Net increase/(decrease) in cash and cash equivalents	5(48)(g)	**820,090,782**	(11,422,006)
Add: Cash and cash equivalents at beginning of the year	5(48)(g)	**576,799,410**	588,221,416
Cash and cash equivalents at end of the year	5(48)(g)	**1,396,890,192**	576,799,410

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

COMPANY CASH FLOW STATEMENTS

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

	Note	2020 Company	2019 Company
Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**721,011,104**	880,930,380
Cash received relating to other operating activities		**64,963,103**	35,324,213
Sub-total of cash inflows		**785,974,207**	916,254,593
Cash paid for goods and services		**(441,260,021)**	(410,442,341)
Cash paid to and on behalf of employees		**(120,978,625)**	(122,495,712)
Payments of taxes and surcharges		**(53,910,376)**	(97,240,910)
Cash paid relating to other operating activities		**(83,023,023)**	(54,188,626)
Sub-total of cash outflows		**(699,172,045)**	(684,367,589)
Net cash flows from operating activities		**86,802,162**	231,887,004
Cash flows from investing activities			
Net cash received from disposal of fixed assets		**980,304**	1,523,215
Net cash received from disposal of subsidiaries		**8,389,985**	7,483,143
Cash received relating to other investing activities		**3,096,010,957**	1,677,239,113
Sub-total of cash inflows		**3,105,381,246**	1,686,245,471
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(37,026,413)**	(29,122,928)
Cash paid to acquire investments		**–**	(178,000,000)
Net cash paid to acquire joint venture		**(36,000,000)**	–
Cash paid relating to other investing activities		**(3,068,900,000)**	(1,660,000,000)
Sub-total of cash outflows		**(3,141,926,413)**	(1,867,122,928)
Net cash flows from investing activities		**(36,545,167)**	(180,877,457)

	Note	2020 Company	2019 Company
Cash flows from financing activities			
Cash received from capital contributions		**996,190,000**	–
Cash received from borrowings		**51,057,427**	148,942,573
Sub-total of cash inflows		**1,047,247,427**	148,942,573
Cash repayments of borrowings		**(200,000,000)**	(150,000,000)
Cash payments for distribution of dividends, profits or interest expenses		**(69,766,270)**	(70,197,535)
Cash payments relating to other financing activities		**(19,692,375)**	(10,278,403)
Sub-total of cash outflows		**(289,458,645)**	(230,475,938)
Net cash flows from financing activities		**757,788,782**	(81,533,365)
Effect of foreign exchange rate changes on cash and cash equivalents		**–**	–
Net increase/(decrease)in cash and cash equivalents		**808,045,777**	(30,523,818)
Add: Cash and cash equivalents at beginning of year		**524,036,350**	554,560,168
Cash and cash equivalents at end of year		**1,332,082,127**	524,036,350

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Attributable to equity owners of the Company					Minority interests	Total owners' equity
	Paid-in capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits		
Balance at 1 January 2019	92,300,000	412,293,387	(14,006,416)	46,150,000	406,481,497	11,213,505	954,431,973
Movements for the year ended 31 December 2020							
Total comprehensive income							
Net profit/(loss)	–	–	–	–	227,357,983	(6,703,888)	220,654,095
Other comprehensive income	–	–	56,181	–	–	–	56,181
Capital contribution and withdrawal by owners							
Profit distribution							
Profit distribution to equity owners	–	–	–	–	(64,610,000)	–	(64,610,000)
Acquisition of minority shareholders in the company	–	(174,497,253)	–	–	–	(3,502,747)	(178,000,000)
Others	–	–	–	–	–	615,865	615,865
Balance at 31 December 2019	92,300,000	237,796,134	(13,950,235)	46,150,000	569,229,480	1,622,735	933,148,114
Balance at 1 January 2020	**92,300,000**	**237,796,134**	**(13,950,235)**	**46,150,000**	**569,229,480**	**1,622,735**	**933,148,114**
Movements for the year ended 31 December 2020							
Total comprehensive income							
Net profit/(loss)	**–**	**–**	**–**	**–**	**164,662,782**	**(403,498)**	**164,259,284**
Other comprehensive income	**–**	**–**	**5,028,696**	**–**	**–**	**–**	**5,028,696**
Capital contribution and withdrawal by owners (Note 5(28))	**12,000,000**	**962,323,895**	**–**	**–**	**–**	**–**	**974,323,895**
Profit distribution							
Appropriation to surplus reserves	**–**	**–**	**–**	**6,000,000**	**(6,000,000)**	**–**	**–**
Profit distribution to equity owners	**–**	**–**	**–**	**–**	**(64,610,000)**	**–**	**(64,610,000)**
Transfer within owners' equity							
Transfer from other comprehensive income to retained earnings	**–**	**–**	**8,150,817**	**–**	**(8,150,817)**	**–**	**–**
Others	**–**	**–**	**–**	**–**	**–**	**(3,660,146)**	**(3,660,146)**
Balance at 31 December 2020	**104,300,000**	**1,200,120,029**	**(770,722)**	**52,150,000**	**655,131,445**	**(2,440,909)**	**2,008,489,843**

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

COMPANY STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total owners' equity
Balance at 1 January 2019	92,300,000	315,986,490	46,150,000	513,205,897	967,642,387
Movements for the year ended 31 December 2019					
Total comprehensive income					
Net profit/(loss)	–	–	–	184,314,761	184,314,761
Profit distribution					
Profit distribution to equity owners	–	–	–	(64,610,000)	(64,610,000)
Balance at 31 December 2019	92,300,000	315,986,490	46,150,000	632,910,658	1,087,347,148
Balance at 1 January 2020	**92,300,000**	**315,986,490**	**46,150,000**	**632,910,658**	**1,087,347,148**
Movements for the year ended 31 December 2020					
Total comprehensive income					
Net profit/(loss)	**–**	**–**	**–**	**150,284,918**	**150,284,918**
Capital contribution by owners	**12,000,000**	**962,323,895**	**–**	**–**	**974,323,895**
Profit distribution					
Appropriation to surplus reserves	**–**	**–**	**6,000,000**	**(6,000,000)**	**–**
Profit distribution to equity owners	**–**	**–**	**–**	**(64,610,000)**	**(64,610,000)**
Balance at 31 December 2020	**104,300,000**	**1,278,310,385**	**52,150,000**	**712,585,576**	**2,147,345,961**

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wang Haibo	Xue Yan	Zhang Wen

1 GENERAL INFORMATION

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the "Company") was established in the People's Republic of China ("PRC") on 11 November 1996 as a limited liability company with an initial registered capital of RMB 5,295,000.

Pursuant to a series of capital injections on 10 November 1997, 11 May 2000 and 12 September 2000 from the existing or the then shareholders of the Company and the capitalisation of reserves of the Company on 11 December 1997 and 20 October 2000, the registered capital of the Company was increased from RMB 5,295,000 to RMB 53,000,000.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability. The share capital of the company was RMB 53,000,000, divided into 53,000,000 ordinary shares, with a par value of RMB 1.00 each.

On 20 January 2002, all of the shares of the Company, being 53,000,000 ordinary shares with a par value of RMB 1.00 each, were subdivided into 530,000,000 ordinary shares ("Domestic Shares") with a par value of RMB 0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 ordinary shares ("H Shares") of RMB 0.10 each of the Company commenced on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 18,000,000 H Shares converted from Domestic Shares. Therefore, the share capital of the Company was increased to RMB 71,000,000.

On 4 February 2013, the Company completed a placing of 142,000,000 H Shares with a par value of RMB 0.10 each at a price of HKD 1.70, and the share capital of the Company was increased to RMB 85,200,000.

On 29 June 2012, the Company adopted a restricted share scheme. Pursuant to the scheme, the Company granted a total of 71,000,000 Domestic Shares as restricted shares to directors, senior management, mid-level management and key research staff of the Group on 24 June 2013 and 21 October 2013 at a price of RMB 0.51 with a par value of RMB 0.10 each. Upon completion of the grants, the share capital of the Company was increased to RMB 92,300,000.

On 16 December 2013, the Company transferred its H Shares listing from GEM to the Main Board of the Stock Exchange.

On 12 June 2020, the Company completed a placing of 120,000,000 A Shares with a par value of RMB 0.10 each, and was listed on the Shanghai Stock Exchange on 19 June 2020. After the completion of the issuance, the Company's registered capital and share capital increased to RMB 104,300,000, divided into 1,043,000 shares, each with a par value of 0.10 yuan.

The Company and its subsidiaries (collectively referred as the "Group") research, develop and transfer self-developed bio-pharmaceutical know-how, carry out contracted research for customers, manufacture and sell medical products and provide other medical services in the PRC.

1 GENERAL INFORMATION (continued)

Subsidiaries comprised in the consolidated financial statements as of 31 December 2020 are set out in Note 7.

These financial statements are authorised for issue by the Board of Directors of the Company on 25 March 2021.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group applies the accounting policies and accounting estimates based on its business operating characteristics, including measurement of financial instruments (Note2(8)), valuation of inventories (Note 2(9)), depreciation of fixed assets, depreciation of right of use asstes and amortization of intangible assets (Note 2(11)(13)(22)), judgments to the criteria for capitalization of development expenditures (Note2 (13)), recognition and measurement of revenue (Note 2(18)), etc.

Significant judgements to determine the critical accounting policies and significant assumptions to determine the critical accounting estimates are disclosed in Note 2(24).

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises-Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Rules on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance has come into force since 3 March 2014. Certain disclosures in the financial statements have been included to reflect the requirements under the new Hong Kong Companies Ordinance.

(2) Statement of compliance with the Accounting Standard for Business Enterprises

The financial statements of the Company for year ended 31 December 2020 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position of the Company as at 31 December 2020 and of their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(4) Recording currency

The Company's recording currency is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. The financial statements are presented in RMB.

(5) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as minority interests, net profit attributed to minority interests and total comprehensive incomes attributed to minority interests, and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction is inconsistent in the financial statements at the Group level and at the Company or its subsidiary level, adjustment will be made from the perspective of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into recording currency using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments

A financial instrument refers to any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. The Group recognises a financial asset or a financial liability when the Group becomes a party to the contractual provisions of financial instrument.

(a) Financial asset

(i) Classification and measurement

The financial assets of the Group are classified on initial recognition based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: 1) financial assets at amortised cost; 2) financial assets at fair value through OCI; and 3) financial assets at fair value through profit or loss.

Financial assets are measured at fair value on initial recognition. In the case of financial assets at fair value through profit or loss, the relevant transaction costs are directly charged to profit or loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognised. Notes receivable and accounts receivables derived from sales of goods or rendering of services, which do not contain or consider significant financing components are recognised at the amount that the Group is entitled to collect.

Debt instruments

Debt instruments held by the Group are instruments that meet the definition of financial liabilities from the issuers' perspective, and are measured by the following three ways.

Amortised cost

The objective of the Group's business model for managing the financial assets is to collect contractual cash flow. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from these financial assets is included in finance income using the effective interest rate method. Such financial assets mainly include cash at bank and on hand, notes receivables, accounts receivables, other receivables.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(i) Classification and measurement (continued)

Fair value through OCI

The objective of the Group's business model for managing the financial assets are both collecting contractual cash flow and selling financial asset. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are measured at fair value. Interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement. Other fair value changes are recognised in OCI. Such financial assets are presented as financing receivables, other debt investments. The debt investments with maturity within 1 year (inclusive) since the balance sheet date are presented in current portion of non-current assets; debts investments with maturity within 1 year (inclusive) when they are acquired are presented in other current assets.

Fair value through profit or loss

Except for the financial assets at amortised cost and financial assets at fair value through OCI, the Group has classified the remaining financial assets as financial assets at fair value through profit or loss. They are presented in financial assets held for trading. In order to eliminate or significantly reduce accounting mismatch on initial recognition, the Group designates part of financial assets as financial assets at fair value through profit or loss. The assets with maturity more than 1 year and expected to be held for more than 1 year are presented in other non-current financial assets while others are presented in fair value through profit of loss.

Equity instruments

Investments in equity instruments over which the Group exerts no control, joint control or significant influence, are presented as financial assets held for trading and measured at fair value through profit or loss. The assets expected to be held for more than 1 year are presented in other non-current financial assets.

In addition, the Group designates part of financial assets which are not held for trading as financial assets at fair value through OCI, presented in other equity instrument investment. The dividend income is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(ii) Impairment

On the basis of expected credit losses, the Group recognises impairment of financial assets at amortised cost.

The measurement of expected credit loss reflects the probability-weighted amount of the present value of the difference between contractual cash flows receivable and expected cash flows. Also, the Group consider reasonable and supportable information about past events, current situation and forecasts of future economic conditions as well as take default risk as the weight when measuring expected credit loss.

The Group assesses the expected credit losses at different phases respectively at each balance sheet date. At phase 1: in the case that the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance of the financial instrument at an amount equal to 12-month expected credit losses; At phase 2: in the case that the credit risk on that financial instrument has increased significantly since initial recognition, but a credit impairment has not occurred, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses; At phase 3: in the case that the impairment loss has incurred since initial recognition, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses.

For financial instruments with low credit risk as at balance sheet date, the Group assumes the credit risk has not increased significantly since initial recognition, and measures the loss allowance for the financial instrument at an amount equal to 12-month expected credit losses.

For the financial instruments at phase 1 and phase 2, and those with low credit risk, interest income is calculated based on gross carrying amount without deduction of impairment provision and the effective interest rate. For the financial instruments at phase 3, interest income is calculated based on amortised cost (gross carrying amounts less the impairment provision) and the effective interest rate.

