翰森製藥
HANSOH PHARMA

Hansoh Pharmaceutical Group Company Limited
翰森製藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3692

Annual Report
2020

Contents

Corporate Overview

The Company is one of the leading research and development-driven pharmaceutical companies in the People's Republic of China ("**PRC**" or "**China**"), devoting itself to meet the unmet clinical needs of patients and improve the health and well-being of human beings through continuing innovation.

The Company has established a leading position in some of the largest and fastest-growing therapeutic areas in the PRC with significant unmet clinical needs, including oncology, anti-infectives, central nervous system ("**CNS**") diseases and diabetes.

The core driving force of the Company is its focus on innovation. The Company has continuously increased its investments in research and development ("**R&D**") over the years, established sound R&D platforms and mastered a number of proprietary technologies. It has successfully launched and developed a series of innovative drugs and first-to-market generic drugs. During the year under review, the Company successfully launched 10 new drugs in total in both PRC and overseas, including self-developed innovative drugs, Ameile (almonertinib mesylate tablets) and Olanzapine Oral Fast Dissolving Films, and 3 first-to-market generic drugs. The Company has newly filed and obtained 18 clinical approvals, and filed 23 applications for marketing approvals, including self-developed innovative drugs, tenofovir amibufenamide tablet, and an in-licensing innovative biologics inebilizumab.

The Company attaches great importance to product quality. It has maintained the advanced nature of its production quality system through overseas certification, while at the same time constantly expanding the business pipeline of its principal businesses. In addition, it continues to introduce advanced management concepts and tools to improve the overall operation efficiency of the Group.

As the innovative drugs are approved for marketing from time to time, the Company devotes efforts to improve its professional marketing capability and increase the understanding and knowledge of medical professionals regarding the innovative drugs.

MAIN PRODUCTS

Oncology drugs:	Ameile (almonertinib mesylate tablets), Hansoh Xinfu (flumatinib mesylate tablets), Pulaile (pemetrexed disodium for injection), Zefei (gemcitabine hydro chloride for injection), Xinwei (imatinib mesylate tablets), Xinmei (decitabine for injection), Xintai (bortezomib for injection), Tanneng (fosaprepitant dimeglumine for injection), Afatinib Dimaleate Tablets and Sunitinib Malate Capsules
CNS disease drugs:	Oulanning (olanzapine tablets; olanzapine oral fast dissolving films; olanzapine orally disintegrating tablets), Ameining (agomelatine tablets), Ailanning (paliperidone extended-release tablets)
Anti-infective drug:	Mailingda (morinidazole sodium chloride injection), Zetan (tigecycline for injection), Hengjie (linezolid glucose injection/tablets) and Hengsen (micafungin sodium for injection)
Others:	Fulaimei (polyethylene glycol loxenatide for injection), Fulaidi (repaglinide tablets), Fulairui (canagliflozin tablets), Ruibote (rabeprazole sodium enteric-coated tablets), Zexin (apixaban tablets), Ruiyisheng (prucalopride succinate tablets), Empagliflozin Tablets and Saxagliptin Tablets

Corporate Overview

In 2013, the Company was first awarded with the State Science and Technology Award (second prize) (國家科技獎(二等獎)) by the PRC State Council (中國國務院) (the "**State Council**"). During the same year, we obtained United States Food and Drug Administration ("**U.S. FDA**") certification for our oncology injectable products, including Zefei, which was approved for sale by the U.S. FDA. We obtained the latest versions of Chinese Good Manufacturing Practice (藥品生產品質管制規範) ("**GMP**") certifications for all our production lines.

In 2014, the Company was once again awarded with the State Science and Technology Award (second prize) (國家科技獎(二等獎)) by the State Council. During the same year, our first self-developed innovative drug Mailingda (morinidazole sodium chloride injection) was approved for sale in China.

In 2017, the Company ranked 22nd among the "Top 100 Pharmaceutical Industrial Enterprises of China" (2017年中國醫藥工業企業百強) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In both 2018 and 2019, the Company ranked second for "R&D-driven Pharmaceutical Companies in China" (中國醫藥研發產品線最佳工業企業) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心) for two years consecutively.

In May 2019, our self-developed GLP-1 receptor agonist and a long-acting Category 1.1 innovative drug indicated for the treatment of Type-II diabetes, Fulaimei (polyethylene glycol loxenatide for injection), was approved for sale in China.

In May 2019, the Company was awarded with the "Green Enterprise Management Award" (2019年度綠色企業管理獎).

On June 14, 2019 (the "**Listing Date**"), the shares of the Company were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), creating a milestone for the Group and laying a solid foundation for our future development.

In August 2019, the Company was named as an enterprise with "Excellence in Performing Social Responsibilities Among Chinese Pharmaceutical Enterprises" (中國醫藥企業社會責任優秀) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In November 2019, Hansoh Xinfu (flumatinib mesylate), a Category 1.1 innovative drug self-developed by the Company, obtained the approval for marketing in China and is indicated for the treatment of chronic myelogenous leukemia.

Corporate Overview

In March 2020, Ameile (almonertinib mesylate tablets), a Category 1 innovative drug self-developed by the Company, was obtained the marketing approval in China and is indicated for the treatment of patients with locally advanced or metastatic non-small cell lung cancer (NSCLC) with EGFR T790M mutation, who have progressed on or after EGFR-TKI therapy.

In July 2020, the Company's patent inventions regarding morinidazole and tigecycline were awarded with the "Outstanding Award for Patent in the PRC" (中國專利優秀獎) and "Silver Award for Patents in the PRC" (中國專利銀獎) by the State Intellectual Property of China (中國知識產權局), respectively.

In August 2020, the Company was awarded with "R&D-driven Pharmaceutical Companies in China" (中國醫藥研發產品線最佳工業企業) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In August 2020, the Company was named as an enterprise with Excellence in Performing Social Responsibilities Among Chinese Pharmaceutical Enterprises (中國醫藥企業社會責任優秀) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In October 2020, the Company was awarded with the "Green Supply Chain Management Enterprise Award" (綠色供應鏈管理企業) by the Ministry of Industry and Information Technology of China (中國工業和信息化部).

In November 2020, our "R&D and industrialization project of the National Category 1 innovative drug long acting PEG-loxenatide for injection" was awarded with the Honor Award of the China Industrial Award (中國工業大獎表彰獎) by China Federation of Industrial Economics (中國工業經濟聯合會).

In December 2020, almonertinib mesylate tablets, flumatinib mesylate tablets, PEG-loxenatide for injection, all being Category 1 innovative drugs of the Company, are included in 2020 National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance Catalogue (國家基本醫療保險、工傷保險和生育保險藥品目錄(2020 年)).

The website of the Group: **http://www.hspharm.com/**

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Zhong Huijuan (鍾慧娟)
(Chairlady and Chief Executive Officer)
Mr. Lyu Aifeng (呂愛鋒)
Miss Sun Yuan (孫遠)

Non-executive Director

Ms. Ma Cuifang (馬翠芳)

Independent Non-executive Directors

Mr. Lin Guoqiang (林國強)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

AUDIT COMMITTEE

Mr. Chan Charles Sheung Wai (陳尚偉) *(Chairman)*
Mr. Lin Guoqiang (林國強)
Ms. Yang Dongtao (楊東濤)

REMUNERATION COMMITTEE

Ms. Yang Dongtao (楊東濤) *(Chairlady)*
Ms. Zhong Huijuan (鍾慧娟)
Mr. Lin Guoqiang (林國強)

STRATEGY AND DEVELOPMENT COMMITTEE

Ms. Zhong Huijuan (鍾慧娟) *(Chairlady)*
Mr. Lyu Aifeng (呂愛鋒)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

JOINT COMPANY SECRETARIES

Ms. Zhong Shengli (鍾勝利)
Ms. Li Yan Wing Rita (李昕穎)

AUTHORISED REPRESENTATIVES

Miss Sun Yuan (孫遠)
Ms. Li Yan Wing Rita (李昕穎)

STOCK CODE

Stock Code: 3692

REGISTERED OFFICE IN THE CAYMAN ISLANDS

PO Box 309, Ugland House
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PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

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The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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COMPANY'S WEBSITE

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AUDITOR

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Certified Public Accountants
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Corporate Information

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)
37/F, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

COMPLIANCE ADVISOR

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Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANK

Lianyungang Branch of the Bank of Communications
No.45 Huanghe Road
Economic & Technical Development Zone
Lianyungang
Jiangsu
The People's Republic of China

Financial Highlights

RESULTS

	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**8,690,234**	8,682,746	7,722,278	6,185,537	5,432,960
Cost of sales	**(801,561)**	(729,540)	(603,100)	(455,171)	(397,279)
Gross profit	**7,888,673**	7,953,206	7,119,178	5,730,366	5,035,681
Other income	**220,637**	221,219	77,953	93,230	85,811
Selling and distribution expenses	**(3,103,018)**	(3,266,380)	(3,208,680)	(2,704,200)	(2,378,040)
Administrative expenses	**(758,641)**	(777,692)	(790,158)	(614,075)	(537,972)
Research and development costs	**(1,252,246)**	(1,120,681)	(881,288)	(575,544)	(403,065)
Other gains/(expenses), net	**102,894**	(8,747)	(7,680)	3,014	5,274
Finance cost	**–**	–	–	–	(3,411)
PROFIT BEFORE TAX	**3,098,299**	3,000,925	2,309,325	1,932,791	1,804,278
Income tax expense	**(529,392)**	(444,183)	(406,277)	(337,318)	(328,244)
PROFIT FOR THE YEAR	**2,568,907**	2,556,742	1,903,048	1,595,473	1,476,034

ASSETS AND LIABILITIES

	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**20,792,060**	19,575,204	8,414,371	5,874,048	4,820,951
Total liabilities	**2,916,462**	6,530,882	5,946,473	1,355,358	1,846,613
Total equity	**17,875,598**	13,044,322	2,467,898	4,518,690	2,974,338

Chairlady's Statement

Our Company has been continually committed to innovation and development in fields with unmet clinical needs since it was founded. The product portfolio of our Group covers major therapeutic areas such as oncology, the central nervous system, anti-infective and diabetes, and our core products have established market-leading positions in their respective sub-fields.