Regarding notes receivables and accounts receivables formed as a result of daily operations such as sales of goods and provision of labor services, regardless of whether there is a significant financing component, the Group will use the expected credit losses throughout its lifetime to measure loss reserves.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(ii) Impairment (continued)

When the expected credit loss information could not be assessed at reasonable cost. The Group classifies receivables into multiple groups of receivables. The criteria of classification of groups are based on the credit risk characteristics, as follows:

Group of notes receivables	Bank acceptance notes
Group of accounts receivables	All trade receivables
Group of other receivables 1	Amounts due from subsidiaries
Group of other receivables 2	Amounts due from related parties
Group of other receivables 3	Deposits and guarantees
Group of other receivables 4	Staff advances
Group of other receivables 5	Others

For groups of notes receivables, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions and based on the exposure at default and lifetime expected credit loss ratio.

For groups of accounts receivables, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions and based on the comparison table between accounts receivables' aging and lifetime expected credit loss ratio.

For groups of other receivables, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions and based on default risk exposure and expected credit loss rate over the next 12 months or the entire duration.

The Group recognizes provision for losses or reversal of losses in profit or loss for the current period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(a) Financial asset (continued)

(iii) De-recognition

A financial asset is derecognised when any of the following criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; or (2) the financial asset has been transferred and all the risks and rewards of ownership of the financial asset have substantially been transferred to the transferee; or (3) although the Group neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset, the financial asset has been transferred and the Group has not retained control of the financial asset.

On de-recognition of other equity instrument investments, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that have been recognised directly in equity, shall be transferred to retained earnings. On de-recognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the cumulative changes has been recognised in OCI, shall be recognised in profit or loss.

(b) Financial liability

Financial liabilities are classified into financial liabilities at amortised cost and financial liabilities at fair value through profit or loss at initial recognition.

The financial liabilities of the Group mainly promise financial liabilities at amortised cost, including notes payable and accounts payable, other payables and borrowings, etc. The financial liabilities are initially measured at fair value exclusive transaction costs and are subsequently measured at effective interest rate method. Financial liabilities with maturities within 1 year (inclusive) are presented in current liabilities. Financial liabilities with maturities more than 1 year but are due within 1 year (inclusive) at the balance sheet date are presented in current portion of non-current liabilities. Others are presented in non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(8) Financial instruments (continued)

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique when it is applicable under current conditions and there are enough available data and other information to support. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and should maximize the use of relevant observable inputs. When related observable inputs can't be acquired or are not feasible to be acquired, then use unobservable inputs.

(9) Inventories

(a) Classification

Inventories include raw materials, work in progress, finished goods and turnover materials, and are stated at the lower of cost and net realisable value.

(b) Costing of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realizable values of inventories and method for making provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Inventories (continued)

(d) The Group adopts the perpetual inventory system.

(e) Amortization method of low value consumables and packaging materials.

Turnover materials include low value consumables and packaging materials. Low value consumables are amortised by installments, and the packaging materials are expensed when issued.

(10) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances; An associate is the investee over which the Group has significant influence on its financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

(a) Determination of investment cost

For long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(10) Long-term equity investments (continued)

(b) Subsequent measurement and recognition of related profit and loss

Long-term equity investments accounted for using the cost method are measured at initial investment cost, and cash dividends or profit distributions declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, OCI, and profit distribution. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profit or loss arising from the intra-group transactions amongst the Group and its investees is eliminated in proportion to the Group's equity interests in the investees, and then based on which the investment income is recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(10) Long-term equity investments (continued)

(c) Basis for determining existence of control, joint control and significant influence over investees

Control is the power to govern an investee, so as to obtain variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns.

Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(15)).

(e) Disposal part of the equity investment and loss control of the subsidiary

Disposed of the equity investment in the Company's financial statements is charged to profit or loss of the current period according to the difference between its book value and actual obtained price; Meanwhile, the residual equity is recognized as long-term equity investment or other related financial assets according to its book value. Relevant accounting treatment, which specifies the conversion from the cost method to the equity method, will be carried out if the residual equity after disposal has material impacts on original subsidiary company.

In the consolidated financial statements, the residual equity is remeasured at fair value at the date of losing control. The difference between sum of the consideration from equity disposal and the fair value of residual equity, and sum of the portion of net assets calculated according to the original shareholding ratio on a continuously basis from the purchase date and goodwill, is charged to investment income of losing control of the current period. Additionally, the changes of other owners' equity and other comprehensive income, relating with the equity investment of the original subsidiary, will transfer to the current profit or loss when losing control. However, other comprehensive income arising from the re-measurement of net liabilities or changes in net assets of the benefit plan by the invested party will all be excluded.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(11) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, computer and electronic equipment, motor vehicles.

Fixed assets are recognised when the economic benefits associated with them are very likely to flow into the Group and their costs can be measured reliably. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the period in which they are incurred.

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	10 to 20 years	0%-10%	4.50% to 9.00%
Machinery and equipment	3 to 10 years	0%-10%	9.00% to 33.33%
Computers and electronic equipment	5 to 8 years	0%-10%	11.25% to 20.00%
Motor vehicles	5 years	0%-10%	18.00% to 20.00%

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(11) Fixed assets (continued)

(c) When the recoverable amount of a fixed asset is lower than its book value, the book value is written down to the recoverable amount (Note 2 (15)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month. When the recoverable amount of a project under construction is lower than its book value, the book value is written down to the recoverable amount (Note 2 (15)).

(13) Intangible assets

Intangible assets include land use rights, proprietary technologies, research and development technology (capitalized development expenditures of the Group's internal research and development projects), licenses and software, etc., and are measured at cost.

(a) Land use rights

Land use rights acquired and land use rights acquired by way of payment of land transfer payments are recorded at the actual payment and are amortized on a straight-line basis over a useful life of 47-50 years. Where it is difficult to reasonably allocate the land and building purchase price between the land use right and the building, all of them shall be regarded as fixed assets.

(b) Proprietary technology

Proprietary technology is accounted for at the price actually paid, and is amortized on average over the estimated useful life of 5-10 years.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(13) Intangible assets (continued)

(c) Research and development technology

The research and development technology will be amortized according to the estimated benefit period of 5-10 years from the time when the technology is ready for its intended use.

(d) License

The license is amortized on the basis of an estimated useful life of 27 years.

(e) Software

Software and is amortized on average over the estimated useful life of 3-10 years.

(f) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(g) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at the end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(13) Intangible assets (continued)

(g) Research and development (continued)

- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and

- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use. At the end of the period, the Group reviews the capitalized development expenditures and recognizes the development expenditures of related development projects that no longer meet the capitalization conditions in the current profit and loss.

(h) Impairment of intangible assets

When the recoverable amount of an intangible asset is lower than its book value, the book value is written down to the recoverable amount (Note 2 (15)).

(14) Long-term prepaid expenses

Long-term prepaid expenses include expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(15) Impairment of long-term assets

Fixed assets, construction in progress, right of use asset, intangible assets with finite useful lives, development cost and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets that are not yet available for their intended use are tested for impairment at least annually, irrespective of whether there is any indication of impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(16) Employee benefits

Employee benefits refer to all forms of remuneration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(16) Employee benefits (continued)

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs and etc. The short-term employee benefits actually occurred are recognised as a liability in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include the premiums or contributions on basic pensions and unemployment insurance, both of which belong to defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(17) Profit distribution

Cash Dividend is recognised as a liability in the period in which it is approved by the shareholders' meeting.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(18) Revenue

On the contract start date, the Group evaluates the contract, and identifies the individual performance obligations contained in the contract, and determines whether the individual performance obligations are performed within a certain period of time or at a certain point in time. Revenue is recognised separately for performance obligations.

When the customer obtains control of the related goods or services, the Group recognizes revenue based on the amount of consideration expected to be received. The part of that the Group has obtained unconditional collection rights is recognized as accounts receivable, and the provision for loss of receivables is recognized on the basis of expected credit loss corresponding loss recognition is based on expected credit losses (Note 2 (8)).

(a) Sales of goods

The Group recognizes revenue when delivers the pharmaceutical and diagnostic products to the carrier designated by the customer, or after the customer's acceptance or after control transfer to customer. The credit period granted to customers by the Group is determined based on the characteristics of customers' credit risk, which is consistent with industry practice and there is no significant financing component. The Group's obligations to transfer goods to customers for consideration received or receivable from customers are shown as contract liabilities.

(b) Technology transfer

The revenue from technology transfer is recognized when the contract execution clause is completed and and control related to the technology is transferred.

Under the terms of the technology transfer contract, after the purchaser successfully commercializes the transferred technology, the Group can collect additional concessionary revenue or revenue sharing in the future. When the right to receive relevant revenue is established, concession revenue or revenue share will be recognized.

(c) Cooperative development, technical services and labor services

Revenue from the provision of cooperative development, technical services and labor services is recognised during the period of service provision. The Group will recognize the incremental costs incurred in obtaining labor contracts as contract acquisition costs. Contract acquisition costs with an amortization period of no more than one year are charged to profit or loss of the current period when occured.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(19) Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including financial subsidy and etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deuducted against related costs, expenses or losses directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

(20) Deferred income

For the amounts obtained from third parties and subsequent benefit periods, including government, the Company records them into deferred income when obtained, and amortizes them into the current profit and loss systematically according to the expected income period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(21) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax 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.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the deductible temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(22) 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.

The Group as the lessee

At the commencement date, the Company shall recognise the right-of-use asset and measure the lease liability at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lessee exercises an option to terminate the lease. Lease liabilities that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current liabilities.

Right-of-use assets of the Company include buildings. Right-of-use assets are measured initially at cost which comprises the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date and any initial direct costs, less any lease incentives received. If there is reasonable certainty that the Company will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise the asset is depreciated over the shorter of the lease term and its remaining useful life. The carrying amount of the right-of-use asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount.

For short-term leases with a term of 12 months or less and leases of an individual asset (when new) of low value, the Company may, instead of recognising right-of-use assets and lease liabilities, include the lease payments in the cost of the underlying assets or in the profit or loss for the current period on a straight-line basis over the lease term.

The Group will account for a separate lease when a change occurs to the lease and the following conditions are met:(1) the change extends the scope of the lease by increasing the right to use one or more of the leased assets; (2) The increased consideration shall be equivalent to the amount of the separate price of the extended portion of the Lease as adjusted for the circumstances of the Contract.

When the lease change is not accounted for as a separate lease, the Group redetermines the lease period on the effective date of the lease change and uses the revised discount rate to change the lease. The subsequent lease payments are discounted and the lease liability is remeasured. If the lease change causes the scope to narrow or the lease term is shortened, the Group will correspondingly reduce the book value of the right of use asset, and the relevent gains or losses from the partial or complete termination of the lease are included in the current profit and loss. If other lease changes cause the lease liability to be remeasured, the Group adjusts the book value of right of use asset accordingly.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(23) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be aggregated into one single operating segment.

(24) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting judgements

(i) Capitalization

The Group's management determines the capitalisation of development costs based on their commercial and technological feasibility. It could change significantly as a result of technological innovations and the change of estimated profit projections.

Management will write off or write down deferred development costs when there are adverse changes in technological innovations or profit projections.

(ii) Government grants

When government grants are recognised, management determines whether they relate to past expenses, future costs or assets based on the nature of the grants and their purpose intended to compensate, and applies relevant accounting policies accordingly.

Government grants relating to costs are deferred, and management determines a proper calculation method and a relevant time period to recognise each of the grants in the consolidated statement of comprehensive income according to the intention of the grants and nature, duration and progression of the related projects so as to match the grants with costs they are intended to compensate. The calculation method and time period are reviewed and adjusted if appropriate, at the end of each reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(24) Critical accounting estimates and judgements (continued)

(b) Critical accounting estimates and key assumptions

The following key accounting estimates and key assumptions are at risk of significant adjustments in the book value of assets and liabilities for the next fiscal year:

(i) Useful life of fixed assets

The management of the Group determines the estimated useful lives of fixed assets. This estimate is based on experience with the actual useful lives of fixed assets of similar nature and function. This estimate may change significantly due to technological innovation or competitors taking action against severe industry cycles.

Management will increase the depreciation rate for assets with shorter useful lives than previously estimated, or give up and write off technically obsolete assets, or sell non-essential assets.

(ii) Impairment of receivables

The management of the Group tests the impairment of trade and other receivables and makes provisions for bad debts. This estimate is based on the customer's credit history and existing market conditions. Management will re-evaluate relevant impairment provisions at each balance sheet date.

(iii) Impairment for investments in subsidiaries, joint ventures and associates

The Group need to make significant judgement when assessing whether subsidiaries, joint ventures and associates have been impaired. In making this judgment, the Group evaluates various factors, including the duration and amount of the fair value of an investment below its cost, the financial situation and short-term business prospects of the investee, industry performance, technological changes, cash flow from operating and financing activities and so on.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(24) Critical accounting estimates and judgements (continued)

(b) Critical accounting estimates and key assumptions (continued)

(iv) Income tax and deferred income tax assets

The Group is subject to income taxes in numerous jurisdictions. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management estimates that deductible temporary differences and deductible losses will recognized as deferred income tax assets when they are likely to be offset against taxable income in the future, but the actual application results may be different.

As mentioned in Note 3 (1), the Company is high-tech enterprises. The validity period of the high-tech enterprise qualification is three years, after which it is necessary to resubmit the application for high-tech enterprise certification to the relevant government department. Based on the historical experience of the re-identification of high-tech enterprises after the expiration of the previous years and the actual situation of the Company, the Group believes that the Company these subsidiaries can continue to obtain the high-tech enterprise identification in the coming years, and then calculate their tax rate at a preferential tax rate of 15%. The corresponding deferred income tax. If in the future the Company fail to obtain re-certification after the expiration of the high-tech enterprise qualification, the income tax will be calculated at the statutory tax rate of 25%, which will affect the confirmed deferred income tax assets, deferred income tax liabilities and income tax expenses.

As for the deductible losses that can be carried forward in future years, the Group shall recognize the corresponding deferred income tax assets within the limit of the taxable income that can be used to deduct the deductible losses in the future period. The taxable income obtained in the future period includes the taxable income that the Group can realize through normal production and operation activities, and the taxable income that will increase when the taxable temporary difference generated in the previous period is reversed in the future period. The Group needs to use estimates and judgments when determining the time and amount of taxable income in the future period. If there is a difference between the actual situation and the estimate, it may lead to adjustments to the book value of deferred income tax assets.

3 TAXATION

(1) The main categories and rates of taxes applicable to the Group are set out below:

Category	Taxation basis	Tax rate
Enterprise income tax (a)	Taxable income	15%, 16.5% and 25%
Value-added tax ("VAT") (b)	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	16%, 13%, 6% and 3%
City maintenance and construction tax	The payment amount of VAT and business tax paid	7% and 1%

(a) In 2017, the Company obtained the Certificate of the High and New Technological Enterprise (Certificate No. GR201731000222), with a term of validity of three years, jointly issued by Science and Technology Commission of Shanghai Municipality, Shanghai Municipal Finance Bureau, State Administration of Tax Shanghai Municipal Office and Shanghai Municipal Bureau of Local Taxation. Under Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income tax rate applicable to the Company for the year ended 31 December 2019 was 15%. In 2020, the Company applied for renewal and was officially included in the Notice for Publicity of the Third Batch of High Technology Enterprise List Planned to be Approved in 2020, which was issued by Science and Technology Commission of Shanghai Municipality on 20 November 2020. As at the reporting date, the publicity period has ended and the Company is still waiting for registration and certification and therefore the Company still accounts for its income tax expenses for 2020 at the rate of 15%.

In 2019, Shanghai Tracing Bio-technology Co., Ltd. ("Tracing Bio-technology"), a subsidiary of the Company, obtained the *Certificate of the High and New Technological Enterprise* (Certificate No. GR201931000691), with a term of validity of three years from 2019 to 2021, jointly issued by Science and Technology Commission of Shanghai Municipality, Shanghai Municipal Finance Bureau, State Administration of Tax Shanghai Municipal Office and Shanghai Municipal Bureau of Local Taxation; Under Article 28 of the *Enterprise Income Tax Law of the People's Republic of China*, the income tax rate applicable to Tracing Biotechnology for the year ended 31 December 2020 was 15% (for the year ended 31 December 2019: 15%); Shanghai Tracing Bio-technology had no taxable income for the year ended 31 December 2020, thus no income tax expense was accured.

3 TAXATION (continued)

(1) The main categories and rates of taxes applicable to the Group are set out below (continued):

(a) In 2018, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical") was granted the *Certificate of the High and New Technological Enterprise* (Certificate No. GR201832004505) by Science and Technology Department of Jiangsu Province, Finance Department of Jiangsu Province and State Tax Bureau of Jiangsu Province. The certificate is valid for three years. Under Article 28 of the *Enterprise* Income *Tax Law of the People's Republic of China*, the income tax rate applicable to Taizhou Pharmaceutical for the year ended 31 December 2020 was 15% (for the year ended 31 December 2019: 15%). For the year ended 31 December 2020, Taizhou Pharmaceutical had no taxable income, thus no income tax expense was accrued.

Fernovelty (Hong Kong) Holding Co., Limited (Fernovelty Holding), a subsidiary of the Company, is a limited liability company incorporated in Hong Kong. From 1 January 2018, Hong Kong adopted the two-tiered profits tax rate, where applicable tax rate for taxable profits within HKD 2,000,000 is 8.25% while that for taxable profits in excess of HKD 2,000,000 is 16.5%. For the year ended 31 December 2019 and 2020, Fernovelty Holding had no taxable income, thus no income tax expense was accrued.

For the year ended 31 December 2020, the enterprise income tax rate applicable to the other subsidiaries in the company was 25%.

(b) Pursuant to the *Announcement on Relevant Policies for Deepening Value-Added Tax Reform* (Announcement No. 39 [2019], by MOF, STA, and GACC) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, from 1 April 2019, the Group's applicable tax rate of revenue from sales of drugs is 13%, while it was 16% before then.

Pursuant to the *Notice of the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation and the State Drug Administration on the Value-Added Tax Policies for Anti-Cancer Drugs* (Cai Shui [2018] No. 47) and relevant regulations, from 1 May 2018, companies are allowed to elect to apply simple taxation method for VAT for revenue arising from production, sales, wholesale and retail of anti-cancer drugs. The applicable rate is 3%.

Pursuant to the *Announcement on Relevant Policies for Deepening the Value-added Tax Reform* (Cai Shui Haiguan [2019] 39) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs and the *Announcement on the Additional Deduction Policies of Value-added Tax for Consumer Service Industry* (Cai Shui [2019] 87) jointly issued by the Ministry of Finance and the State Administration of Taxation, the Group's subsidiary Shanghai Baosu Pharmaceutical Technology Co., Ltd. ("Baosu Pharmaceutical"), as a consumer service company, qualifies for additional 10% deduction and 15% deduction of input VAT from output VAT from 1 April 2019 to 30 September 2019 and since 1 October 2019 respectively.

4 SUBSIDIARIES

See Note 7 for details.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS

(1) Cash at bank and on hand

	31 December 2020	31 December 2019
Cash on hand	**4,113**	15,333
Cash at bank	**1,396,886,079**	576,784,077
Including: cash at bank and on hand overseas	**3,244,200**	3,469,264
	1,396,890,192	576,799,410

As at 31 December 2020 and 31 December 2019, no cash at bank was restricted.

(2) Notes receivables

	31 December 2020	31 December 2019
Bank acceptance notes	**124,175,082**	127,592,684
Less: Provision for bad debts	**–**	–
	124,175,082	127,592,684

(a) As at 31 December 2020 and 31 December 2019, the above-mentioned notes of the Group were not subject to collateral or pledge.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(2) Notes receivables (continued)

(b) As at 31 December 2020, the Group's nots receivables endorsed or discounted but not yet due are as follows:

	De-recognized	Not de-recognized
Bank acceptance notes i)	**5,918,021**	**–**

i) For the year 31 December 2020, since endorsements or discount transactions that meet the conditions for derecognition occur by accident and the amount is not significant, the Group measures at amortized cost.

(c) The Group's notes receivables are generated from daily business activities such as the sale of goods and the provision of labor services. Regardless of whether there is a significant financing component, loss provisions are measured in accordance with the expected credit losses throughout the lifetime. As at 31 December 2020 and 31 December 2019, the Group considered that the bank dacceptance notes held did not have significant credit risk and would not cause credit losses due to bank defaults, so no provision for bad debt was made.

(3) Accounts receivables

	31 December 2020	31 December 2019
Accounts receivables	**467,922,717**	380,187,531
Less: Provision for bad debts	**(9,001,826)**	(3,180,620)
	458,920,891	377,006,911

The Group's accounts receivables are generated from daily business activities such as the sales of pharmaceutical and diagnostic products, with credit periods of 30-120 days.

As at 31 December 2020 and 31 December 2019, there were no significant receivables from shareholders who held more than 5% (including 5%) of the voting shares of the company in the Group's accounts receivables.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(3) Accounts receivables (continued)

(a) The aging analysis of accounts receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	**466,541,165**	379,998,095
1-2 years	**1,300,752**	26,700
2-3 years	**4,200**	78,425
Above 3 years	**76,600**	84,311
	467,922,717	380,187,531

(b) As at 31 December 2020, the top five accounts receivables based on the balance of the debtors are summarized and analyzed as follows:

	Account Balance	**Amount of bad debt provision**	**% of total balance**
Total top five accounts receivables	242,149,686	(5,445,953)	51.75%

(c) Provision for bad debts

	31 December 2019	Change amount in the period			**31 December 2020**
		Accrual	Reversal	Write-off	
Provision for bad debts of accounts receivables	(3,180,620)	(5,907,342)	–	86,136	**(9,001,826)**

As at 31 December 2020, for the accounts receivables, regardless of whether there is a significant financing component, the Group calculates loss provisions in accordance with the expected credit losses throughout the lifetime.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(3) Accounts receivables (continued)

(c) Provision for bad debts (continued)

(i) As at 31 December 2020 and 31 December 2019, the Group did not make provision for bad debts for individual accounts receivables.

(ii) As at 31 December 2020, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable:

	31 December 2020		
	Accounts Balance	Provision for bad debts	
	Amount	Life expectancy Credit loss rate	Amount
Not overdue	309,175,697	–	–
Overdue within 120 days	121,439,511	0.33%	(395,680)
Overdue 121 days to 1 year	35,925,957	20.11%	(7,224,594)
Overdue 1 year to 2 year	1,300,752	100.00%	(1,300,752)
Overdue 2-3 years	4,200	100.00%	(4,200)
Overdue more than 3 years	76,600	100.00%	(76,600)
	467,922,717		(9,001,826)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(3) Accounts receivables (continued)

(c) Provision for bad debts (continued)

(iii) As at 31 December 2019, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable:

	31 December 2019		
	Accounts Balance	Provision for bad debts	
	Amount	Life expectancy Credit loss rate	Amount
Not overdue	325,207,505	–	–
Overdue within 120 days	40,721,327	0.44%	(177,332)
Overdue 121 days to 1 year	14,069,263	20.00%	(2,813,852)
Overdue 1 year to 2 year	26,700	100.00%	(26,700)
Overdue 2-3 years	78,425	100.00%	(78,425)
Overdue more than 3 years	84,311	100.00%	(84,311)
Total	380,187,531		(3,180,620)

(d) As at 31 December 2020, the book value of accounts receivables written off was RMB 86,136, and the amount of bad debt provision was RMB 86,136.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(4) Advances to suppliers

(a) The ageing of advances to suppliers was analysed as follows:

	31 December 2020		31 December 2019	
	Amount	**% of total balance**	Amount	% of total balance
Within 1 year	**6,813,108**	**91.70%**	16,411,027	100%
1-2 years	**616,270**	**8.30%**	–	–
	7,429,378	**100%**	16,411,027	100%

As at 31 December 2020 and 31 December 2019, there were no significant receivables from shareholders who held more than 5% (including 5%) of the voting shares of the company in the Group's advances to suppliers.

(b) As at 31 December 2020, the top five advances to suppliers based on the balance of the debtors are summarized and analyzed as follows:

	Amount	% of total balance
Total top five advances to suppliers	4,000,105	53.84%

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(5) Other receivables

	31 December 2020	31 December 2019
Equity transfer receivables	**6,339,800**	6,339,800
Deposit receivables	**1,990,136**	1,413,486
Receivables from employees	**289,007**	182,608
Guarantee Receivables	**10,380**	41,380
others	**618,930**	272,952
	9,248,253	8,250,226
Less：Provision for bad debts	**(6,339,800)**	–
	2,908,453	8,250,226

As at 31 December 2020 and 31 December 2019, there were no significant receivables from shareholders who held more than 5% (including 5%) of the voting shares of the company.in the Group's Other receivables.

(a) The aging analysis of other receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	**1,462,777**	6,759,727
1-2 years	**6,385,300**	69,075
2-3 years	**9,100**	1,310,194
Above 3 years	**1,391,076**	111,230
	9,248,253	8,250,226

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(5) Other receivables (continued)

(b) Statement of loss provision and changes in its carrying amount

(i) As at 31 December 2020, the analysis of bad debt provisions of other receivables in the first phase is as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Combined accrual:			
Deposit and guarantee	2,000,516	–	–
Receivables from employees	289,007	–	–
Others	618,930	–	–
	2,908,453		–

As at 31 December 2020, the Group has no other receivables in the second phase.

As at 31 December 2020, the analysis of bad debt provisions of other receivables in the third phase is as follows:

	Book balance	Entire duration expected credit loss rate	Provision for bad debts
Individual accrual:			
Equity transfer receivables	6,339,800	100%	(6,339,800)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(5) Other receivables (continued)

(b) Statement of loss provision and changes in its carrying amount (continued)

(ii) As at 31 December 2019, the analysis of bad debt provisions of other receivables in the first phase is as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Combined accrual:			
Equity transfer receivables	6,339,800	–	–
Deposit and guarantee receivables	1,454,866	–	–
Employee reserves	182,608	–	–
Others	272,952	–	–
	8,250,226		–

As at 31 December 2019, the Group has no other receivables in the second or third phase.

(c) Provision for bad debt

	31 December 2019	Accrual	Write-off	**31 December 2020**
Provision for bad debts of other receivables	–	(6,339,800)	–	**(6,339,800)**

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(5) Other receivables (continued)

(d) As at 31 December 2020, the top five other receivables based on the balance of the debtors are summarized and analyzed as follows:

	Nature	Balance	Aging	% of total amount	Provision for bad debts
Company1	Equity transfer receivables	6,339,800	1-2 years	68.55%	(6,339,800)
Company2	Deposit receivables	1,267,464	3 years above	13.70%	–
Company3	Deposit receivables	562,103	within 1 year	6.08%	–
Company4	Disposal of equipment	82,326	within 1 year	0.89%	–
Company5	Deposit receivables	105,189	within 1 year	1.14%	–
		8,356,882		90.36%	(6,339,800)

(6) Inventories

(a) The inventory is classified as follows:

	31 December 2020			31 December 2019		
	Book balance	Provision for decline in the value of inventories	Carrying amount	Book balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	16,289,912	(1,828,515)	14,461,397	14,757,338	(1,047,362)	13,709,976
Work in progress	8,498,994	(401,177)	8,097,817	8,154,274	–	8,154,274
Finished goods	15,324,685	(2,476,007)	12,848,678	11,891,798	(2,490,876)	9,400,922
Turnover materials	601,449	–	601,449	603,879	–	603,879
	40,715,040	(4,705,699)	36,009,341	35,407,289	(3,538,238)	31,869,051

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(6) Inventories (continued)

(b) The analysis of the provision for decline in the value of inventories is as follows:

	31 December 2019	Accrual	Reversal	**31 December 2020**
Raw materials	(1,047,362)	(781,153)	–	**(1,828,515)**
Work in progress	–	(401,177)	–	**(401,177)**
Finished goods	(2,490,876)	(91,992)	106,861	**(2,476,007)**
	(3,538,238)	(1,274,322)	106,861	**(4,705,699)**

(7) Other current assets

	31 December 2020	31 December 2019
VAT-in to be deducted	**240,837**	310,035

(8) Other equity instruments

	31 December 2020	31 December 2019
Equity instruments		
Unlisted equity investment	**–**	–
Listed equity investment	**5,253,127**	–
	5,253,127	–

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(8) Other equity instruments (continued)

	31 December 2020	31 December 2019
Adgero Biopharmaceuticals Holdings, Inc. ("Adgero")		
– Cost	–	13,774,800
– Cumulative fair value change	–	(13,774,800)
Kintara Therapeutics, Inc ("Kintara")		
– Cost	5,623,983	–
– Cumulative fair value change	(370,856)	–
	5,253,127	–

As at 9 June 2020, DelMar Pharmaceuticals, Inc ("Delmar", now renamed as Kintara) and Adgero signed a letter of intent to acquire 100% of Adgero shares with its own common stock. As at 19 August 2020, the acquisition was completed with a share exchange. After the acquisition, the company holds 629,000 shares of Kintara common stock, based on the date of completion of the acquisition with the closing price on the day, the fair value of the equity instruments of Kintara held by the company is RMB 5,623,983.