In 2020, the sudden outbreak of COVID-19 pandemic brought significant challenges to the socio-economic development. With the timely control of the pandemic by the Chinese government, the development of the entire industry gradually resumed in the second half of the year. Our Group proactively responded to the impact of the pandemic by facilitating prompt resumption of work and production and actively making donations to combat the pandemic. Meanwhile, we continued to increase investments in innovation and R&D, and manufacture products in an environmentally-friendly manner. With such commitments, our Group has achieved stable business growth, exerted greater efforts in business expansion and reaped fruitful results in innovative pipelines.

In 2020, Ameile, our Company's innovative drug which is Ameile the third generation EGFR was launched successfully and was included in the National Reimbursement Drug List after negotiations along with Hansoh Xinfu and Fulaimei. Tenofovir ambufenamide tablet, an innovative drug used for treatment of hepatitis B, has been filed New Drug Application (NDA) and was accepted with priority review designation. Our Group also stepped up our efforts in in-licensing and acquisition from external parties in order to enrich our product pipelines, which laid a solid foundation for the rapid growth of our Company in the future.

Looking ahead, the year 2021 will be the beginning of the sixth "five-year period" of our Group since it was founded. We will continue to create excellence in pharmaceuticals, enhance innovation in China, serve a vast population of patients with quality pharmaceutical services, and reward our shareholders with outstanding sales performance.

I hereby would like to express my sincere gratitude to our shareholders, members of the Board, the management of our Group, all our staff, as well as our business partners.

Ms. Zhong Huijuan
Chairlady and Chief Executive Officer

Management Discussion and Analysis

INDUSTRY REVIEW

Since the beginning of the year, despite the steep challenges presented to the economy of China brought by the COVID-19 pandemic, with the strict preventive and control measures implemented by the Chinese government, resumption of work and production had been orderly commenced. The pandemic situation across the nation had continued to improve since March and the economy had steadily recovered, resulting a resilient growth of the major economic indicators. Along with the significant reduction in the inpatient diagnosis activities during the first half of the year due to the pandemic, the development of the pharmaceutical market had also been affected. At the same time, due to the tightened preventive and control measures adopted by the public, coupled with the more stringent infection controls implemented within hospitals, the hospital operations gradually recovered in the second half of the year. The sustained implementation of the medical reform policies continued to promote healthy development trends of the pharmaceutical industry. Consistency evaluation and centralized tendering of drugs across the nation enhanced the products quality within industry, accelerated the popularity of generic drugs as an alternative to the branded ones. The annual update of the National Reimbursement Drug List results became systematic and enabled quick inclusion of a large number of innovative drugs, accelerating the commercialization of innovative drugs. At the same time, the aging of the population and upgrade of consumption promote the rigid growth of healthcare needs. Therefore, the growth of pharmaceutical industry will continue to outperform the trend of macroeconomic.

BUSINESS REVIEW

During the year under review, in respect of our existing advantageous areas, the Company strengthened academic promotion team, in particular, to launch online academic activities, to expand new channels for Internet sales, so as to ensure the achievement of sales performance targets, minimizing the impact of the pandemic to the least possible level. After the launch of Ameile (almonertinib mesylate tablets), Hansoh Xinfu (flumatinib mesylate tablets) and Fulaimei (PEG-loxenatide for injection), the Company has continued to strengthen its professional academic promotion team. The existing clinical data and clinical experience of the Company have been highly recognized by clinical experts. Meanwhile, the Company cooperated with professional institutions to carry out post-marketing clinical research programs and accumulate more sufficient clinic-based evidence. The Company will subsequently organize and optimize the patients' disease course management. The three innovative drugs mentioned above are included in the National Reimbursement Drug List after negotiations in 2020, which is a process accelerating commercialization of innovative drugs. Drug products including Cefzon (Cefdinir Capsules) and Zexin (apixaban tablets) were selected for the group purchasing organization, which reflected the Company actively responded to the national medical reform policy through reducing expenditure and increasing commercial efficiency.

In early 2020, the Company actively donated supplies and funds to affected areas through charitable organizations after the outbreak of COVID-19, so as to help combat the pandemic. Meanwhile, the Company took scientific countermeasures to resume work as usual to ensure the progress of each business segment such as production, R&D and operation. The impact by the pandemic on product promotion of the Company was under control accordingly.

For the year ended December 31, 2020, the Group recorded revenue of approximately RMB8,690 million during the year under review, representing an increase of approximately 0.1% compared with the previous year; net profit of approximately RMB2,569 million, representing an increase of approximately 0.5% compared with the previous year; and earnings per share of approximately RMB0.44, representing a decrease of approximately 6.3% compared with the previous year.

Focusing on innovation is the core driver of the Company's development. Our R&D entered the harvest stage as the Company continued to increase its investment in R&D every year. During the year under review, one innovative drug was approved for marketing, two innovative drugs filed marketing applications, and other 9 new drugs were approved for marketing in both PRC and overseas.

BUSINESS REVIEW *(Continued)*

In March 2020, "almonertinib mesylate tablets" (brand name "**Ameile**" (阿美樂®)), a Category 1 innovative drug has been granted drug marketing approval by the National Medical Products Administration of the PRC ("**NMPA**"), and is indicated for treatment of patients with locally advanced or metastatic non-small cell lung cancer (NSCLC) with EGFR T790M mutation, who have progressed on or after EGFR-tyrosine kinase inhibitor (TKI) therapy. In the same month, "icatibant injections", which is indicated for the treatment of an acute attack of hereditary angioedema in adults, was approved by the U.S. FDA.

In May 2020, our Category 1 innovative drugs "HS-10356 tablets" and "HS-10352 tablets" and our Category 2 innovative biological drug "HS-20090 injection" were granted clinical trial approval issued by the NMPA. Furthermore, "sunitinib malate capsules" has been granted drug marketing approval by the NMPA and is indicated for the treatment of (i) inoperable advanced renal cell carcinoma (RCC); (ii) gastrointestinal stromal tumors (GIST) that could not be cured by or cannot tolerate imatinib mesylate therapy; and (iii) unresectable and metastatic advanced pancreatic neuroendocrine tumors (pNET).

In June 2020, our Category 1 innovative drug, "HS-10353 capsules", was granted a clinical trial approval issued by the NMPA. In the same month, we have obtained the drug marketing approval from the NMPA for (1) "Afatinib Dimaleate Tablets", which is indicated for (i) patients with locally advanced metastatic NSCLC whose tumors have sensitive epidermal growth factor receptor (EGFR) mutations, who have not yet received EGFR-TKI treatment; and (ii) treatment of patients with locally advanced or late stage metastatic, squamous NSCLC receiving or progressing after platinum-based chemotherapy; (2) "Paliperidone extended-release tablets", which is indicated for treatment of schizophrenia for adults and adolescents aged 12-17 (body weight ≥29 kg); and (3) "Olanzapine Orally Disintegrating Tablets", which is indicated for (i) treatment of schizophrenia; (ii) maintenance treatment for patients with effective initial treatment of olanzapine, which can effectively maintain improvement in clinical symptoms; (iii) treatment of moderate-to-severe manic episode; and (iv) recurrence prevention of bipolar disorder for manic episodes with effective initial treatment of olanzapine. We believe the obtaining of drug marketing approval of the above products will further enrich and improve the product pipeline of the Group.

In July 2020, our "Empagliflozin Tablets" has been granted drug marketing approval by the NMPA. The product is a sodium-glucose co-transporter 2 (SGLT2) inhibitor indicated as an adjunct to diet and exercise to improve glycemic control in adults with type 2 diabetes mellitus, providing a better medical option for diabetes patients in China.

In October 2020, "Saxagliptin Tablets" has been granted drug approval by the NMPA. This product is a dipeptidyl peptidase 4, (DPP-4) inhibitor indicated as an adjunct to diet and exercise to improve glycemic control in adults with type 2 diabetes mellitus. The Company believes that the obtaining of drug registration approvals of the above products will further enrich and improve the products pipeline of the Group.

In November 2020, our Category 2.2 innovative drug "Olanzapine Oral Fast Dissolving Films" has been granted drug marketing approval by the NMPA. This product is an atypical antipsychotic agent indicated for treatment of (1) schizophrenia; (2) manic episodes of bipolar disorder. The obtaining of drug marketing approval of the product will further enrich and improve the central nervous system (CNS) pipeline of the Group.

The construction of R&D center and the manufacturing site in Changzhou have been completed and put into operation while construction of phase II manufacturing site for biologics has commenced successfully.

Management Discussion and Analysis

REVENUE

We generate substantially all of our revenue from sales of pharmaceutical products. Most of our main products are in the oncology, CNS diseases, anti-infectives, metabolism and other main therapeutic areas we strategically target. The proportion of new product sales revenue to the Group's total revenue increased from 6.1% in 2019 to approximately 23.7% in 2020.

Oncology products

In respect of oncology products, we primarily focus on drugs for the treatment of solid tumors with high incidence such as lung cancer and breast cancer, as well as hematological cancer. Our oncology drug portfolio mainly consists of Ameile (almonertinib mesylate tablets), a Category 1 innovative drug, which was newly launched in 2020, Hansoh Xinfu (flumatinib mesylate tablets) which was newly launched in 2019, Pulaile (pemetrexed disodium for injection), Zefei (gemcitabine hydrochloride for injection), Xinwei (imatinib mesylate tablets), Xinmei (decitabine for injection), Xintai (bortezomib for injection) and Tanneng (fosaprepitant dimeglumine for injection). For the year ended December 31, 2020, revenue from our oncology drug portfolio amounted to approximately RMB4,000 million, accounting for approximately 46.0% of our total revenue.

Ameile (almonertinib mesylate tablets) is the first self-developed innovative third-generation EGFR-TKI originally from China, indicating for the treatment of patients with locally advanced or metastatic non-small cell lung cancer with EGFR-T790M mutation, who have progressed on or after EGFR-TKI therapy. In addition to its favorable safety profile, Ameile's median progression free survival (mPFS) was reported to be over one year, which is the longest mPFS among same class drugs at the moment. Since its launch, Ameile has been widely prescribed in clinical practices, bringing new hope to lung cancer patients in China. Ameile has been included in the Guidelines of Chinese Society of Clinical Oncology for the treatment of Non-small Cell Lung Cancer in 2020 (《2020 年 CSCO 非小細胞肺癌診療指南》) due to its efficacy and safety which were highly recognized by clinical experts. Ameile was included in the National Reimbursement Drug List after negotiations in 2020.

Hansoh Xinfu (flumatinib mesylate tablets) is the second-generation targeting Bcr-Abl TKI, indicating for the treatment of chronic myelogenous leukemia. Based on the results of existing clinical trials, its efficacy was reported to be better than that of imatinib. Further, no pleural effusion or cardiotoxicity which incurred in the use of other second-generation Bcr-Abl TKI and its safety is more favorable. Since its launch, patients have benefited significantly and growing patient are treated with long-term application. Hansoh Xinfu is recommended as the first-line treatment for chronic myelogenous leukemia in the Guidelines for Diagnosis and Treatment of Chronic Myelogenous leukemia in China (2020 edition) (中國慢性髓性白血病診斷與治療指南(2020 版)). Hansoh Xinfu is included in the National Reimbursement Drug List after negotiations in 2020.

Pulaile is the first-to-market generic of pemetrexed, which is indicated for the treatment of non-small cell lung cancer and malignant pleural mesothelioma, and is the first-line chemotherapy. Pulaile obtained the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) certification in 2016 and obtained U.S. FDA certification in 2019. Zefei is the first-to-market generic of gemcitabine, which is indicated for the treatment of middle and late-stage non-small cell lung cancer, breast cancer, and pancreatic cancer, and is the first-line chemotherapy. In 2013, Zefei obtained U.S. FDA certification. In 2013, Zefei won the second prize for the Advancement of Science and Technology Award (國家科技進步二等獎). Since its launch in 2001, Zefei has taken a leading position in the gemcitabine market and increased penetration into county markets through our professional academic promotion and active expansion of its scope of clinical application. Xinwei is the first-to-market generic of imatinib, which is indicated for the targeted treatment of, among others, Philadelphia chromosome-positive chronic myelogenous leukemia,acute lymphocytic leukemia and gastrointestinal stromal tumors. Unlike chemotherapy, imatinib istypically prescribed for long-term use. In May 2018, Xinwei became the first imatinib mesylate tablets to pass the consistency evaluation.

REVENUE *(Continued)*

Anti-infective products

Our anti-infective drug portfolio mainly consists of, among others, Mailingda (morinidazole sodium chloride injection), Zetan (tigecycline for injection), Hengjie (linezolid glucose injection) and Hengsen (micafungin sodium for injection). The Company mainly focuses on drug-resistant bacteria products as the clinical needs of these products are increasing. Meanwhile, the Company maintains rational drug use as the guiding direction for academic activities of anti-infective drugs, to promote the regulated clinical use of anti-infective drugs. For the year ended December 31, 2020, revenue from our anti-infective drug portfolio amounted to approximately RMB1,794 million, accounting for approximately 20.7% of our total revenue.

Mailingda is our first self-developed innovative drug, and is also the latest generation of nitroimidazole-class drug indicated for treatment of pelvic inflammation, gangrenous appendicitis and suppurative appendicitis caused by certain bacteria in adults. It has a better safety profile than the previous generation of typical drug named ornidazole. Mailingda is recommended in the treatment of intra-abdominal infection in the Chinese Guideline for the Diagnosis and Management of Intra-abdominal Infection (2019 edition) (中國腹腔感染診治指南(2019 版). In 2017, Mailingda was included in the NRDL after negotiation. The agreement with the National Healthcare Security Administration was renewed successfully in November 2019 through negotiation.

CNS disease products

Our CNS disease drug portfolio mainly consists of, among others, Oulanning (olanzapine tablets; olanzapine oral fast dissolving films; olanzapine orally disintegrating tablets) and Ameining (agomelatine tablets). For the year ended December 31, 2020, revenue from our CNS disease drug portfolio amounted to approximately RMB1,333 million, accounting for approximately 15.3% of our total revenue.

Oulanning (olanzapine tablets) is the first-to-market generic of olanzapine in China, which is indicated for treatment of schizophrenia, mania and bipolar affective disorder, typically prescribed for long-term use. After its launch, Oulanning has been widely recognized clinically for its excellent efficacy and quality. In comparison with original schizophrenia drugs, olanzapine is indicated for a wider range of indications. Olanzapine also has faster control of acute symptoms and the occurrence rate of extrapyramidal reactions is either small or insignificant. In 2014, Oulanning won the second prize for the Advancement of Science and Technology Award (國家科技進步二等獎). In May 2018, Oulanning became the first olanzapine tablets to pass the consistency evaluation.

Ameining is a first-to-market generic drug of agomelatine tablets and launched in 2014. It is applicable to confirmed case of depression and the only generic drug of agomelatine tablets currently approved for sale in China. During the year under review, the revenue from Ameining recorded a remarkable growth.

REVENUE *(Continued)*

Metabolism and other main therapeutic products, diabetes and main therapeutic products

Our drug portfolio of this segment mainly consists of Fulaimei (PEG-loxenatide for injection), Fulaidi (repaglinide tablets), Fulairui (canagliflozin tablets), Ruibote (rabeprazole sodium enteric-coated tablets), Zexin (apixaban tablets) and Ruiyisheng (prucalopride succinate tablets). For the year ended December 31, 2020, revenue from the drug portfolio in relation to the abovementioned areas amounted to approximately RMB1,563 million, accounting for approximately 18.0% of our total revenue.

Fulaimei (PEG-loxenatide for injection) is our self-developed innovative diabetes drug. With significant hypoglycemic efficacy and good safety, it requires only once weekly administration, providing a new treatment choice to diabetes patients in China. Fulaimei is also the first innovative drug launched by using our proprietary PEGylation platform technology. Fulaimei was included in the National Reimbursement Drug List after negotiations in 2020.

RESEARCH AND DEVELOPMENT

We have one of the largest R&D teams among pharmaceutical companies in China. Our dedicated professional R&D team consists of over 1,600 researchers at three centres in Shanghai, Lianyungang and Changzhou respectively. We have several national-level R&D designations, including the National Technology Center (國家級技術中心), Post-doctoral Research Station (博士後科研工作站) and Key National Laboratory (國家重點實驗室).

We focus on R&D of innovative products in the fields such as oncology, anti-infectives, CNS diseases and diabetes. At present, we have more than a hundred research projects, including 4 innovative drugs entering into the phase II and post-phase II phases of clinical development, and 23 projects which are for the development of bioequivalency (BE) (including the applications for marketing approval). During the year under review, the Company has newly filed and obtained 18 clinical approvals, and obtained 10 drugs marketing approvals, out of which are 2 innovative drugs and 3 first-to-market generic drugs. All generics newly obtaining marketing approval have been deemed passing the consistency evaluation.

Ameile, a self-developed innovative and the first domestic third generation EGFR-TKI developed in the PRC, has obtained the marketing approval in 2020. It is indicated for treatment of patients with locally advanced or metastatic NSCLC with T790M mutation, who have progressed after previous EGFR-TKI therapy. Ameile has demonstrated favourable efficacy and safety, in addition to its efficacy for patients with brain metastasis. The Company is also actively exploring the development of several new indications for Ameile. Of which, the first-line treatment for patients with locally advanced or metastatic EGFR-mutated non-small cell lung cancer ("**NSCLC**") in the Phase 3 Study was reached positive top line result in February 2021. More than three pivotal studies have been approved for clinical studies in 2020.

Tenofovir ambufenamide tablet, a self-developed innovative drug, was filed New Drug Application (NDA) and was accepted by the NMPA with priority review designation in September 2020. This drug is used for the treatment of chronic hepatitis B, with improvements in the efficacy while significantly reducing toxic side effect as compared with its previous generation of drug Tenofovir (TDF).

RESEARCH AND DEVELOPMENT *(Continued)*

The in-licensing biologics "Inebilizumab Injections", jointly developed and commercialized in China by our Group and Viela Bio, Inc. in China has been filed Biologics License Application (BLA) and accepted by the NMPA in October 2020. This product is a new treatment of neuromyelitis optical spectrum disorder and was approved by the U.S. FDA in June 2020.

For the year ended December 31, 2020, R&D expenditure was RMB1,252 million, representing an increase of 11.7% as compared with 2019.

BUSINESS DEVELOPMENT

In addition to investment in R&D internally, the Group also actively sought external innovation through in-licensing and acquisition opportunities in order to enrich our product pipelines.

In April 2020, we collaborated with NiKang Therapeutics to introduce preclinical antiviral infective innovative drug project through in-licensing. The project is expected to improve the Company's presence in anti-infective area in Greater China.

In July 2020, we collaborated with Terns Pharmaceuticals to in-license its pre-clinical high-potency allosteric Bcr-Abl inhibitor project through in-licensing. The project is expected to be developed into a new generation of drugs for CML and the Company's presence in oncology area in Greater China will be enhanced accordingly.