As at 31 December 2020, based on the closing price on the day, the fair value of the equity instruments of Kintara held by the company was RMB 5,253,127.

(9) Long-term equity investments

	31 December 2020	31 December 2019
Joint ventures (Note 7(2))	60,372,244	23,251,196
Associates (Note 7(2))	1,419,938	5,160,462
	61,792,182	28,411,658
Less: Provision for impairment of long-term equity investments	(332,756)	(332,756)
	61,459,426	28,078,902

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(9) Long-term equity investments (continued)

(a) Joint ventures

		Changes in the period									
	31 December 2019	Investment Addition	Reduce investment	Equity pick up	OCI Adjust-ment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Other	31 December 2020	Impairment balance
Changzhou BVCF Investment Management Partnership (Limited Liability Partnership) ("BVCF Fund").	23,251,196	36,000,000	–	1,121,048	–	–	–	–	–	60,372,244	–

During 2018, the Company subscribed for RMB 60,000,000 shares, accounting for 29.85% shares of Changzhou BVCF Investment Management Partnership (Limited Liability Partnership) ("BVCF Fund"), the Company is a limited partner. According to the updated agreement, BVCF Fund added two limited partners, and the company's subscription ratio dropped to 22.54%. As at 31 December 2020, the investment of RMB 60,000,000 has been fully paid to BVCF Fund.

(b) Associates

		Changes in the period									
	31 December 2019	Investment Addition	Reduce investment	Equity pick up	OCI Adjust-ment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Other	31 December 2020	Impairment balance
Shanghai Lead Discovery Limited Company ("Lead Discovery")	–	–	–	–	–	–	–	–	–	–	(332,756)
Derma Clinic Investment Co., Ltd. ("Derma")	4,827,706	–	–	(3,740,524)	–	–	–	–	–	1,087,182	–
	4,827,706	–	–	(3,740,524)	–	–	–	–	–	1,087,182	(332,756)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(10) Fixed assets

	Buildings	Machinery and equipments	Computer and electronic equipments	Motor vehicles	Total
Cost					
31 December 2019	205,936,735	267,509,538	8,272,613	3,708,194	485,427,080
Other increases in the current period	–	23,017,975	294,451	1,387,649	24,700,075
Transfers from construction in progress	993,925	–	–	–	993,925
Decreases in the current period	(9,599,157)	(8,040,709)	(304,776)	(1,119,826)	(19,064,468)
31 December 2020	197,331,503	282,486,804	8,262,288	3,976,017	492,056,612
Accumulated depreciation					
31 December 2019	(69,983,414)	(149,679,525)	(5,919,247)	(2,159,456)	(227,741,642)
Increases in the current period	(9,499,146)	(34,250,496)	(568,895)	(129,241)	(44,447,778)
Decreases in the current period	1,703,851	6,920,159	283,503	1,008,014	9,915,527
31 December 2020	(77,778,709)	(177,009,862)	(6,204,639)	(1,280,683)	(262,273,893)
Accumulated impairment					
31 December 2019	(1,253,955)	(1,960,466)	(111,495)	–	(3,325,916)
Decreases in the current period	1,253,955	37,881	–	–	1,291,836
31 December 2020	–	(1,922,585)	(111,495)	–	(2,034,080)
Carrying amount					
31 December 2020	119,552,794	103,554,357	1,946,154	2,695,334	227,748,639
31 December 2019	134,699,366	115,869,547	2,241,871	1,548,738	254,359,522

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(10) Fixed assets (continued)

For the year ended 31 December 2020, the amount of depreciation expense RMB 44,447,778 (for the year ended 31 December 2019: RMB 44,957,696) charged to cost of sales, development costs, selling expenses, general and administrative expenses and research and development exepenses were RMB 16,978,731, RMB 1,869,166, RMB 12,963,112, RMB 2,291,803 and RMB 10,344,966 respectively (for the year ended 31 December 2019: RMB 18,332,228, RMB 164,640, RMB 11,450,412, RMB 2,569,016 and RMB 12,441,400).

The amount of fixed assets transferred from construction in progress was RMB 993,925 (for the year ended 31 December 2019: RMB 5,896,598)

As at 31 December 2020 and 31 December 2019, the Group has no fixed assets that are temporarily idle and fixed assets that have not completed the property right certificate.

(11) Construction in progress

	31 December 2020			31 December 2019		
	Book Balance	**Provision for impairment**	**Carrying amount**	Book Balance	Provision for impairment	Carrying amount
Fudanzhangjiang laboratory improvement project	**1,827,729**	**–**	**1,827,729**	–	–	–
Fudanzhangjiang workshop reconstruction project	**–**	**–**	**–**	329,602	–	329,602
	1,827,729	**–**	**1,827,729**	329,602	–	329,602

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(11) Construction in progress (continued)

(i) Changes in major construction projects

Project name	Budget	31 December 2019	Increase in the current period	Transfer to fixed assets	Transfer to Long-term prepaid expenses	31 December 2020	% of Budget	Project progress	Sources of funds
Fudanzhangjiang workshop reconstruction project	739,058	329,602	409,456	(739,058)	–	-	100%	100%	Equity fund
Fudanzhangjiang ADC small molecule laboratory project	10,679,620	–	1,827,729	–	–	1,827,729	17.11%	17.11%	Equity fund
Fudanzhangjiang shaded warehouse extention project	254,867	–	254,867	(254,867)	–	-	100%	100%	Equity fund
Jinxi Road right-of-use asset improvement	268,000	–	268,000	–	(268,000)	-	100%	100%	Equity fund
		329,602	2,760,052	(993,925)	(268,000)	1,827,729			

As at 31 December 2020 and 31 December 2019, the Group had no impaired construction in progress.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(12) Right-of-use assets

	Buildings
Cost	
31 December 2019	9,398,281
Increases in the current period	
New lease contract	18,405,995
Decreases in the current period	
Lease expiry	(388,864)
31 December 2020	27,415,412
Accumulated depreciation	
31 December 2019	(3,880,300)
Increase in the current period	
Accrual	(4,734,042)
Decrease in the current period	
Lease expiry	388,864
31 December 2020	(8,225,478)
Carrying amount	
31 December 2020	19,189,934
31 December 2019	5,517,981

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(13) Intangible assets

	Land use rights	Proprietary technology	R&D technology	Software	Total
Cost					
31 December 2019	37,355,573	8,843,164	44,399,679	9,007,938	99,606,354
Increase in the current period					
Purchase	–	–	–	2,016,464	2,016,464
31 December 2020	37,355,573	8,843,164	44,399,679	11,024,402	101,622,818
Accumulated amortization					
31 December 2019	(8,757,900)	(5,495,221)	(19,678,917)	(4,110,568)	(38,042,606)
Increase in the current period	(790,251)	(566,038)	(4,165,138)	(777,374)	(6,298,801)
31 December 2020	(9,548,151)	(6,061,259)	(23,844,055)	(4,887,942)	(44,341,407)
Provision for impairment loss					
31 December 2020 and 31 December 2019	–	(450,000)	(653,470)	–	(1,103,470)
Carrying amount					
31 December 2020	27,807,422	2,331,905	19,902,154	6,136,460	56,177,941
31 December 2019	28,597,673	2,897,943	24,067,292	4,897,370	60,460,278

The amortization amount of intangible assets for the year ended 31 December 2020 was RMB 6,298,801 (for the year ended 31 December 2019: RMB 6,294,529).

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(13) Intangible assets (continued)

The Group's development costs is listed below:

			Decrease in the current period		
	31 December 2019	Increase in the current period	Credited to profit or loss	Recognized as intangible assets	**31 December 2020**
Taizhou Generic Pharmaceutical Industrialization Project	14,970,803	4,890,382	–	–	**19,861,185**
Consistency Evaluation	–	10,814,470	–	–	**10,814,470**
	14,970,803	15,704,852	–	–	**30,675,655**

i) In Februrary 2021, Taizhou Pharmaceutical has obtained the registration certificate of Parecoxibsodium.

For the year ended 31 December 2020, the Group's research and development expenditure totaled RMB 154,973,281 (for the year ended 31 December 2019: RMB 130,498,533), of which RMB 139,268,429 (for the year ended 31 December 2019: RMB 127,821,947) was included in profit or loss in the current period, and RMB 15,704,852 (for the year ended 31 December 2019 RMB 2,676,586) was included in the year-end balance of development expenditure. For the year ended 31 December 2020, the proportion of intangible assets formed by internal research and development to the book value of intangible assets was 35% (for the year ended 31 December 2019: 40%).

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(14) Goodwill

	31 December 2019	Increase in the current period	Decrease in the current period	**31 December 2020**
Goodwill	8,937,000	–	–	**8,937,000**
Less: Provision for impairment	(8,937,000)	–	–	**(8,937,000)**
	–	–	–	**–**

Goodwill arises from the Group's 2015 premium purchase of equity in Shanghai Youni Bio-tech Co., Ltd. ("Youni"). On 30 September 2015, Youni was absorbed by Tracing Bio-technology.

(15) Long-term prepaid expenses

	31 December 2019	Increase in the current period	Decrease in the current period	**31 December 2020**
Right-of-use asset improvement	1,325,853	667,088	(1,040,833)	**952,108**
Others	1,088,466	–	(190,764)	**897,702**
	2,414,319	667,088	(1,231,597)	**1,849,810**

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(16) Deferred tax assets

Deferred assets and liabilities before offsetting of certain debit and credit balances are set out as follows:

(a) Deferred tax assets

	31 December 2020		31 December 2019	
	Deductible temporary differences and losses	**Deferred tax assets**	Deductible temporary differences and losses	Deferred tax assets
Credit impairment provision	**38,818,826**	**5,822,824**	26,744,177	4,011,627
Accrual expenses	**321,990,042**	**48,298,506**	297,195,596	44,579,339
Deferred income	**39,344,263**	**8,852,459**	44,262,295	9,590,164
	400,153,131	**62,973,789**	368,202,068	58,181,130
Including:				
Expected to be recovered within one year (inclusive)		**54,859,035**		49,328,671
Expected to be recovered after one year		**8,114,754**		8,852,459
		62,973,789		58,181,130

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(16) Deferred tax assets (continued)

(b) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2020	31 December 2019
Deductible temporary differences	**80,349,799**	83,204,817
Deductible losses	**92,803,857**	102,742,948
	173,153,656	185,947,765

(c) Deductible losses that are not recognised as deferred tax assets will be expired in following years:

	31 December 2020	31 December 2019
2023	**18,515**	3,524,696
2024	**1,254,614**	1,254,614
2025	**–**	6,759,495
2026	**16,531,177**	18,011,512
2027	**33,203,995**	33,203,995
2028	**25,318,033**	25,318,033
2029	**13,708,759**	14,670,603
2030	**2,768,764**	–
	92,803,857	102,742,948

(17) Other non-current assets

	31 December 2020	31 December 2019
Prepaid equipment	**6,970,813**	2,272,672

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(18) Asset impairment and loss provisions

(a) Asset impairment

	31 December 2019	Increase in the current period	Decrease in the current period		31 December 2020
			Reverse	Write-off	
Goodwill impairment provision	8,937,000	–	–	–	**8,937,000**
Provision for impairment of fixed assets	3,325,916	–	–	(1,291,836)	**2,034,080**
Provision for impairment of intangible assets	1,103,470	–	–	–	**1,103,470**
Provision for decline in the value of inventories	3,538,238	1,274,322	–	(106,861)	**4,705,699**
Provision for impairment of Long-term equity investments	332,756	–	–	–	**332,756**
	17,237,380	1,274,322	–	(1,398,697)	**17,113,005**

(b) Credit impairment provision

	31 December 2019	Increase in the current period	Decrease in the current period		31 December 2020
			Reverse	Write-off	
Provision for bad debts of accounts receivables	3,180,620	5,907,342	–	(86,136)	**9,001,826**
Provision for bad debts of other receivables	–	6,339,800	–	–	**6,339,800**
	3,180,620	12,247,142	–	(86,136)	**15,341,626**

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(19) Short-term borrowings

	31 December 2020	31 December 2019
Short-term bank borrowings, unsecured	–	148,942,573

As at 31 December 2019, the interest rate of short-term borrowings ranges from 3.87% to 3.915%.

(20) Accounts payables

	31 December 2020	31 December 2019
Accounts payables	**5,267,823**	6,827,902

As at 31 December 2020 and 31 December 2019, the Group's accounts payable were all payables for material purchases and no significant amounts due to shareholders holding more than 5% (including 5%) of the voting shares of the Company.