At the same time, in order to strengthen the influence of the Company's products, in July 2020, we have entered into a strategic collaboration and license agreement with EQRx, INC. ("**EQRx**") to grant an exclusive license to permit EQRx to research, develop, manufacture and commercialize Almonertinib outside China. With EQRx's exceptional leadership team and extensive experiences in clinical development in the area of oncology therapeutics, it is expected that EQRx is well-positioned to accelerate the clinical development of Almonertinib outside of the PRC, and, if approved for marketing, will bring Almonertinib to benefit cancer patients around the world.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended December 31, 2020, the Group's operating activities generated a net cash inflow of approximately RMB2,390 million. The capital expenditure for the year was RMB627 million, mainly relating to the construction, purchase of additional land, buildings and workshops, and the purchase of equipment, motor vehicles and software required for production, R&D and administrative activities. The Group's cash flow of financing activities for the year mainly consisted of the receivables upon the placing of new shares of approximately RMB3.172 billion and the payment of RMB4.20 billion for our undistributed dividends declared before the Listing.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

The Group's financial position remains sound. As at December 31, 2020, we had cash and bank balances of RMB4,285 million (as at December 31, 2019: RMB8,238 million), financial assets at fair value through profit or loss of RMB200 million (as at December 31, 2019: RMB2,772 million), and other financial assets of RMB9,233 million (as at December 31, 2019: RMB3,583 million). As at December 31, 2020, our financial assets at fair value through profit or loss and other financial assets primarily comprise of investments in financial products issued by commercial banks. Our purchase of financial products after the Listing does not constitute notifiable transactions of the Company under the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). As at December 31, 2020, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 14.0% (as at December 31, 2019: 33.4%).

Most of the Group's assets and liabilities are denominated in Renminbi, United States Dollars and Hong Kong Dollars. The Group manages its foreign exchange risk by closely monitoring its net foreign exchange exposure to reduce the impact of foreign exchange fluctuations.

PLEDGE OF GROUP ASSETS

As at December 31, 2020, none of the Group's assets was subject to any encumbrance, mortgage, lien, charge or pledge.

CONTINGENT LIABILITIES

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

SIGNIFICANT INVESTMENTS HELD

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended December 31, 2020, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

EMPLOYEES AND EMOLUMENTS POLICY

As at December 31, 2020, the Group had a total of 11,645 full-time employees, whose remuneration is determined based on their performance and experience as well as the prevailing market salary level.

The staff costs, including remuneration of the directors of the Company, social welfare and other benefits, were approximately RMB1,806 million for the year ended December 31, 2020. We also provide regular training to employees designed to strengthen staff commitment to us and improve staff knowledge in a number of important areas of our services, such as knowledge about the Company and our products as well as sales, laws and regulations applicable to our operation, requirements under applicable GMP or other certifications, quality control, production safety and corporate culture.

We have conditionally approved and adopted a scheme for the grant of restricted share units ("**RSU Scheme**") on May 27, 2019 to recognize contributions by selected participants and give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. For details of the RSU Scheme, please refer to the prospectus of the Company dated May 31, 2019. As at December 31, 2020, 8,873,900 restricted share units had been granted by the Company pursuant to the RSU Scheme.

PROSPECTS

In 2020, despite the impact brought by the sudden outbreak of the COVID-19 pandemic to the socio-economic development of China, the socio-economic activities had resumed as usual with the effective management and control measures imposed by the Chinese government, with the society stepping into the stage of normalization amid the pandemic. The healthcare awareness among the public had been further increased instead due to the pandemic, leading to an increasingly considerable healthcare demand in China. The continuous and further implementation of the national medical reform secured the new policies address such as the medical insurance system, pharmaceutical management system and consistency evaluation of drugs, bringing significant challenges and opportunities to the development of the entire pharmaceutical industry. Facing the brand new changes in the policy environment and market circumstances, as well as the impact of the pandemic, the Company had actively responded with a firm and accelerated pace of innovation, with an aim to achieve comprehensive transformation and upgrade. With the approval and inclusion in the drug list under medical insurance of Ameile (almonertinib mesylate tablets), Fulaimei (PEG-loxenatide for injection), Hansoh Xinfu (flumatinib mesylate tablets), the three Category 1 innovative drugs, the Company's innovation transformation entered into the harvesting stage and its comprehensive competitiveness was further strengthened. With the enhanced innovation capability, the Company believes that it will drive the Company's sustainable, stable and healthy growth by further enriching the product portfolio pipeline, maintaining high level of product quality, securing stable production and relying on its excellent commercialization capability.

Corporate Governance Report

Hansoh Pharmaceutical Group Company Limited (the "**Company**") is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of governance that properly protects and promotes the interests of all shareholders and enhances corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company has adopted the CG Code as its own code of corporate governance.

The Company has complied with all applicable code provisions as set out in the CG Code during the year ended December 31, 2020 (the "**year under review**"), save for code provisions A.2.1 and A.5.1 of the CG Code as disclosed in this report. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

A. BOARD OF DIRECTORS

Board of Directors

The businesses of the Company are managed and conducted by the board (the "**Board**") of directors (the "**Directors**") of the Company. The Board is responsible for leading and controlling the Company and its subsidiaries (the "**Group**"), promoting the success of the Company by guiding and overseeing the affairs of the Group, and making decisions objectively in the best interests of the Company.

The Board will regularly review the contribution required from a Director to perform his/her responsibilities to the Group, and whether the Director is spending sufficient time performing them. Each Director should also disclose to the Company in a timely manner for any change, the number and nature of offices held in public companies or organizations and other significant commitments.

To oversee particular aspects of the Company's affairs, the Board has established three Board committees, including the Audit Committee (the "**Audit Committee**"), the Remuneration Committee (the "**Remuneration Committee**") and the Strategy and Development Committee (the "**Strategy and Development Committee**"). The Board has delegated to the Board committees the responsibilities as set out in their respective terms of reference.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against its Directors, and will conduct annual review on such insurance coverage.

Board Composition

As at December 31, 2020, the Board comprised three executive Directors (including the Chairlady and Chief Executive Officer), one non-executive Director and three independent non-executive Directors.

Position	Name
Executive Director	Ms. Zhong Huijuan (Chairlady and Chief Executive Officer) Mr. Lyu Aifeng Miss Sun Yuan
Non-executive Director	Ms. Ma Cuifang
Independent Non-executive Director	Mr. Lin Guoqiang Mr. Chan Charles Sheung Wai Ms. Yang Dongtao

A. BOARD OF DIRECTORS *(Continued)*

Board Composition *(Continued)*

The biographical details of Directors and the relations of Board members are set out in the section headed "Biographical Details of Directors and Senior Management" in this Annual Report.

Independent Non-executive Directors

In compliance with Rules 3.10 and 3.10(A) of the Listing Rules, the Company has appointed three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate Governance Functions

The Board is responsible for the following functions:

- convening general meetings;
- reporting the Board's work at these meetings;
- implementing resolutions passed in these meetings;
- determining business and investment plans;
- formulating our annual budget and final accounts and formulating our proposals for dividend distribution;
- suggesting the increase or reduction of registered capital;
- developing, reviewing and monitoring the code of conduct and compliance manual, applicable to employees and directors;
- reviewing the Group's compliance with the CG Code and disclosure in the Corporate Governance Report;
- reviewing and monitoring the Group's policies and practices in compliance with legal and regulatory requirements;
- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring training and continuous professional development of Directors and senior management; and
- performing other authorities, functions and responsibilities in accordance with the Articles of Association of the Company (the "**Articles**").

During the year under review, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of its Directors and senior management, the Company's own code of conduct regarding securities transactions of the Company by Directors and relevant employees (the "**Company Code**"), and the Company's compliance with the CG Code.

A. BOARD OF DIRECTORS *(Continued)*

Responsibilities of the Board and the Management

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Chairlady and Chief Executive Officer

Code provision A.2.1 of the CG Code states that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company has appointed Ms. Zhong Huijuan ("**Ms. Zhong**") as both the chairlady and the chief executive officer of the Company. Due to the nature and the extent of the Group's operations and Ms. Zhong's in-depth knowledge and experience in the PRC pharmaceutical industry, the Board considers that the balance of power and authority under the present arrangement is not impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairlady of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Re-election of Directors

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

Each of the Directors is engaged on a service contract (for executive Director) for a term of three years, an appointment letter (for non-executive Director) for a term of one year or an appointment letter (for independent non-executive Director) for a term of three years, commencing from June 14, 2019 and is subject to retirement by rotation and re-election pursuant to the Articles and the Listing Rules.

In accordance with the Articles, one third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and any Director appointed by the Board or elected by the shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the next general meeting of the Company after his/her appointment and be subject to re-election at such meeting. During the year under review, pursuant to the Articles, all Directors retired and were re-elected in the shareholders' annual general meeting held on June 5, 2020 by the Company.

Training and Continuous Professional Development

Directors

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, in order to make sure that he/she has appropriate understanding of the business and operations of the Company and is fully aware of his/her duties and responsibilities under the Listing Rules and other relevant regulatory requirements.

A. BOARD OF DIRECTORS *(Continued)*

Training and Continuous Professional Development *(Continued)*

Directors *(Continued)*

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate.

During the year under review, all Directors have been given an presentation and the relevant guideline materials, including relevant reading materials in relation to legal and regulatory updates for their reference and studying. Internal training sessions were also arranged for the Directors, which cover topics including but not limited to connected transactions and the continuing disclosure obligations of a listed corporation.