(21) Contract liabilities

	31 December 2020	31 December 2019
Advance receivables	**1,948,705**	2,042,726

(22) Employee benefits payable

	31 December 2020	31 December 2019
Short-term employee benefits payable(a)	**35,453,342**	48,123,497
Defined contribution plans payable(b)	**11,531**	–
	35,464,873	48,123,497

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(22) Employee benefits payable (continued)

(a) Short-term employee benefits payable

	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Wages and salaries, bonus, allowances and subsidies	48,119,901	104,996,564	(117,694,151)	**35,422,314**
Staff welfare	–	1,600	(1,600)	**–**
Social security contributions	–	6,616,598	(6,602,180)	**14,418**
Including: Medical insurance	–	6,496,667	(6,483,375)	**13,292**
Work injury insurance	–	24,169	(24,105)	**64**
Maternity insurance	–	95,762	(94,700)	**1,062**
Housing funds	–	8,753,986	(8,741,481)	**12,505**
Labour union funds and employee education funds	3,596	2,110,402	(2,109,893)	**4,105**
	48,123,497	122,479,150	(135,149,305)	**35,453,342**

(b) Defined contribution plans payable

	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Basic pensions	–	6,986,403	(6,975,031)	**11,372**
Unemployment insurance	–	330,036	(329,877)	**159**
	–	7,316,439	(7,304,908)	**11,531**

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(23) Taxes payable

	31 December 2020	31 December 2019
Unpaid VAT	**9,862,434**	14,075,886
Enterprise income tax payable	**4,604,625**	18,648,131
Withholding of personal income tax for employees	**3,023,172**	3,576,476
Others	**–**	939
	17,490,231	36,301,432

(24) Other payables

	31 December 2020	31 December 2019
Accrual for marketing and sales promotion expenses	**295,065,355**	256,490,503
Accrual for Shanghai Pharmaceuticals Holding Co. Ltd. ("SPH") cooperative research project transfer	**–**	3,690,000
Guarantee payable	**42,431,333**	41,741,333
Long-term assets payable	**9,606,772**	6,726,276
Accrual for marketing and sales commission expenses	**3,398,252**	1,999,784
Others	**11,159,091**	14,431,586
	361,660,803	325,079,482

As at 31 December 2020, other payables with an age of more than one year were RMB 37,511,785 (as at 31 December 2019：RMB 40,567,808). Other payables with an age of more than one year are mainly payable to long-term assets and guarantee payable, because the long-term asset payment node has not been reached, and the amount has not been settled.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(25) Lease liabilities

	31 December 2020	31 December 2019
Lease liabilities	**19,690,778**	6,153,461
Less：Current portion of non-current liabilities	**(6,093,386)**	(4,031,927)
	13,597,392	2,121,534

As at 31 December 2020, the Group had no events that were not included in the lease liabilities, but would result in potential future cash outflows.

(26) Deferred income

	31 December 2020	31 December 2019
Commercial compensation (a)	**39,344,263**	44,262,295
Government grants (b)	**9,098,718**	11,698,071
R & D project transfer	**2,245,000**	2,245,000
	50,687,981	58,205,366

	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020	Cause of formation
Commercial compensation (a)	44,262,295	–	(4,918,032)	**39,344,263**	Commercial compensation
Government grants (b)	11,698,071	15,828,830	(18,428,183)	**9,098,718**	Receive government grants
R & D project transfer	2,245,000	–	–	**2,245,000**	R & D project transfer income
	58,205,366	15,828,830	(23,346,215)	**50,687,981**	

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(26) Deferred income (continued)

(a) In 2018, the Group signed a market promotion service agreement with Shanghai Huizheng stating that since November 1 2018, Shanghai Huizheng would carry out market promotion for LIBOd. According to the agreement, Shanghai Huizheng paid RMB 50,000,000 to the Group as a commercial compensation for a series of expenses incurred by the Group due to the product market switch caused by the change of the promotion service provider. The aforesaid commercial compensation shall be recognized as deferred income, and shall be amortized and confirmed as profit or loss during the period of the marketing service contract.

(b) Government grants

			Decrease in the current period			
	31 December 2019	Increase in the current period	Credited to other income	Credited to non-operating income	**31 December 2020**	Asset related/Income related
R & D project industrialization subsidy	11,005,750	–	(2,317,000)	–	**8,688,750**	Asset related
Medical R & D project grant	692,321	22,800	(305,153)	–	**409,968**	Income related
Financial support	–	11,499,712	(11,499,712)	–	**–**	Income related
Listing subsidies	–	3,500,000	–	(3,500,000)	**–**	Income related
Others	–	806,318	(806,318)	–	**–**	Income related
	11,698,071	15,828,830	(14,928,183)	(3,500,000)	**9,098,718**	

The breakdown of government grants included in the Group's profit and loss for 2020 is as follows:

Government grants	**Category**	**Amount credited to profit or loss for the period**	**Items reported in profit or loss for the period**
Financial support	Income related	11,499,712	Other income
Listing subsidies	Income related	3,500,000	Non-operating income
R & D project industrialization subsidy	Asset related	2,317,000	Other income
Medical R & D project grant	Income related	305,153	Other income
Others	Income related	806,318	Other income
		18,428,183	

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(27) Share capital

	31 December 2019	Change in the current period					31 December 2020
		Issue new shares	Scrip issue	Premium transfer to capital	Others	Subtotal	
Unlisted tradable shares-domestic corporate and individual holdings	58,300,000	–	–	–	(58,300,000)	(58,300,000)	–
Listed tradable shares-foreign listed foreign shares	34,000,000	–	–	–	–	–	34,000,000
Listed in circulation-A-share holders of domestic listed RMB common shares	–	12,000,000	–	–	58,300,000	70,300,000	70,300,000
Share capital	92,300,000	12,000,000	–	–	–	12,000,000	104,300,000

	31 December 2018	Change in the current period					31 December 2019
		Issue new shares	Scrip issue	Premium transfer to capital	Others	Subtotal	
Unlisted tradable shares-domestic corporate and individual holdings	58,300,000	–	–	–	–	–	58,300,000
Listed tradable shares-foreign listed foreign shares	34,000,000	–	–	–	–	–	34,000,000
Share capital	92,300,000	–	–	–	–	–	92,300,000

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(28) Capital surplus

	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Share premium i)	**237,796,134**	**962,323,895**	**–**	**1,200,120,029**

	31 December 2018	Increase in the current period	Decrease in the current period	31 December 2019
Share premium	412,293,387	–	(174,497,253)	237,796,134

i) The company's domestic initial public offering of RMB common A shares totaled 1,074,000,000. After deducting the listing agency fees and other issuance costs, the net proceeds were RMB 974,323,895, including 12,000,000 in share capital and 962,323,895 in capital reserve.

(29) Other comprehensive income

	Other comprehensive income in the balance sheet				Other comprehensive income for the year ended 31 December 2020 income statement				
	31 December 2019	Attributable to the Company after tax	Other comprehensive income settled to retained earnings	31 December 2020	Amount before income tax	Less: other comprehensive income transferred out this year	Deduct: income tax expense	Attributable to the Company after tax	Attributable to minority shareholders
Other comprehensive income that cannot be reclassified into profit or loss									
Changes in fair value of other equity instrument investments	(13,774,800)	5,253,127	8,150,817	(370,856)	5,253,127	–	-	5,253,127	-
Other comprehensive income can be reclassified into profit or loss									
Translation differences in foreign currency financial statements	(175,435)	(224,431)	–	(399,866)	(224,431)	-	-	(224,431)	-
	(13,950,235)	5,028,696	8,150,817	(770,722)	5,028,696	-	-	5,028,696	-

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(29) Other comprehensive income (continued)

	Other comprehensive income in the balance sheet				Other comprehensive income for the year ended 31 December 2019 income statement			
	31 December 2018	Attributable to the Company after tax	31 December 2019	Amount before income tax	Less: other comprehensive income transferred out this year	Deduct: income tax expense	Attributable to the Company after tax	Attributable to minority shareholders
Other comprehensive income that cannot be reclassified into profit or loss								
Changes in fair value of other equity instrument investments	(13,774,800)	-	(13,774,800)	-	—	-	-	-
Other comprehensive income can be reclassified into profit or loss								
Translation differences in foreign currency financial statements	(231,616)	56,181	(175,435)	56,181	-	-	56,181	-
	(14,006,416)	56,181	(13,950,235)	56,181	-	-	56,181	-

(30) Surplus reserve

	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Statutory surplus reserve	**46,150,000**	**6,000,000**	**–**	**52,150,000**

	31 December 2018	Increase in the current period	Decrease in the current period	31 December 2019
Statutory surplus reserve	46,150,000	–	–	46,150,000

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(30) Surplus reserve (continued)

In accordance with the *Company Law and the Company's Articles of Association*, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. By the resolution of the Board of Directors, the Company will withdraw the statutory surplus provident fund of RMB6,000,000, the accumulated stator surplus reserve has reached 50% of registered capital.

(31) Undistributed profits

	2020	2019
Undistributed profits at the beginning of period	**569,229,480**	406,481,497
Add: net profit attributable to shareholders of the Company	**164,662,782**	227,357,983
Less: appropriation to statutory surplus reserve	**(6,000,000)**	–
other comprehensive income settled to retained earnings	**(8,150,817)**	–
dividends declared	**(64,610,000)**	(64,610,000)
Undistributed profits at the end of period	**655,131,445**	569,229,480

In accordance with the Board of Directors on 30 March 2020, the Company recommends the payment of a final dividend of RMB 0.07 per ordinary share, totalling RMB 64,610,000 for the year ended 31 December 2019. The proposed final dividend in respect of the year ended 31 December 2019 is calculated based on the total number of shares 923,000,000 in issue.

In accordance with the Board of Directors on 25 March 2021, the Company recommends the payment of a final dividend of RMB 0.05 per ordinary share, calculated on 1,043,000,000 issued shares, totalling RMB 1,043,000,000 for the year ended 31 December 2020. The proposal is subject to approval by the general meeting of shareholders.

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(32) Revenue and cost of sales

	2020	2019
Main operations revenue	**832,466,558**	1,028,955,330
Other operations revenue	**1,336,135**	339,439
	833,802,693	1,029,294,769

	2020	2019
Main operations cost	**(61,814,126)**	(73,339,340)
Other operations cost	**(1,024,391)**	(1,163)
	(62,838,517)	(73,340,503)

(a) Main operations revenue and main operations cost

	2020		2019	
	Main operations revenue	**Main operations cost**	Main operations revenue	Main operations cost
– Sale of pharmaceutical and diagnostic products	**820,810,437**	**(61,673,971)**	997,065,230	(70,997,893)
– Technology transfer income (i)	**11,500,000**	**–**	29,900,000	–
– Service	**156,121**	**(140,155)**	1,942,666	(2,341,447)
– Others	**–**	**–**	47,434	–
	832,466,558	**(61,814,126)**	1,028,955,330	(73,339,340)

(i) On 11 March 2019, the Company entered into the technology transfer agreement with Shanghai Institute of Biological Products Co., Ltd. In 2020, the Company recognizes the technology transfer income of RMB 11,500,000 according to the progress of the contract performance. (In 2019: RMB 29,900,000.)

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(32) Revenue and cost of sales (continued)

(b) Other operations revenue and cost of sales

	2020		2019	
	Other operations revenue	**Other operations cost**	Other operations revenue	Other operations cost
Sales of materials	**1,336,135**	**(1,024,391)**	3,039	(1,163)
Revenue from cooperation agreements with SPH (i)	**–**	**–**	336,400	–
	1,336,135	**(1,024,391)**	339,439	(1,163)

(i) On 23 February 2011, the Company and Shanghai Pharmaceuticals signed an innovative drug research and development strategic cooperation agreement (the "Agreement") in relation to four of the existing drug research projects undertaken by the Group. The Agreement was renewed on 19 March 2013 and 10 May 2017 respectively. According to the Agreement, Shanghai Pharmaceuticals will pay 80% of the ongoing research and development ("R&D") expenses of these projects from 1 January 2011 (inclusive), and the Group and Shanghai Pharmaceuticals will share equally the future benefits generated from the commercialization of these projects. In addition, Shanghai Pharmaceuticals also agreed to pay 80% of the R&D expenses on these research projects prior to 1 January 2011 (the "Pre-2011 Costs") but the payments of the Pre-2011 Costs are subject to the completion of certain milestones between 2011 and 2018 as set out in the Agreement.

As at 31 December 2019, the drug research and development project of vincristine sulfate liposome has been transferred in 2014, while other three projects has been terminated.

(33) Taxes and surcharges

	2020	2019
Educational surcharge	**1,539,150**	2,225,897
Real estate tax	**1,026,585**	1,281,462
City maintenance and construction tax	**853,088**	1,018,547
Land use tax	**385,497**	405,936
Others	**279,587**	365,597
	4,083,907	5,297,439

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(34) Selling expenses

	2020	2019
Marketing and academic promotion fees	**326,291,856**	401,633,434
Salary costs	**55,372,681**	70,764,064
Depreciation and amortization	**14,269,842**	12,309,522
Business Hospitality	**8,688,898**	6,838,254
Travel expenses	**5,908,980**	15,188,839
Conference fees	**4,518,207**	11,720,162
Right-of-use asset depreciation	**3,886,063**	3,880,300
Shipping fee	**2,148,650**	2,257,528
Office expenses	**1,630,698**	1,553,380
Rental fees	**401,520**	159,300
Others	**3,811,774**	4,266,402
	426,929,169	530,571,185

(35) General and administrative expenses

	2020	2019
Salary costs	**28,497,713**	29,761,966
Administrative expenses	**6,370,274**	3,639,584
Audit fees	**4,269,023**	2,718,160
Depreciation and amortization	**3,642,496**	6,197,804
Rent and property fees	**1,189,690**	3,873,526
Consulting fee	**26,047**	1,770,782
Service fee	**1,980**	104,591
Right-of-use asset depreciation	**–**	1,708,582
Others	**6,761,608**	5,158,266
	50,758,831	54,933,261

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(36) R&D expenses

	2020	2019
Outsourced R & D expenses	**59,155,012**	36,151,615
Salary costs	**34,370,229**	32,278,865
R & D department expenses	**18,314,004**	20,186,109
Information and materials costs	**16,943,479**	26,763,958
Depreciation	**10,485,705**	12,441,400
	139,268,429	127,821,947

(37) Financial expenses – Net

	2020	2019
Interest costs	**5,156,270**	5,587,535
Less: Amounts capitalised on qualifying assets	**–**	–
Add: Interest expense on lease liabilities	**444,756**	711,285
Interest expenses	**5,601,026**	6,298,820
Less: Interest income	**(6,131,391)**	(2,086,043)
Exchange gains or losses – Net	**301,346**	1,127,469
Others	**357,721**	287,700
	128,702	5,627,946

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(38) Expenses by nature

The cost of sales, selling expenses, general and administrative expenses and research and development expenses in the income statements are listed as follows by nature:

	2020	2019
Changes in inventories of finished goods and work in progress	**(3,777,607)**	1,526,523
Consumed raw materials and low value consumables, etc.	**37,476,469**	41,681,522
Marketing and sales promotion expenses	**347,858,456**	438,753,634
Employee benefit expenses	**129,795,589**	147,893,701
Less: Amounts capitalized in development costs	**(2,321,088)**	(151,758)
	127,474,501	147,741,943
Outsourced R&D expenses	**59,155,012**	36,151,615
Depreciation and amortization	**51,978,176**	54,244,808
Less: Amounts capitalized in development costs	**(1,869,166)**	(164,640)
	50,109,010	54,080,168
R&D department expenses	**18,314,004**	20,186,109
Quality inspection expenses	**7,172,037**	8,817,287
Right-of-use asset depreciation	**4,734,042**	5,588,882
Audit Fees	**4,269,023**	2,718,160
– audit services	**4,144,532**	2,585,669
– non-audit services	**124,491**	132,491
Rental (i)	**155,976**	1,347,649
Others	**26,854,023**	33,415,035
	679,794,946	792,008,527

(i) As mentioned in Note 2 (22), the rental expenses of short-term leases and low-value leases are directly included in the current profit and loss, and the amount for the year ended 31 December 2020 is RMB 155,976 (for the year ended 2019: RMB 1,347,649).

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(39) Other income

	2020	2019	Asset related/ Income related
Financial support	**11,499,712**	9,240,000	Income related
R&D project industrialization subsidy	**2,317,000**	2,317,000	Asset related
Medical R&D Project Grant	**305,153**	872,593	Income related
High-tech Enterprise Grant	**–**	690,000	Income related
Others	**806,318**	915,783	Income related
	14,928,183	14,035,376	

(40) Investment income

	2020	2019
(Loss)/gain from disposal of subsidiaries	**(982)**	8,150,434
Financial product income	**19,849,369**	9,829,279
Loss of long-term equity investment accounted by equity method	**(2,619,476)**	(6,921,098)
	17,228,911	11,058,615

In 2020 and 2019, the bank wealth management products purchased by the Group are measured at fair value and their changes are included in the current profit and loss. As at 31 December 2020 and 31 December 2019, the Group had no balance of wealth management products.

(41) Credit impairment loss

	2020	2019
Accounts receivables bad debt losses	**5,907,342**	2,519,741
Other receivables bad debt losses	**6,339,800**	–
	12,247,142	2,519,741

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(42) Asset impairment losses

	2020	2019
Impairment losses on inventories	**1,274,322**	3,809,608
Impairment losses on fixed assets	**–**	3,325,916
Impairment losses on intangible assets	**–**	450,000
	1,274,322	7,585,524

(43) Gains on disposals of assets

	2020	2019	Amount included in 2020 non-recurring profit and loss
Gain on disposal of fixed assets	**4,600,006**	790,301	**4,600,006**

(44) Non-operating income

	2020	2019	Amount included in 2020 non-recurring profit and loss
Listing subsidies	**3,500,000**	–	**3,500,000**
Gain on disposal of fixed assets	**1,197,515**	1,086,695	**1,197,515**
	4,697,515	1,086,695	**4,697,515**

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(45) Non-operating expenses

	2020	2019	Amount included in 2020 non-recurring profit and loss
Inventory loss	**418,302**	724,354	**418,302**
Losses from scrap of fixed assets	**411,399**	1,509,441	**411,399**
Donation	**116,409**	–	**116,409**
Inventory shortage	**81,069**	12,830	**81,069**
Others	**–**	10,003	**–**
	1,027,179	2,256,628	**1,027,179**

(46) Income tax expenses

	2020	2019
Current income tax	**17,234,485**	42,312,824
Deferred income tax	**(4,792,659)**	(16,655,337)
	12,441,826	25,657,487

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(46) Income tax expenses (continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2020	2019
Total profit	**176,701,110**	246,311,582
Income tax expenses calculated at applicable tax rates 25%	**44,175,278**	61,577,896
Effect of favourable tax rates	**(17,994,160)**	(23,212,636)
Tax losses not recognised as deferred tax assets	**415,378**	1,730,341
Deductible temporary differences not recognised as deferred tax assets	**188,073**	418,480
Additional deduction of research and development expenses	**(13,524,793)**	(12,166,759)
Costs, expenses and losses not deductible for tax purposes	**1,572,262**	633,916
Effect of eliminated unrealised profits on intra-group transactions	**(125,000)**	(2,912,500)
Utilisation of previously unrecognised deductable temporary differences	**(1,626,758)**	(709,378)
Reversing the deductible loss of deferred income tax assets recognized in previous years	**(541,325)**	–
Others	**(97,129)**	298,127
Income tax expenses	**12,441,826**	25,657,487

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(47) Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding.

	2020	2019
Profit attributable to shareholders of the Company	**164,662,782**	227,357,983
Weighted average number of ordinary shares outstanding	**989,410,959**	923,000,000
Basic earnings per share	**0.17**	0.25
Among them:		
– Basic earnings per share from continuing operations:	**0.17**	0.25
– Basic earnings per share from discontinuing operations::	**–**	–

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average numbers of ordinary shares outstanding. As there were no dilutive potential ordinary shares for the year ended 31 December 2020 (2019: nil), diluted earnings per share equals to basic earnings per share.

(48) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	2020	2019
Government grant	**15,828,830**	11,469,683
Interest income	**6,131,391**	2,086,043
Deposits and guarantees	**721,000**	15,373,823
Commercial compensation	**–**	10,000,000
Others	**231,354**	712,732
	22,912,575	39,642,281

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(48) Notes to the consolidated cash flow statement (continued)

(b) Cash paid relating to other operating activities

	2020	2019
Administrative and data fees	**18,314,004**	21,272,050
Business Hospitality	**8,688,898**	6,838,254
Consulting service fee	**8,340,832**	11,097,389
Travel expenses	**5,908,980**	15,188,839
Advertising expenses	**3,265,372**	1,341,810
others	**3,130,029**	12,079,543
	47,648,115	67,817,885

(c) Cash received relating to other investing activities

	2020	2019
Selling wealth management products	**3,104,949,369**	1,669,829,279

(d) Cash paid relating to other investing activities

	2020	2019
Buying wealth management products	**3,085,100,000**	1,660,000,000

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(48) Notes to the consolidated cash flow statement (continued)

(e) Cash payments relating to other financing activities

	2020	2019
Payment of IPO agency fee	**14,659,445**	6,734,962
Payment of lease liabilities	**5,313,434**	6,204,174
Repayment the investment funds of minority shareholders	**3,661,128**	–
Payment of the minority equity in a subsidiary	**–**	178,000,000
	23,634,007	190,939,136

In 2020, the total lease-related cash outflow paid by the Group was RMB 5,469,410 (for the year ended 2019: RMB 7,551,823). Except for the amount of the above-mentioned lease liabilities payment included in financing activities, the remaining cash outflows were included in operating activities.

(f) Reconciliation from net profit to cash flows from operating activities

	2020	2019
Net profit	**164,259,284**	220,654,095
Add: Provisions for asset impairment	**1,274,322**	7,585,524
Credit impairment provision	**12,247,142**	2,519,741
Amortization of right-of-use assets	**4,734,042**	5,588,882
Depreciation of fixed assets	**42,578,612**	44,793,056
Amortisation of intangible assets	**6,298,801**	6,294,529
Amortisation of long-term prepaid expenses	**1,231,597**	2,992,583
Gains on disposal of fixed assets and other long-term assets	**(4,600,006)**	(695,961)
Losses on scrapping of fixed assets	**411,399**	1,509,441
Financial expenses	**5,601,026**	6,298,820
Investment income	**(17,228,911)**	(11,058,615)
Increase in deferred tax assets	**(4,792,659)**	(16,655,337)
Increase in inventories	**(5,414,612)**	(4,327,656)
Increase in operating receivables	**(83,538,000)**	(122,900,906)
(Decrease)/increase in operating receivables	**(2,541,358)**	134,118,142
Decrease in deferred income	**(7,517,385)**	(7,483,726)
Net cash flows from operating activities	**113,003,294**	269,232,612

5 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(48) Notes to the consolidated cash flow statement (continued)

(g) Cash

	31 December 2020	31 December 2019
Cash	**1,396,890,192**	576,799,410
Less restricted cash at bank	**–**	–
Cash	**1,396,890,192**	576,799,410

(49) Foreign currency items

	31 December 2020		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand –			
USD	**497,203**	**6.5249**	**3,244,200**
HKD	**14,315**	**0.8416**	**12,048**
			3,256,248

	31 December 2019		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand –			
USD	497,300	6.9762	3,469,264
HKD	15,312	0.8958	13,716
			3,482,980

6 CHANGES IN SCOPE OF BUSINESS COMBINATIONS

(1) Cancellation of a subsidiary

For the year ended 31 December 2020, the Company closed its subsidiary Baosu Pharmaceutical.

7 EQUITY IN OTHER SUBJECTS

(1) Equity in subsidiaries

(a) The structure of the Group

Name	Corporate category	Place of operation	Place of incorporate	Principal activities	Registered capital/ information on issued equity and claims	Share proportion Direct	Share proportion Indirect	Acquisition method
Taizhou Pharmaceutical	Limited liability company	Jiangsu Taizhou	No. 1 Yaocheng Avenue, Taizhou City, Jiangsu Province	Production of freeze-dried powder injections and APIs; research and development of pharmaceuticals and medical devices Development, technology development, technology transfer, technology consulting and technology promotion services, sales of Class II medical devices.	86,000,000	100%	-	Set up
Tracing Bio-technology	Limited liability company	Shanghai	308 Cailun Road, Shanghai	Research and development of medical diagnostic products (except human stem cells, genetic diagnosis and therapeutic technology development and application) and related technical services, daily necessitie, sales of Class II clinical laboratory analysis instruments and software.	24,800,000	84.68%	-	Set up
Fernovelty Holding	Limited liability company	Hong Kong	LOCKHART RD WANCHAI · RM 1501, 15F	Invest in overseas medical projects.	17,438,000	100%	-	Set up

(b) Subsidiaries with significant minority interests

As at 31 December 2020 and 31 December 2019, the Group has no subsidiaries with significant minority interests.

(2) Equity in joint venture and associates

(a) Summarised financial information of significant joint venture and associates:

	Place of operation	Place of incorporate	Principal activities	If strategic for group activities	Share proportion Direct	Share proportion Indirect
Joint venture – BVCF	Changzhou	Changzhou	Healthcare investment	No	22.54%	–
Associates – Derma	Shanghai	Shanghai	Medical investment management	No	20.00%	–

The Group uses the equity method to account for the above equity investments.

7 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint venture and associates (continued)

(b) Summarised financial information of significant joint venture

	31 December 2020 BVCF	31 December 2019 BVCF
Current assets	**35,139,436**	19,290,600
Non-current assets	**163,450,000**	96,000,000
Total assets	**198,589,436**	115,290,600
Current liabilities	**(1,923,666)**	–
Net assets	**196,665,770**	115,290,600
Share of net assets by shareholding	**60,372,244**	23,251,196
Carrying amount of investments in joint ventures	**60,372,244**	23,251,196

	2020	2019
General and administrative expenses	**(3,952,099)**	(5,716,243)
Financial expenses	**252,110**	2,003,423
Invest income	**925,160**	–
Profit or loss in changes of fair value	**6,450,000**	–
Income tax expenses	**–**	–
Net profits/(losses)	**3,675,171**	(3,712,820)
Other comprehensive income	**–**	–
Total comprehensive income/(losses)	**3,675,171**	(3,712,820)
Dividends received by the Group from joint ventures the year	**–**	–

7 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint venture and associates (continued)

(c) Summarised financial information of significant associate

	31 December 2020 Derma
Current assets	6,654,204
Non-current assets	11,678,629
Total assets	18,332,833
Current liabilities	(51,725,952)
Net assets	(33,393,119)
Share of net assets by shareholding	(6,678,624)
Carrying amount of investments in associate	1,087,182

	For the year ended 31 December 2020
Revenue	2,605,040
Cost of sales	(4,859,682)
Taxes and surcharges	(25)
Selling expenses	(1,086,301)
General and administrative expenses	(16,639,767)
Financial expenses	(25,700)
Non-operating income	1,318,265
Non-operating expense	(14,449)
Net loss	(18,702,619)
Total comprehensive loss	(18,702,619)
Dividends received by the Group from associates the year	–

7 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint venture and associates (continued)

(d) Summarised financial information of non-significant joint venture and associates:

	Place of operation	Place of incorporate	Principal activities	If strategic for group activities	Share proportion	
					Direct	Indirect
Associates – Lead Discovery	Shanghai	Shanghai	Efficient screening of new drugs in China, development of "me-too" and natural medicine technology	No	35%	–

The Group uses the equity method to account for the above equity investments.

The associate is an unlisted company and has no significant impact on the Group's financial information.