Directors	Type(s) of Training Note
Executive Directors	
Ms. Zhong Huijuan	A and B
Mr. Lyu Aifeng	A and B
Miss Sun Yuan	A and B
Non-executive Director	
Ms. Ma Cuifang	A and B
Independent Non-executive Directors	
Mr. Lin Guoqiang	A and B
Mr. Chan Charles Sheung Wai	A and B
Ms. Yang Dongtao	A and B

Note:

Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Joint Company Secretaries

The Company Secretaries are responsible for facilitating the Board process, as well as communications among the Board members, shareholders and management. Ms. Zhong Shengli, together with Ms. Li Yan Wing Rita of Tricor Services Limited, which is an external service provider, has been engaged by the Company as its joint company secretaries. The biographical information of Ms. Zhong Shengli and Ms. Li Yan Wing Rita are set out in the section headed "Biographical Details of Directors and Senior Management" of this Annual Report. Ms. Zhong Shengli and Ms. Li Yan Wing Rita have confirmed that they have taken not less than 15 hours of relevant professional training during the year under review in compliance with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Ms. Zhong Shengli.

A. BOARD OF DIRECTORS *(Continued)*

Committees

The Board has established the following committees: Audit Committee, Remuneration Committee and Strategy and Development Committee. The committees operate in accordance with their respective terms of reference established by the Board. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and of the Stock Exchange and are available to shareholders upon request. The majority of the members of each Board committee (except the Strategy and Development Committee) are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" of this Annual Report.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Chan Charles Sheung Wai (chairman of the Audit Committee), Mr. Lin Guoqiang and Ms. Yang Dongtao.

The major duties and responsibilities of the Audit Committee are set out clearly in its terms of reference, which include assisting the Board in reviewing the financial information and reporting system, risk management and internal control system, relationship with external auditors, and reviewing arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee also performs the responsibilities as set out in the CG Code.

The consolidated financial statements of the Group for the year ended December 31, 2020 have been reviewed by the Audit Committee and the external auditor. The Audit Committee is of the view that the consolidated financial statements of the Group for the year ended December 31, 2020 comply with the applicable accounting standards and the Listing Rules, and that sufficient disclosures have been made.

According to paragraph C.3.3(e)(i) of the CG Code, the Audit Committee must meet with the Company's auditors at least twice a year. During the year ended December 31, 2020, two meetings were held by the Audit Committee to review the consolidated financial statements for the year ended December 31, 2019 as well as the effectiveness of the internal audit function of the Company and any recommendations on the management and control of internal risks and to review the unaudited financial statements for the six months ended June 30, 2020. The Audit Committee held a meeting on March 30, 2021 to review the consolidated financial statements for the year ended December 31, 2020 as well as the effectiveness of the internal audit function of the Company and any recommendations on the management and control of internal risks. All members of the Audit Committee attended the meetings in person.

Remuneration Committee

The Remuneration Committee consists of three members: two independent non-executive Directors, namely, Ms. Yang Dongtao (chairlady of the Remuneration Committee) and Mr. Lin Guoqiang, and one executive Director, namely, Ms. Zhong.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

A. BOARD OF DIRECTORS *(Continued)*

Remuneration Committee *(Continued)*

During the year ended December 31, 2020, the Remuneration Committee held one meeting to consider and recommend to the Board the remuneration and other benefits paid by the Company to the Directors and senior management and other related matters. All members of the Remuneration Committee attended the meeting in person. The emoluments of Directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time commitment in the Group's affairs and performance of each Director as well as salaries paid by comparable companies and the prevailing market conditions.

Strategy and Development Committee

The Strategy and Development Committee consists of four members: two executive Directors, namely, Ms. Zhong (chairlady of the Strategy and Development Committee) and Mr. Lyu Aifeng, and two independent non-executive Directors, namely, Mr. Chan Charles Sheung Wai and Ms. Yang Dongtao.

The primary duties of the Strategy and Development Committee include conducting research and making suggestions for the medium-to-long-term development strategy and development plans of the Company, considering the annual operation plans and investment proposals of the Company, as well as conducting research and making suggestions for any expansion to new markets, launch of new business and R&D of new products of the Company.

During the year ended December 31, 2020, the Strategy and Development Committee held one meeting to evaluate the development of the Company in 2020 and consider the future development strategies and plans, including, without limitation, the discussion about major investments, financing, reorganization, and plans for expansion to new markets, launch of new business and development of new products. All members of the Strategy and Development Committee attended the meeting in person.

Nomination Committee

Code provision A.5.1 of the CG Code states that issuers should establish a nomination committee. The Company did not establish a nomination committee as the Board considers that, having considered the size of the Group, the determination of appointment and removal of Directors is a collective decision of the Board. The Board is empowered under the Articles to appoint any person as a Director either to fill a casual vacancy on or as an addition to the Board. The Board will select and recommend candidates for directorship and senior management having regard to the balance of skills, experience and qualifications appropriate to the Group's business.

Director Nomination Policy

The Company has established a director nomination policy which aims to render clear basis and procedures for the nomination and appointment of Directors. The Board will take into account factors such as character and integrity, qualifications, skills, experience, independence and diversity of the candidates, and whether or not the candidate is willing and able to devote adequate time to discharge duties as a member of the Board and Board committee upon receipt of the proposal of appointment of new Directors or the nomination proposal made by shareholders at general meetings of the Company. When Directors are re-elected at general meetings, apart from the above standards, the Board will also review the overall contributions and services of retiring Directors to the Company and their level of participation and performance in the Board.

A. BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy

The Company has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity of the Board in order to enhance its effectiveness. Pursuant to the Board Diversity Policy, the Board seeks to achieve its diversity through the consideration of a number of factors when selecting candidates to the Board, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service.

The Directors have a mix of knowledge and skills of, including, management, strategic development, business development, sales, R&D, industry research, investment management, finance, corporate finance, risk management, education, chemistry and the pharmaceutical industry. They obtained degrees in various areas including chemistry, organic chemistry, biomedical engineering, biomedical sciences, management, business administration, commerce, engineering, economics and corporate management. The age of Directors ranges from 34 years old to 78 years old.

The Board is responsible for reviewing its diversity. The Board will continue to monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Attendance of Board Meetings and Committee Meetings

Under the code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. During the year under review, the Company has held four meetings in compliance with the CG Code.

Details of the attendance of Directors at the Board meetings, committee meetings and general meetings during the year under review are set out below:

Number of meetings attended/held

Directors	Board	Audit Committee	Remuneration Committee	Strategy and Development Committee	General Meeting
Number of meetings	4	2	1	1	1
Executive Directors					
Ms. Zhong Huijuan	4	–	1	1	1
Mr. Lyu Aifeng	4	–	–	1	1
Miss Sun Yuan	4	–	–	–	1
Non-executive Director					
Ms. Ma Cuifang(1)	3	1	–	–	1
Independent Non-executive Directors					
Mr. Lin Guoqiang	4	2	1	–	1
Mr. Chan Charles Sheung Wai	4	2	–	1	1
Ms. Yang Dongtao(1)	4	1	1	1	1

Note:

(1) On June 5, 2020, Ms. Ma Cuifang ceased to be a member of the Audit Committee and Ms. Yang Dongtao was appointed as a member of the Audit Committee.

A. BOARD OF DIRECTORS *(Continued)*

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Company Code on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Company Code for the year under review.

No incident of non-compliance of the Company Code by the employees was noted by the Company.

Remuneration of Senior Management

There were 5 employees classified as senior management for the year ended December 31, 2020. The remuneration of the senior management by band is set out below:

	Number of employee(s)
Below RMB500,000	0
RMB500,000 to RMB1,000,000	0
RMB1,000,001 to RMB1,500,000	0
Above RMB1,500,000	5
	5

B. ACCOUNTABILITY AND AUDIT

Directors' Responsibility in respect of the Financial Statements

The Board acknowledges its responsibility for preparing the accounts which seek to give a true and fair view of the state of affairs of the Company and the Group, with necessary supporting assumptions or qualifications. The Directors also ensure the timely publication of the financial statements of the Company.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavors to ensure a balanced, clear and understandable assessment of the Company's position and prospects when the Company presents financial reports and other information to general public and regulators pursuant to the Listing Rules and other statutory requirements.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board continues to prepare the financial statements on a going concern basis.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 43 to 47.

Risk Management and Internal Control

The Company is dedicated to establishing and maintaining a robust internal control system. The Company has adopted and implemented risk management policies in various aspects of our business operations to address various potential risks in relation to our strategic plan, R&D, infrastructure, procurement, manufacturing, distribution and retail. Our risk management system also covers general finance management, human resources, information technology, projects, logistics, subsidiaries and policy matters.

B. ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failing in achieving our business objectives, and can only provide a reasonable and not absolute assurance against material misstatement or loss.

The Company has established a three-layer organizational framework (business departments, functional departments and internal control and audit department) to identify, analyze, categorize, control, and monitor various risks relating to our strategy, operation, market development, financial matters, legal matters, investment and financing, information security, anti-bribery and anti-money laundering.

Please refer to "Business-Production and Quality Control-Risk Management" in the Company's prospectus dated May 31, 2019 for details of risk management policies. For risk identified, the Company implements internal controls and continually amends related processes to mitigate potential risk.

The Directors have conducted an annual review of the effectiveness of the risk management and internal control system of the Group during the year ended December 31, 2020, covering all major functions including finance, operation and compliance. Based on the review results, the Directors are of the opinion that the system is effective and sufficient.

The Company has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board has established an inside information team entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be led by the Board. Unless duly authorized, all staff members of the Company shall not disseminate inside information relating to the Group to any external parties and shall not respond to false media report or market speculation which may materially affect the trading price or volume of the shares.

Auditors' Remuneration

During the year under review, the remuneration paid to the external auditor of the Group, being Ernst & Young, is set out as follows:

	Fee paid/payable for the year *(RMB'000)*
Service category	
Audit services	3,079
Non-audit services	681
Total	3,760

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has adopted the shareholder communication policy with an aim to ensure that the shareholders of the Company and as and when appropriate, the general investors to have timely access to the same and readily comprehensible comprehensive information about the Company.

The Company conveys the information to the shareholders and investors mainly through the following channels:

- the website of the Stock Exchange on which the information disclosed to the market and submitted to the Stock Exchange is published;
- the website of the Company (**www.hspharm.com**);
- the interim reports and annual reports; and
- the annual general meeting and other general meetings.

To facilitate the exchange of views between the shareholders and the Board, the Board members (or their delegates (if applicable)), appropriate executive management personnels and the external auditor will attend the annual general meeting and answer the questions raised by the shareholders.

Rights of Shareholders

Pursuant to Article 12.3 of the Articles, any two or more members holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company, or any one member which is a recognized clearing house (or its nominee(s)) shall be entitled to require the convening of a general meeting with a written requisition deposited at the principal office of the Company in Hong Kong and specifying the objects of the meeting and signed by the requisitionist. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Shareholders may also contact the Investor Relations Department of the Company from time to time to understand the information published by the Company. The Company will inform the shareholders of the designated e-mail address and enquiry hotline of the Company so that they can make any inquiries of the Company.

Enquiry to the Board

Enquiry may be made to the Board at the principal place of business of the Company in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Company publishes on its website (**www.hspharm.com**) the latest company news relating to the Group on a regular basis. The public is welcome to provide opinions and make inquiries through the Company's website.

Amendments to the Constitutional Documents

No changes have been made to the Articles by the Company during the year under review. The latest version of Articles are also available on the websites of the Company and the Stock Exchange.

Directors' Report

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

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in the R&D, production and sales of a series of pharmaceutical products in China. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 14, 2019 (the "**Listing Date**").

Operating segment information of the Company for the year ended December 31, 2020 is presented in Note 4 to the consolidated financial statements, and a list of principal subsidiaries of the Company, together with the details of their places of incorporation, principal businesses and shares in issue/registered capital, is set out in Note 1 to the consolidated financial statements. There are no changes in the principal business of the Group during the year.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended December 31, 2020 and the financial positions of the Company and the Group as at the same date are set out on pages 48 to 51 of the consolidated financial statements.

The Board recommends a final dividend of RMB6.51 cents (equivalent to HK$7.71 cents) per share for the year ended December 31, 2020 (2019: nil). Subject to the approval of the shareholders at the forthcoming annual general meeting ("**AGM**") of the Company, the proposed final dividend will be payable on July 5, 2021 to shareholders whose names appear on the register of members of Company on June 11, 2021.

DIVIDEND POLICY

The Company has adopted a dividend policy pursuant to code provision E.1.5 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). The Board may declare and pay dividends by way of cash or by other means that the Board considers appropriate. While deciding on the declaration or payment of any dividends and the amount of any dividends, the Board will take into account, among other things, the Company's results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits, contractual and legal restrictions and other factors that the Directors may consider relevant.

BUSINESS REVIEW

Details of the business review and performance of the Group during the year (including the description of the main risks and uncertainties facing the Group, material events affecting the Company that have occurred since the end of 2020, the key financial performance indicators and prospects) are set out in the "Chairlady's Statement" and "Management Discussion and Analysis" sections on pages 8 to 16 of this Annual Report, which form part of this report.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Thursday, June 3, 2021. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

CLOSURE OF REGISTER OF MEMBERS

To determine the right to attend and vote at the AGM, the Company will close the register of members between Monday, May 31, 2021 and Thursday, June 3, 2021 (inclusive). To ensure the effect of right to attend and vote at the AGM, all shareholders shall return all the documents together with the related stocks to the Company's branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 pm on Friday, May 28, 2021.

In order to ascertain the shareholders' entitlements to the proposed final dividend, the register of members of the Company will be closed from Wednesday, June 9, 2021 to Friday, June 11, 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, June 8, 2021.

SUMMARY OF FINANCIAL INFORMATION

According to the audited consolidated financial statements and after reclassification as appropriate, the published results, assets, liabilities and net assets of the Group for the past five fiscal years is presented on page 7 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

The Company had 5,918,991,200 ordinary shares in issue as at December 31, 2020. The changes in the share capital and share option (if any) of the Company during the year, together with the reasons therefor, are set out in Note 25 to the consolidated financial statements.

USE OF PROCEEDS FROM PLACING

On April 22, 2020, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and Citigroup Global Markets Limited (the "**Placing Agents**"), pursuant to which the Placing Agents agreed to place 130,380,000 ordinary shares in the Company, or, failing which, to purchase themselves on a fully underwritten basis to not fewer than six placees who are professional, institutional or other investors selected and procured by the Placing Agents and whose ultimate beneficial owners are independent third parties (the "**Placing**"). The Placing price was HK$26.75 per share.

The net proceeds from the Placing were approximately HK$3,477.20 million, which have been and will be used on R&D, including but not limited to our existing and future domestic and overseas drug development programs, expanding our R&D team, and investment in technologies to further enhance our R&D capabilities and enrich our product pipeline, as disclosed in the announcement of the Company dated April 22, 2020. HK$57.67 million was utilized as at December 31, 2020 and HK$3.41953 billion remains unutilized. The balance is expected to be fully utilized by 2030.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the initial public offering of the shares of the Company in June 2019 and allotment and issuance of shares pursuant to the full exercise of the over-allotment option in July 2019 amounted to approximately HKD8.798 billion. The proposed use of the net proceeds was disclosed in the Company's prospectus dated May 31, 2019. As at December 31, 2020, the net proceeds utilized was approximately HKD5.539 billion and the remaining net proceeds was approximately HKD3.259 billion. The Company intends to continue to utilize the remaining net proceeds in the future for the purposes as set out in the prospectus. As at December 31, 2020, the net proceeds utilized by the Group were as follows:

Purpose	Percentage of the total amount	Net proceeds received *(HKD100 million)*	Utilized from the Listing Date to December 31, 2020 *(HKD100 million)*	Unutilized as at December 31, 2020 *(HKD100 million)*	Expected time frame
R&D programs, expanding our R&D team and investment in technologies	45%	39.59	17.98	21.61	The balance is expected to be fully utilized by 2025
Manufacturing system to construct new production facilities and upgrade existing production facilities	25%	21.99	11.01	10.98	The balance is expected to be fully utilized by 2023
Enhancement of sales and academic promotion	20%	17.60	17.60	0	Not applicable
Working capital and other general purposes	10%	8.80	8.80	0	Not applicable
Total	100%	87.98	55.39	32.59	

For more details, please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" of the prospectus.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles of Association of the Company (the "**Articles**") or the laws of Cayman Islands (the jurisdiction in which the Company was incorporated) which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION

During the year under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

TAX RELIEF AND EXEMPTION

The Company has no knowledge of any tax relief and exemption provided to the shareholders due to their holding of the Company's securities.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in Notes 27 and 36 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

For details of the reserves available for distribution of the Company as at December 31, 2020, please refer to the consolidated statement of changes in equity.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the sales to the Group's five largest customers and the purchases from the Group's five largest suppliers accounted for less than 30% of the total sales and 30% of the total purchases of the year, respectively.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The business of the Group is subject to national, provincial and local environmental laws and regulations in China. The main pollutants generated during our production process include waste water, waste gas and solid waste. We have established a pollution control system in order to comply with the applicable laws and regulations to adopt compliant and harmless disposal methods for different types of hazardous wastes, and to recycle the recyclable waste solvent and entrust units with hazardous waste disposal qualifications to burn or recycle other non-recyclable solvent. The environmental sanitation department of the plant is entrusted with the uniform disposal of non-hazardous wastes. We seek to reduce, treat and recycle the waste generated in our production process and improve our production technique to reduce the pollutants we discharge to the environment.

The Company will publish an "Environmental, Social and Governance Report" in accordance with Rule 13.91 and the reporting guide contained in Appendix 27 to the Listing Rules no later than 3 months from the publication of this Annual Report.

DONATIONS

During the year under review, the Group made charitable and other donations in an aggregate amount of approximately RMB48.804 million.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that the interests of stakeholders are vital to the sustainable development of its business operation and is committed to maintaining effective communication with the major stakeholders, including customers, suppliers and employees to enhance the relationship and cooperation for the long-term development of the Group.

The Group's customers are pharmaceutical product distributors. According to the industry practice, we will not engage our distributors to provide marketing and promotional services for our products. Our in-house sales and marketing team enhances professionals' knowledge and understanding of the usage, clinical effects and advantages of our drug products through its promotion efforts. We enter into annual distribution agreements with our distributors. We believe this distribution model helps extend our coverage in a cost-effective manner while allowing us to retain proper control over our distribution network and marketing and promotion process.

Employees are considered as the most important and valuable assets of the Group. The remuneration package for employees generally includes salary and bonuses. The Group conducts periodic performance reviews for employees, and their remuneration is performance-based. Employees also receive welfare benefits including medical care, housing subsidies, pension, occupational injury insurance and other miscellaneous benefits. The Group also provides regular training to employees designed to improve staff dedication and increase staff knowledge in a number of important areas of our services, which has enhanced the productivity of employees.

Directors' Report

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

As the Group mainly operates in China through its subsidiaries, it is subject to the Chinese laws and regulations relating to the R&D, production and distribution of pharmaceutical products, including but not limited to those on the quality, safety, environmental protection, intellectual property, labor and personnel. Meanwhile, as a company incorporated in the Cayman Islands and listed on the Stock Exchange, the Company is governed by the Company Law of the Cayman Islands, the Listing Rules and the Securities and Futures Ordinance ("**SFO**").

During the year ended December 31, 2020, to the best knowledge of the Board, the Group does not have any incidence of non-compliance with the relevant laws and regulations that would have a significant impact on the Group's business and operations.

DIRECTORS

The Directors during the year and as at the date of this report were as follows:

Executive Directors:

Ms. Zhong Huijuan (the Chairlady)
Mr. Lyu Aifeng
Miss Sun Yuan

Non-executive Director:

Ms. Ma Cuifang

Independent Non-executive Directors:

Mr. Lin Guoqiang
Mr. Chan Charles Sheung Wai
Ms. Yang Dongtao

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, and the Company is of the view that such independent non-executive Directors are independent.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 37 to 42 of this Annual Report.