In 2012, the Company's carrying amount of investment in the associated company of Lead Discovery has been fully made provision for impairment.

8 SEGMENT INFORMATION

The Group is principally engaged in research and development as well as sales of pharmaceutical products. Therefore, the Group does not distinguish between different business segments.

The Company and its subsidiaries other than Fernovelty Holding all operate in Mainland China. The Group's revenue is mainly derived from Mainland China and it does not distinguish between different regional segments.

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The parent company

The company has no parent company and ultimate controlling party.

(2) Significant subsidiaries

For basic and related information of significant subsidiaries, please refer to Note 7

(3) Joint ventures and associates

For basic and related information of joint ventures and associates, please refer to Note 7

(4) Other related parties

	Relationship with the Group
SPH	Shareholder
Shanghai Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shanghai Suzuken Chinese Medicine Co., Ltd.	Subsidiary of SPH
Jiangsu Hongkang Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Ningbo Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shandong Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Hubei Co., Ltd.	Subsidiary of SPH
SPH Ningbo Pharmaceutical Co., Ltd. Biological Products Branch	Subsidiary of SPH
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	Subsidiary of SPH
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Jilin Co., Ltd.	Subsidiary of SPH
SPH Changzhou Pharmaceutical Co., Ltd.	Subsidiary of SPH
Beijing Keyuan Xinhai Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	Subsidiary of SPH
Xuzhou SPH Pharmaceutical Co., Ltd.	Subsidiary of SPH
China Medical Foreign Trading Liao Ning Co., Ltd.	Subsidiary of SPH
Sichuan Guojia Medical Technology Co., Ltd.	Subsidiary of SPH
Shanghai Jiaolian Pharmaceutical R&D Co., Ltd. (“Shanghai Jiaolian”)	Subsidiary of SPH
Jiangxi Nanhua Pharmaceutical Co., Ltd.	Joint venture of SPH
Shanghai New Asia Pharmaceutical Co., Ltd. (“New Asia Pharmaceutical”)	Subsidiary of SPH

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions

(a) Pricing policies

The products sold by the Group to related parties are priced on the basis of prices sold to similar third parties.

(b) Sales of goods and services

Related party	Related transaction	2020	2019
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**15,601,189**	8,977,786
Shanghai Suzuken Chinese Medicine Co., Ltd.	Sale of pharmaceutical products	**13,384,102**	20,967,655
China Medical Foreign Trading Liao Ning Co., Ltd.	Sale of pharmaceutical products	**12,992,546**	841,580
Shanghai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**12,935,597**	15,046,797
Jiangxi Nanhua Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**5,676,381**	–
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	Sale of pharmaceutical products	**5,448,431**	3,230,304
Jiangsu Hongkang Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**4,560,699**	5,060,092
SPH Changzhou Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**2,696,170**	1,000,050
SPH Ningbo Pharmaceutical Co., Ltd. Biological Products Branch	Sale of pharmaceutical products	**2,019,575**	2,608,707
SPH Keyuan Xinhai Pharmaceutical Hubei Co., Ltd.	Sale of pharmaceutical products	**1,870,176**	314,307
Sichuan Guojia Medical Technology Co., Ltd.	Sale of pharmaceutical products	**1,657,466**	—
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	Sale of pharmaceutical products	**1,274,574**	731,133
SPH Keyuan Xinhai Pharmaceutical Jilin Co., Ltd.	Sale of pharmaceutical products	**744,977**	744,977
Beijing Keyuan Xinhai Pharmaceutical Co., Ltd.		**600,330**	171,406
Shandong Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**381,471**	129,172
Shanghai Pharmaceutical Ningbo Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**157,007**	299,269
Xuzhou SPH Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	**–**	1,368,748
		82,000,691	61,491,983

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(c) Obtaining cooperation agreement payments

Related party	Related transaction	2020	2019
Shanghai Jiaolian	Obtaining cooperation agreement payments	**4,776,500**	6,372,000
SPH	Obtaining cooperation agreement payments	**–**	336,400
		4,776,500	6,708,400

(d) Payment of cooperation agreement

Related party	Related transaction	2020	2019
SPH	Payment of cooperation agreement	**–**	800,000

(e) Payment of cooperation agreement

Related party	Related transaction	2020	2019
New Asia Pharmaceutical	medical product testing services	**65,094**	–

(f) Key management compensation

	2020	2019
Key management compensation	**18,197,000**	18,376,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Receivables from and payables to related parties

(a) Account receivables

	31 December 2020		31 December 2019	
	Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	**10,489,243**	**(18,911)**	2,364,648	(4,729)
China Medical Foreign Trading Liao Ning Co., Ltd.	**7,127,560**	**(4,299)**	172,802	–
Shanghai Suzuken Chinese Medicine Co., Ltd.	**5,797,432**	**(26,434)**	7,489,615	(7,049)
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	**3,685,983**	**(1,545)**	1,904,392	(9,522)
Shanghai Pharma Co., Ltd.	**1,998,689**	**–**	1,272,600	–
Jiangxi Nanhua Pharmaceutical Co., Ltd.	**1,921,301**	**–**	–	–
Jiangsu Hongkang Pharmaceutical Co., Ltd.	**1,743,254**	**(5,192)**	613,121	(3,066)
SPH Changzhou Pharmaceutical Co., Ltd.	**1,471,596**	**(3,490)**	165,440	–
SPH Keyuan Xinhai Pharmaceutical Hubei Co., Ltd.	**1,094,478**	**(175)**	175,116	(876)
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	**849,551**	**(1,631)**	–	–
SPH Ningbo Pharmaceutical Co., Ltd. Biological Products Branch	**671,625**	**(1,754)**	62,568	–
Sichuan Guojia Medical Technology Co., Ltd.	**408,204**	**–**	—	—
Beijing Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	**97,823**	**–**	–	–
Shanghai Pharmaceutical Ningbo Pharmaceutical Co., Ltd.	**53,899**	**(27)**	53,899	(269)
Shandong Pharmceutical Co., Ltd.	**25,650**	**–**	12,825	–
Xuzhou SPH Pharmaceutical Co., Ltd.	**–**	**–**	176,226	–
	37,436,288	**(63,458)**	14,463,252	(25,511)

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Receivables from and payables to related parties (continued)

(b) Contract liabilities

	31 December 2020	31 December 2019
Shanghai Jiaolian	**1,563,150**	1,030,369

(c) Other payables

	31 December 2020	31 December 2019
SPH	**–**	3,690,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors

(a) Directors and chief executive's emoluments

The emoluments in respect of each of the executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2020 are as follows:

	Fee	Basic salaries and allowances	Retirement benefit costs	Bonus	Allowance and other benefits	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Executive directors							
Mr. Wang Hai Bo	-	2,130,000	46,000	1,100,000	-	-	3,276,000
Mr. Su Yong	-	1,476,000	52,000	900,000	-	-	2,428,000
Mr. Zhao Da Jun	-	1,476,000	114,000	1,000,000	-	-	2,590,000
Independent non-executive directors							
Mr. Zhou Zhong Hui	-	188,000	-	-	-	-	188,000
Mr. Lam Yiu Kin	-	188,000	-	-	-	-	188,000
Mr. Xu Qing	-	188,000	-	-	-	-	188,000
Mr. Yang Chun Bao	-	188,000	-	-	-	-	188,000
Independent supervisors							
Mr. Liu Xiao Long	-	138,000	-	-	-	-	138,000
Mr. Huang Jian	-	138,000	-	-	-	-	138,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors (continued)

(a) Directors and chief executive's emoluments (continued)

The emoluments in respect of each of the executive directors, supervisors and independent non-executive directors paid/payable by the Group for the year ended 31 December 2019 are as follows:

	Fee	Basic salaries and allowances	Retirement benefit costs	Bonus	Allowance and other benefits	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Executive directors							
Mr. Wang Hai Bo	–	1,989,000	91,000	1,300,000	–	–	3,380,000
Mr. Su Yong	–	1,344,000	91,000	1,100,000	–	–	2,535,000
Mr. Zhao Da Jun	–	1,344,000	91,000	1,100,000	–	–	2,535,000
Independent non-executive directors							
Mr. Zhou Zhong Hui	–	150,000	–	–	–	–	150,000
Mr. Lam Yiu Kin	–	150,000	–	–	–	–	150,000
Mr. Xu Qing	–	150,000	–	–	–	–	150,000
Mr. Yang Chun Bao	–	150,000	–	–	–	–	150,000
Independent supervisors							
Mr. Liu Xiao Long	–	100,000	–	–	–	–	100,000
Mr. Huang Jian	–	100,000	–	–	–	–	100,000

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors (continued)

(b) Directors' retirement benefits

There are no retirement benefits for the directors. The Group only contributes to state-sponsored retirement schemes for the directors in PRC.

(c) Directors' termination benefits

There are no directors' termination benefits for the directors.

(d) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the year (2019: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year (2019: Nil).

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(8) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 include 3 directors (2019: 3 individuals), whose emoluments are reflected in Note (9 (7)). The emoluments paid and payable to these 2 individuals (2019: 2 individuals) for the year are as follows:

	2020	2019
Salary, bonus and allowance	**5,184,000**	5,182,000
Social pension	**8,000**	98,000
Housing funds, medical insurance and other social insurance	**96,000**	84,000
	5,288,000	5,364,000

	Head count	
	2020	2019
Emoluments bands:		
HKD 2,000,000 – HKD 2,500,000	**–**	–
HKD 2,500,000 – HKD 3,000,000	**–**	1
HKD 3,000,000 – HKD 3,500,000	**2**	1
	2	2

10 CONTINGENCIES

(1) Contingent liabilities and their financial impacts arising from significant pending litigation or arbitration

The Group has no significant pending litigation or arbitration.

(2) Contingent liabilities and their financial impacts arising from debt guarantee to other entities

The Group provides no debt guarantee to other entities.

11 COMMITMENTS

Capital commitments

Capital expenditures contracted for by the Group but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	31 December 2020	31 December 2019
Buildings, machinery and equipment	**7,401,770**	1,260,346

12 SUBSEQUENT EVENTS

On 25 March 2021, with the approval of the board of directors, the Company signed the capital increase agreement with Shanghai WD Pharmaceutical Co., Ltd. (hereinafter referred to as "WD Pharmaceutical") with the amount of RMB 102.42 million，which equals to USD 1.38 million；Meanwhile, at a consideration of USD 25.243 million the existing shareholders were assigned the equity corresponding to the registered capital of USD 2.77 million. The Company will subscribe for the newly increased registered capital of WD Pharmaceutical with a total amount of USD 4.146 million, accounting for 39.5663% of the registered capital after the completion of the capital increase.

13 FINANCIAL INSTRUMENTS AND RISKS

The Group's activities expose it to a variety of financial risks: market risk (primarily including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's main business is located in the PRC and its main business is settled in RMB. Therefore, the Group has no significant foreign exchange risk.

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2020 and 2019, the Group did not enter into any interest rate swap agreements.

As at 31 December 2020, the Group has no bank loans.

As at 31 December 2019, if interest rates on the floating rate borrowings rise/fall by 10 basis points while holding all other variables constant, the Group's net profit will decrease/increase by approximately RMB 111,646.

13 FINANCIAL INSTRUMENTS AND RISKS (continued)

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, notes receivables, accounts receivables, other receivables etc. As at the balance sheet date, the book value of the Group's financial assets represents its maximum credit risk exposure; there is no credit risk exposure arising from the performance of financial guarantees off the balance sheet.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on notes receivables, accounts receivables and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at 31 December 2020 and 31 December 2019, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage.

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

13 FINANCIAL INSTRUMENTS AND RISKS (continued)

(3) Liquidity risk (continued)

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2020				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Financial liabilities –					
Accounts payables	**5,267,823**	**–**	**–**	**–**	**5,267,823**
Other payables	**62,905,448**	**–**	**–**	**–**	**62,905,448**
Lease liabilities	**6,790,058**	**3,141,066**	**7,126,314**	**6,160,139**	**23,217,577**
	74,963,329	**3,141,066**	**7,126,314**	**6,160,139**	**91,390,848**

	31 December 2019				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities –					
Short-term borrowings	152,512,427	–	–	–	152,512,427
Accounts payables	6,827,902	–	–	–	6,827,902
Other payables	62,899,195	–	–	–	62,899,195
Lease liabilities	4,031,927	2,121,534	–	–	6,153,461
	226,271,451	2,121,534	–	–	228,392,985

14 FAIR VALUE ESTIMATES

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) Assets measured at fair value on a recurring basis

Assets measured at fair value on a recurring basis are other equity instruments and financial products, both of which are level 3 assets

The changes in level 3 assets are as follows

	Other equity instruments	Financial products	Total
1 January 2019	–	–	–
Purchase	–	1,660,000,000	1,660,000,000
Sell	–	(1,669,829,279)	(1,669,829,279)
A gain or loss included in profit or loss.	–	9,829,279	9,829,279
A gain or loss included other comprehensive income	–	–	–
31 December 2019	–	–	–
Purchase	**5,623,983**	**3,085,100,000**	**3,090,723,983**
Sell	**(5,623,983)**	**(3,104,949,369)**	**(3,110,573,352)**
A gain or loss included in profit or loss.	**–**	**19,849,369**	**19,849,369**
A gain or loss included in other comprehensive income	**5,253,127**	**–**	**5,253,127**
31 December 2020	**5,253,127**	**–**	**5,253,127**

A gain or loss included in profit or loss are recorded in investment income.

14 FAIR VALUE ESTIMATES (continued)

(2) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include cash, receivables, short-term borrowings, payables.

There is little difference between the book value and fair value of the Group's financial assets and financial liabilities which are not measured at fair value.

15 CAPITAL MANAGEMENT

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group's total capital is listed as 'owners' equity' as shown in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of debt ratio as other company in this industry. This ratio is calculated as net debt divided by total capital, which is borrowings minus cash. As at 31 December 2020 and 31 December 2019, the cash balance of the Group was much larger than the borrowing balance and, therefore, the debt ratio was not applicable.

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Notes receivables

	31 December 2020	31 December 2019
Bank acceptance notes	**124,175,082**	127,592,684
Less: Provision for bad debts	**–**	–
	124,175,082	127,592,684

(a) As at 31 December 2020, the above-mentioned notes of the Company were not subject to collateral or pledge.

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(1) Notes receivables (continued)

(b) As at 31 December 2020, the Company's notes receivables endorsed or discounted but not yet due are as follows:

	31 December 2020	
	De-recognized	**Not de-recognized**
Bank acceptance notes i)	**5,918,021**	**–**

i) In 2020, since endorsements or discount transactions that meet the conditions for derecognition occur by accident and the amount is not significant, the Company measures at amortized cost.

(c) Provision for bad debts

The Company's notes receivables are generated from daily business activities such as the sale of goods and the provision of labor services. Regardless of whether there is a significant financing component, loss provisions are measured in accordance with the expected credit losses throughout the lifetime.

As at 31 December 2020 and 31 December 2019, the Company considered that the bank acceptance notes held did not have significant credit risk and would not cause credit losses due to bank defaults, so no provision for bad debt was made.

(2) Accounts receivables

	31 December 2020	31 December 2019
Accounts receivables	**437,579,597**	351,536,192
Less: Provision for bad debts	**(8,726,026)**	(2,991,177)
	428,853,571	348,545,015

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(2) Accounts receivables (continued)

(a) The ageing analysis of accounts receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	**436,473,845**	351,536,192
1 to 2 year	**1,105,752**	–
	437,579,597	351,536,192

(b) As at 31 December 2020, the top five accounts receivables based on the balance of the debtors are summarized and analyzed as follows:

	Account Balance	**Amount of bad debt provision**	**% of total balance**
Total top five accounts receivable	212,752,770	(5,445,953)	48.62%

(c) Provision for bad debts

	31 December 2019	Change amount in the period			**31 December 2020**
		Accrual	Reversal	Write-off	
Provision for bad debts of accounts receivables	(2,991,177)	(5,734,849)	–	–	**(8,726,026)**

For the accounts receivables in 2020 and 2019, regardless of whether there is a significant financing component, the Company calculates loss provisions in accordance with the expected credit losses throughout the lifetime.

(i) As at 31 December 2020 and 31 December 2019, the Company did not make provision for bad debts for individual accounts receivables.

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(2) Accounts receivables (continued)

(c) Provision for bad debts (continued)

(ii) As at 31 December 2020, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable：

	31 December 2020		
	Accounts Balance	Provision for bad debts	
	Amount	Life expectancy Credit loss rate	Amount
Not overdue	**279,108,377**	**–**	**–**
Overdue within 120 days	**121,439,511**	**0.33%**	**(395,680)**
Overdue 120 days to 1 year	**35,925,957**	**20.11%**	**(7,224,594)**
Overdue 1 year to 2 year	**1,105,752**	**100.00%**	**(1,105,752)**
	437,579,597		**(8,726,026)**

(iii) As at 31 December 2019, the analysis of accounts receivables for the provision of bad debts is as follows:

Portfolio – sales receivable：

	31 December 2019		
	Accounts Balance	Provision for bad debts	
	Amount	Life expectancy Credit loss rate	Amount
Not overdue	296,752,248	–	–
Overdue within 120 days	40,714,681	0.44%	(177,325)
Overdue 120 days to 1 year	14,069,263	20.00%	(2,813,852)
	351,536,192		(2,991,177)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables

	31 December 2020	31 December 2019
Amount due from subsidiary	**148,093,844**	175,168,276
Amounts due from related parties (i)	**23,753,000**	23,753,000
Equity transfer	**6,339,800**	6,339,800
Deposit receivable	**1,876,647**	1,304,544
Receivables from employees	**169,007**	62,608
Guarantee receivables	**10,380**	10,380
others	**470,176**	–
	180,712,854	206,638,608
Less: provision for bad debts	**(55,292,800)**	(48,953,000)
	125,420,054	157,685,608

(i) As at 31 December 2020, the Company receivables from related parties of Derma RMB 23,753,000. On February 28, 2019, the Company signed a share transfer agreement with Bringspring-Roadtop. After the agreement stipulates that Bringspring-Roadtop has transferred the equity, the loan will be returned by the cash flow generated by the Derma through operating activities, and the relevant profit will be preferred to repay the loan, and pledge guarantees were provided by its new shareholder Bringspring-Roadtop and the equity of Derma held by other shareholders. Based on the current operating conditions of Derma, the Company made provision for impairment of this receivable.

(a) The ageing analysis of other receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	**24,308,130**	157,528,684
1-2 years	**127,297,800**	47,801,800
2-3 years	**27,801,800**	1,276,394
Above 3 years	**1,305,124**	31,730
	180,712,854	206,638,608

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables (continued)

(b) Statement of loss provision and changes in its carrying amount

(i) As at 31 December 2020, the analysis of bad debt provisions of other receivables in the first phase is as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Combined accrual:			
Amount due from subsidiary	122,893,844	–	–
Deposit and guarantee	1,887,027	–	–
Receivables from employees	169,007	–	–
Others	470,176	–	–
	125,420,054		–

As at 31 December 2020 and 31 December 2019, the Company has no other receivables in the second phase.

As at 31 December 2020, the analysis of bad debt provisions of other receivables in the third phase is as follows:

	Book balance	Expected credit loss rate throughout the lifetime	Provision for bad debts
Individual accruals:			
Amount due from subsidiary	25,200,000	100%	(25,200,000)
Amounts due from related parties	23,753,000	100%	(23,753,000)
Equity transfer	6,339,800	100%	(6,339,800)
	55,292,800		(55,292,800)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables (continued)

(b) Statement of loss provision and changes in its carrying amount (continued)

(ii) As at 31 December 2019, the analysis of bad debt provisions of other receivables in the first phase is as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Combined accrual:			
Amount due from subsidiary	149,968,276	–	–
Equity transfer receivables	6,339,800	–	–
Deposit and guarantee	1,314,924	–	–
Receivables from employees	62,608	–	–
	157,685,608		–

As at 31 December 2019, the Company has no other receivables in the second phase.

As at 31 December 2019, the analysis of bad debt provisions of other receivables in the third phase is as follows:

	Book balance	Expected credit loss rate throughout the lifetime	Provision for bad debts
Individual accruals:			
Amount due from subsidiary	25,200,000	100%	(25,200,000)
Amounts due from related parties	23,753,000	100%	(23,753,000)
	48,953,000		(48,953,000)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Other receivables (continued)

(c) Provision for bad debt

	31 December 2019	Accrual	Write-off	**31 December 2020**
Provision for bad debts of other receivables	(48,953,000)	(6,339,800)	–	**(55,292,800)**

(d) As at 31 December 2020, the top five other receivables based on the balance of the debtors are summarized and analyzed as follows:

	Nature	Balance	Aging	% of total amount	Provision for bad debts
Subsidiary 1	Entrusted Loan	120,000,000	1-2 years	66.40%	–
	Advance payment	1,321,868	Within 1 year	0.73%	–
Subsidiary 2	Entrusted Loan	20,200,000	Within 1 year	11.18%	(20,200,000)
	Entrusted Loan	5,000,000	2-3 years	2.77%	(5,000,000)
Related party 1	Loan	22,800,000	2-3 years	12.62%	(22,800,000)
	Loan	953,000	1-2 years	0.53%	(953,000)
Company 1	Equity transfer	6,339,800	1-2 years	3.51%	(6,339,800)
Company 2	Deposit	1,267,464	More than 3 years	0.70%	–
		177,882,132		98.43%	(55,292,800)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(4) Long-term equity investments

	31 December 2020	31 December 2019
Subsidiaries (a)	**286,338,000**	297,338,000
Joint ventures (b)	**60,372,244**	23,251,196
Associates (c)	**332,756**	332,756
	347,043,000	320,921,952
Less: Provision for impairment of long-term equity investments		
– Subsidiaries	**(36,911,800)**	(34,911,800)
– Associates	**(332,756)**	(332,756)
	(37,244,556)	(35,244,556)
	309,798,444	285,677,396

(a) Subsidiaries

		Changes in the period						
	31 December 2019	Investment Addition	Reduce investment	Provision for impairment	Other	31 December 2020	Impairment balance	Cash dividends declared this period
Taizhou Pharmaceutical	238,000,000	–	–	–	–	**238,000,000**		–
Tracing Bio-technology	12,363,000	–	–	(4,600,000)	–	**7,763,000**	23,137,000	–
Derma	–	–	–	–	–	**–**	–	–
Fernovelty Holding	3,663,200	–	–	–	–	**3,663,200**	13,774,800	–
Baosu Pharmaceutical	8,400,000	–		(8,400,000)	–	**–**	–	–
	262,426,200	–		(13,000,000)	–	**249,426,200**	36,911,800	–

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(4) Long-term equity investments (continued)

(b) Joint venture

		Changes in the period									
	31 December 2019	Investment Addition	Reduce investment	Equity pick up	OCI Adjustment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Others	31 December 2020	Impairment balance
BVCF Fund	23,251,196	36,000,000	-	1,121,048	-	-	-	-	-	60,372,244	-

(c) Associate

		Changes in the period									
	31 December 2019	Investment Addition	Reduce investment	Equity pick up	OCI Adjustment	Other equity changes	Declare cash dividends or profits	Provision for impairment	Other	31 December 2020	Impairment balance
Lead Discovery	-	-	-	-	-	-	-	-	-	-	(332,756)
Derma	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	(332,756)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(5) Right-of-use asset

	Buildings
Cost	
31 December 2019	9,398,281
Increases in the current period	
New lease contract	17,206,983
Decreases in the current period	
Lease expiry	(388,864)
31 December 2020	26,216,400
Accumulated depreciation	
31 December 2019	(3,880,300)
Increases in the current period	
Accrual	(4,467,595)
Decreases in the current period	
Other	388,864
31 December 2020	(7,959,031)
Carrying amount	
31 December 2020	18,257,369
31 December 2019	5,517,981

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(6) Lease liabilities

	31 December 2020	31 December 2019
Lease liabilities	**18,746,706**	6,153,461
Less：Current portion of non-current liabilities	**(5,682,425)**	(4,031,927)
	13,064,281	2,121,534

As at 31 December 2020, the Company had no events that were not included in the lease liabilities while resulting in potential future cash outflows.

(7) Revenue and cost of sales

	2020	2019
Main operations revenue	**761,562,308**	949,996,977
Other operations revenue	**280,307**	414,152
	761,842,615	950,411,129

	2020	2019
Main operations cost	**(49,485,659)**	(52,850,723)
Other operations cost	**(25,277)**	(7,951)
	(49,510,936)	(52,858,674)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(7) Revenue and cost of sales (continued)

(a) Main operations revenue and main operations cost

	2020		2019	
	Main operations revenue	**Main operations cost**	Main operations revenue	Main operations cost
– Sale of pharmaceutical and diagnostic products	**742,684,966**	**(42,108,317)**	912,453,356	(45,207,102)
– Revenue from technology transfer	**11,500,000**	**–**	29,900,000	–
– Provide technology service	**7,377,342**	**(7,377,342)**	7,643,621	(7,643,621)
	761,562,308	**(49,485,659)**	949,996,977	(52,850,723)

(b) Other operations revenue and cost of sales

	2020		2019	
	Other operations revenue	**Other operations cost**	Other operations revenue	Other operations cost
– Sales of materials	**280,307**	**(25,277)**	6,487	(4,611)
– Revenue from cooperation agreements with SPH	**–**	**–**	336,400	–
– Others	**–**	**–**	71,265	(3,340)
	280,307	**(25,277)**	414,152	(7,951)

16 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(8) Investment income

	2020	2019
Financial product income	**19,798,319**	9,829,279
Interest income from entrusted loans	**7,312,638**	7,409,834
Investment income/(loss) from disposal of long-term equity investments	**(10,015)**	605,343
Equity pick up	**1,121,048**	(748,804)
	28,221,990	17,095,652

The Company does not have any significant restrictions on repatriation of investmentt income.

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

	2020	2019
Gains and losses from disposal of non-current assets	**4,600,006**	790,301
Government grants recognised in profits	**18,428,183**	14,035,376
Except for effective hedging business related to the Group's normal business operations, gains and losses on changes in fair value from holding transactional financial assets, and investment income from disposal of transactional financial assets and other non-current financial assets	**19,849,369**	9,829,279
Investment income from disposal of subsidiary	**(982)**	8,150,434
Non-operating income and expenses other than the above	**170,336**	(1,169,933)
	43,046,912	31,635,457
Impact of income tax expense	**(5,118,415)**	(3,108,970)
Impact on the minority interests, net of tax	**(632,325)**	(65,647)
	37,296,172	28,460,840

Basis for preparation of summary of non-recurring profit or loss

Under the requirements in Explanatory announcement No.1 on information disclosure by companies offering securities to the public – non-recurring profit or loss [2008] from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 RECONCILIATION OF DOMESTIC AND FOREIGN FINANCIAL STATEMENTS

On 24 February 2020, according to the approval of the temporary shareholders' meeting, the Company started to use the consolidated financial statements prepared under CAS to file the annual report with the Stock Exchange of Hong Kong from the year ended 31 December 2019. Since that, the Group did not prepare the reconciliation between the financial statements prepared under CAS and IFRS.

3 RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%) 2020	**Earnings per share**	
		Basic earnings per share 2020	**Diluted earnings per share 2020**
Net profit attributable to ordinary shareholders of the Company	**11.32%**	**0.17**	**0.17**
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**8.88%**	**0.13**	**0.13**

	Weighted average return on net assets (%) 2019	Earnings per share	
		Basic earnings per share 2019	Diluted earnings per share 2019
Net profit attributable to ordinary shareholders of the Company	24.16%	0.25	0.25
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	21.46%	0.22	0.22