CHANGE IN DIRECTORS' INFORMATION

Save as disclosed below, there are no other changes in the Directors' biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- the cessation of appointment as an independent director of Changyou.com Ltd (NASDAQ Stock Code: CYOU) in April 2020;
- the cessation of Ms. Ma Cuifang as a member of the audit committee (the "**Audit Committee**") and the appointment of Ms. Yang Dongtao as a member of the Audit Committee on June 5, 2020;
- the appointment of Mr. Chan Charles Sheung Wai as an independent non-executive director of Sun Art Retail Group Limited (Hong Kong Stock Exchange Stock Code: 6808) in January 2021; and
- the cessation of appointment as an independent non-executive director of Novoray Corporation (江蘇聯瑞新材料股份有限公司) (Shanghai Stock Exchange stock code: 688300) in February 2021.

SERVICE CONTRACTS OF DIRECTORS

None of the Directors has entered into any unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

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

Save as disclosed in the section headed "Related Party Transactions" and Note 30 to the "Related Party Transactions" of the consolidated financial statements in this Annual Report, no contracts of significance (as defined in Appendix 16 of the Listing Rules) related to the business of the Company to which the Company, its holding companies or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2020 or at any time during 2020.

Save as disclosed in the "Relationship with our Controlling Shareholders – The Associate's Investee Group" section of the prospectus of the Company dated May 31, 2019, none of our Directors or their respective associates (as defined under the Listing Rules) has any interest in a business which competes or is likely to compete with our Group's business under Rules 8.10(2)(b) and 8.10(2)(c) of the Listing Rules.

DEED OF NON-COMPETITION

The controlling shareholders of the Company (i.e., Ms. Zhong Huijuan, Stellar Infinity Company Ltd. and Sunrise Investment Advisors Limited) have respectively acknowledged to the Company that they have honored the non-competition undertaking made to the Company under the deed of non-competition entered into on May 27, 2019 ("**Deed of Non-competition**"). The independent non-executive Directors have reviewed such compliance and confirmed that the above-mentioned parties had kept and duly performed all the undertakings under the Deed of Non-competition during the year under review.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 30 to the consolidated financial statements. Pursuant to Chapter 14A of the Listing Rules, none of such related party transactions constitutes a connected transaction or continuing connected transaction (as the case may be).

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

As at December 31, 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) required to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules were as follows:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

1. Interest in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest[1]
Ms. Zhong Huijuan[2]	Person with influence over a trust	3,900,000,000	65.89%
Miss Sun Yuan[2]	Beneficiary of a trust	3,900,000,000	65.89%
Mr. Lyu Aifeng[3]	Beneficial owner	300,000	0.005%

Notes:

(1) The calculation is based on the total number of 5,918,991,200 issued shares of the Company as at December 31, 2020.

(2) These ordinary shares in the Company are beneficially owned by Stellar Infinity Company Ltd. ("**Stellar Infinity**") which is a wholly-owned subsidiary of Sunrise Investment Advisors Limited ("**Sunrise Investment**"), which in turn is wholly owned by Harmonia Holding Investing (PTC) Limited (the "**Sunrise Trust Trustee**") as trustee for the Sunrise Trust (the "**Sunrise Trust**"), a discretionary trust set up by Miss Sun Yuan ("**Miss Sun**"). Ms. Zhong Huijuan ("**Ms. Zhong**") is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Miss Sun are deemed or taken to be interested in all the shares of the Company which are beneficially owned by Stellar Infinity for the purpose of Part XV of the SFO.

(3) These ordinary shares in the Company correspond to Mr. Lyu Aifeng's entitlement to restricted share units subject to vesting conditions.

2. Interest in shares or underlying shares of associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares or underlying shares in the associated corporation	Percentage of shareholding interest in the associated corporation
Ms. Zhong Huijuan	Sunrise Investment[1]	Person with influence over a trust	100	100%
Miss Sun Yuan	Sunrise Investment[1]	Beneficiary of a trust	100	100%

Notes:

(1) Sunrise Investment is wholly owned by the Sunrise Trust Trustee, which is the trustee for the Sunrise Trust, a discretionary trust set up by Miss Sun. Ms. Zhong is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Miss Sun are deemed or taken to be interested in all the shares which are beneficially owned by the Sunrise Trust Trustee for the purpose of Part XV of the SFO.

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

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

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

Name of shareholder	Capacity/ Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest (1)
Stellar Infinity (2)	Beneficial owner	3,900,000,000	65.89%
Sunrise Investment (2)	Interest in controlled corporation	3,900,000,000	65.89%
Sunrise Trust Trustee (2)	Interest in controlled corporation	3,900,000,000	65.89%
Apex Medical (3)	Beneficial owner	950,000,000	16.05%
Mr. Cen Junda (3)	Interest in controlled corporation	950,000,000	16.05%

Notes:

(1) The calculation is based on the total number of 5,918,991,200 issued shares of the Company as at December 31, 2020.

(2) Stellar Infinity is a wholly-owned subsidiary of Sunrise Investment, which in turn is wholly owned by the Sunrise Trust Trustee.

(3) Apex Medical Company Ltd. ("**Apex Medical**") is wholly-owned by Mr. Cen Junda.

Save as disclosed above, as at December 31, 2020, so far as is known to the Directors, no person (not being a Director or chief executive of the Company) had or was deemed to have any interest or short position in the shares or underlying shares of the Company which was required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

PERMITTED INDEMNITY PROVISION

In addition to the indemnities provisions as set out in the Articles, Directors' liability insurance is currently in place, and was in place during the year, to protect the Directors of the Company against potential costs and liabilities arising from claims against them.

SUFFICIENT PUBLIC FLOAT

In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange has granted the Company a waiver and accepted a lower public float of 16.21% of the Company's issued share capital.

During the year under review according to the public information obtainable by the Company and to the knowledge of the Directors, the Company has maintained the minimum public float to the extent permitted by the Stock Exchange.

RESTRICTED SHARE UNIT SCHEME

We have conditionally approved and adopted a scheme for the grant of restricted share units ("**RSU Scheme**") on May 27, 2019 to recognize contributions by selected participants and give incentives to them in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. For details of the RSU Scheme, please refer to Appendix IV "Statutory and General Information – D. Post-IPO RSU Scheme" of the prospectus of the Company dated May 31, 2019.

As at December 31, 2020, pursuant to the RSU Scheme, the Company had granted to directors, executives and employees of the Group outstanding RSUs representing 8,873,900 Shares, accounting for approximately 0.15% of the total issued share capital of the Company as at December 31, 2020.

Details of the RSUs granted under the RSU Scheme during the year under review are as follows:

		Number of Shares underlying RSUs during the year under review[1]					
Category	**Grant date[1]**	**Outstanding as at January 1, 2020**	**Granted**	**Exercised**	**Cancelled**	**Lapsed**	**Outstanding as at December 31, 2020**
1. Director							
Lyu Aifeng	June 15, 2020	N/A	300,000	0	0	0	300,000
2. Continuous Contract Employees	April 22, 2020	N/A	8,735,000	0	0	161,100	8,573,900
Total:		N/A	9,035,000	0	0	161,100	8,873,900

Notes:

(1) The vesting schedule of the RSUs granted follows either of following: (i) 40% shall vest on the first anniversary of the grant date and the remaining 30% and 30% shall vest on the second and third anniversary of the grant date, respectively; or (ii) 30% shall vest on the first anniversary of the grant date and the remaining 30% and 40% shall vest on the second and third anniversary of the grant date, respectively.

Directors' Report

CORPORATE GOVERNANCE

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

AUDITOR

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

For and on behalf of the Board
Ms. Zhong Huijuan *(Chairlady and Chief Executive Officer)*

March 30, 2021

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Ms. ZHONG Huijuan (鍾慧娟), aged 60, is the founder of our Group and currently the chairlady, chief executive officer and an executive Director of our Group. Ms. Zhong was appointed as a Director on December 2, 2015. Ms. Zhong was appointed as a director of Jiangsu Hansoh in September 1998. Ms. Zhong is primarily responsible for our Group's strategic development and planning, overall operations, sales and decision making, board governance and supervision of key management issues. Ms. Zhong is the mother of Miss Sun.

Ms. Zhong has approximately 30 years of experience in the pharmaceutical industry in China, with substantial experience in pharmaceutical enterprise operation and management, as well as extensive industry knowledge on the development and expansion of our oncology and psychotropic drug portfolio in their respective therapeutic areas. From September 1994 until the establishment of our Group, Ms. Zhong served at Lianyungang Drug Administration. Ms. Zhong has been responsible for our Group's overall development since its establishment. Under Ms. Zhong's leadership, our Group has developed into one of the few R&D-driven Chinese pharmaceutical companies with an established leadership position in some of the largest and fastest-growing therapeutic areas in China with significant unmet clinical needs. Our Group was recognized as a "Leading Enterprise in the Internationalization of Pharmaceuticals (製劑國際化先導型企業)" by the China Chamber Of Commerce For Import & Export Of Medicines & Health Products (中國醫保商會) and China Pharmaceutical Enterprises Association (中國醫藥企業管理協會) in 2014. Since 2016, our Group has been recognized as a National Enterprise Technology Center (國家級企業技術中心) and National Intellectual Property Exemplary Enterprise (國家知識產權示範企業). Our Group has also been continuously recognized as the Top 100 Most Powerful Chinese Pharmaceutical Industrial Enterprises (中國醫藥工業百強企業) by the China Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

Ms. Zhong is the vice president of the council of Jiangsu Pharmaceutical Association (江蘇省藥學會) and a standing supervisor of the China Quality Association for Pharmaceuticals (中國醫藥質量管理協會). Ms. Zhong was also elected as a representative of the 12th and 13th Jiangsu Provincial People's Congress (江蘇省人民代表大會).

Over the years, Ms. Zhong received numerous awards and recognitions for her contributions to both the pharmaceutical industry and pharmaceutical industrial and commercial enterprises. She received State Council Special Allowance in February 2013. In December 2013, she also received the "All China Federation of Industry Commerce Scientific and Technological Progress Award (first prize)" (中華全國工商業聯合會科技進步獎一等獎). In December 2014, Ms. Zhong received the "State Science and Technology Award (second prize)" (國家科技進步獎二等獎) from the State Council.

In July 1982, Ms. Zhong obtained her undergraduate degree in chemistry from Jiangsu Normal University (江蘇師範大學) (formerly known as Xuzhou Normal University (徐州師範學院)) in Xuzhou. She then obtained her Executive Master of Business Administration ("**EMBA**") from Nanjing University (南京大學) in December 2005.

Mr. LYU Aifeng (呂愛鋒), aged 44, is an executive Director of our Company. Mr. Lyu was appointed as a Director on March 11, 2016. Mr. Lyu was appointed as director and president of Jiangsu Hansoh in December 2015. Mr. Lyu is primarily responsible for overall management of the business operations and the scientific development of our Group, and the operations and management of certain subsidiaries of our Group.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Lyu has more than 20 years of technical and management experience in R&D and product quality control systems in the pharmaceutical industry. Mr. Lyu joined our Group in July 1998 and has served in various positions, including director of product development in August 2001, and director of research institution in March 2009. Mr. Lyu was also appointed as president of Jiangsu Hansoh, the general manager of Shanghai Hansen Technology Co., Ltd. ("**Shanghai Hansen**") and the executive director of Hansoh (Shanghai) Health Technology Co., Ltd. in December 2015, April 2016 and September 2019, respectively.

Mr. Lyu has obtained numerous awards and recognitions. Mr. Lyu obtained the "State Science and Technology Progress Award (second prize)" (國家科技進步獎二等獎) in 2013 and 2014. Mr. Lyu was recognized as a "Young Expert with Outstanding Contributions" (有突出貢獻的中青年專家) by the People's Government of Jiangsu Province (江蘇省人民政府) in March 2015. He was also chosen for the "100 Million Talents Programme" (國家百千萬人才工程) by the PRC Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部) in October 2017. He was further selected for the "Ten Thousand Talents Programme" (國家萬人計劃) by the PRC Ministry of Science and Technology (中華人民共和國科學技術部) in May 2018.

Mr. Lyu obtained both his bachelor of science degree in chemistry and his master of science degree in organic chemistry from Nanjing University (南京大學), in July 1998 and June 2005, respectively. Mr. Lyu also obtained his doctorate degree in biomedical engineering from Southeast University (東南大學) in Nanjing in June 2015.

Miss SUN Yuan (孫遠), aged 34, is an executive Director of our Company. Miss Sun was appointed as a Director on December 2, 2015. Miss Sun has served as a director of Jiangsu Hansoh from October 2011 to October 2019. Miss Sun is primarily responsible for providing guidance on research and development strategies, business development, investment strategies and the scientific development of our Group, which includes monitoring and introducing latest industry development and pharmaceutical technologies to the Group and exploring overseas business opportunities. Miss Sun is the daughter of Ms. Zhong.

Miss Sun has approximately ten years of experience in healthcare investment management and industry research. Prior to joining our Group in October 2011, Miss Sun had worked as an analyst at Hony Capital since June 2009.

Miss Sun received her bachelor's degree in biomedical sciences from Cambridge University in June 2007.

Non-Executive Directors

Ms. MA Cuifang (馬翠芳), aged 45, is a non-executive Director of our Company. Ms. Ma was appointed as a Director on March 11, 2016.

Ms. Ma has more than ten years of experience in finance and investment management. Ms. Ma joined Hillhouse Capital Management, Ltd. in June 2005, and is currently serving as its partner.

Ms. Ma obtained her bachelor of science degree from Beijing Normal University (北京師範大學) in July 1998, and her master of management degree from the Chinese Academy of Sciences (中國科學院) in June 2001. Ms. Ma received her Master of Business Administration from the University of Chicago Booth School of Business in March 2012.

Ms. Ma is a Chinese certified public accountant.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Independent Non-Executive Directors

Mr. LIN Guoqiang (林國強), aged 78, is an independent non-executive Director of our Company. Mr. Lin has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Lin is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Lin has more than 50 years of research experience in chemistry. Mr. Lin joined the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in 1968. He was promoted to researcher of such institute in 1990, served as deputy director from 1988 to 1993 and director of such institute from 1993 to 1999. Mr. Lin was a visiting scholar at the Royal Institute of Technology in Sweden in 1980, and also a visiting scientist at both the University of Pittsburgh and R&D Department of SmithKline in the U.S. (美國史克藥業研究開發部) in 1986. Since 1992, Mr. Lin has been the director and executive editor of the publication "Tetrahedron/Tetrahedron Letters" in China and served as deputy chief editor of "China Science: Chemistry" (《中國科學：化學》) from 2008 to 2017. Mr. Lin was also elected as academician of the Chinese Academy of Sciences (中國科學院院士) in 2001.

Mr. Lin has received numerous awards, including State Natural Science Awards and Science Progress Awards. Examples are set out in the table below:

Honor/Award	Awarding Body	Timing of Granting the Award
Second Prize of State Natural Science Award of 2016	State Council	December 2016
Second Prize of State Scientific and Technological Progress Award of 2013	State Council	December 2013
Third Prize of State Scientific and Technology Progress Award of 1995	State Scientific and Technological Commission	December 1995
Second Prize of State Scientific and Technology Progress Award of 1987	State Science & Technology Award Judging Panel	July 1987
Third Prize of State Invention Award of 1987	State Scientific and Technological Commission	January 1987

Mr. Lin obtained his bachelor's degree in organic chemistry from Shanghai University of Science and Technology (上海科學技術大學) in July 1964, and obtained his master's degree in organic chemistry from Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in July 1968.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Independent Non-Executive Directors *(Continued)*

Mr. CHAN Charles Sheung Wai (陳尚偉), aged 67, is an independent non-executive Director of our Company. Mr. Chan has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Chan is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Chan has more than 40 years of experience in corporate finance, financial regulations and risk management. Mr. Chan started his career as an auditor at the Canadian office of Arthur Andersen in 1977 and was promoted to partnership in 1988. He subsequently joined the China & Hong Kong office of Arthur Andersen as an audit partner in 1994. From July 2002 to June 2012, Mr. Chan was a partner of the China & Hong Kong office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of the Hong Kong Stock Exchange from 1998 to 2001 and also as a member of the Election Committee for the first Legislative Council of Hong Kong in 1998. From 1996 to 1999, Mr. Chan was a council member of the Hong Kong Institute of Certified Public Accountants. He also served as a member of the Accounting Standards Committee, Auditing Standards Committee and the chairman of the China Technical Committee of the Hong Kong Institute of Certified Public Accountants.

Mr. Chan has been an independent non-executive director of SRE Group Limited (Hong Kong Stock Exchange Stock Code: 1207), Maoyan Entertainment (Hong Kong Stock Exchange Stock Code: 1896) and Sun Art Retail Group Limited (Hong Kong Stock Exchange Stock Code: 6808) since July 2012, January 2019 and January 2021, respectively, and served as an independent director of Changyou.com Ltd (NASDAQ Stock Code: CYOU) from September 2013 to April 2020.

In May 1977, Mr. Chan obtained a Bachelor of Commerce degree from the University of Manitoba, in Canada. He is a member of both the Chartered Accountants of Canada and the Hong Kong Institute of Certified Public Accountants.

Ms. YANG Dongtao (楊東濤), aged 63, is an independent non-executive Director of our Company. Ms. Yang has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Ms. Yang is primarily responsible for providing independent opinion and judgment to our Board.

Ms. Yang has over 30 years of experience in the field of education. She was a lecturer of the Management Department of Nanjing University School of Business (南京大學商學院管理學系) from March 1985 to March 1992. She then served as associate professor from March 1992 to March 1999 and as professor from March 1999 to February 2007 of the Management Department of Nanjing University School of Business (南京大學商學院管理學系). Ms. Yang has been a professor of the Human Resources Management Department of Nanjing University School of Business (南京大學商學院人力資源管理系) since February 2007. Since May 2016, she has also been the vice president of the Jiangsu Province Human Resources Society (江蘇省人力資源學會).

Ms. Yang is currently an independent non-executive director of Perfect Group Corp., Ltd. (倍加潔集團股份有限公司) (Shanghai Stock Exchange stock code: 603059) and was an independent non-executive director of Novoray Corporation (江蘇聯瑞新材料股份有限公司) (Shanghai Stock Exchange stock code: 688300) till February 2021.

Ms. Yang received her bachelor of engineering from Southeast University (東南大學) (formerly known as Nanjing Institute of Technology (南京工學院)) in Nanjing in July 1982. She obtained both her master's degree in economics and her doctorate degree in corporate management from Nanjing University (南京大學) in February 1992 and December 1998, respectively.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

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

Mr. WU Gongzheng (吳公正), aged 50, is a senior vice president of our Group and has been appointed to this position since March 2012. Mr. Wu is primarily responsible for Jiangsu Hansoh's overall financial management.

Mr. Wu has more than 20 years of experience in financial management. Mr. Wu joined our Group in September 1997 as a financial supervisor and was promoted to finance director of Jiangsu Hansoh in February 2003.

Mr. Wu obtained his bachelor's degree in statistical economics from Nanjing University of Finance & Economics (南京財經大學) (formerly known as Nanjing College of Economics (南京經濟學院)) in July 1993. Mr. Wu is currently completing his EMBA program at Nanjing University (南京大學).

Ms. ZHONG Chunhua (鍾春華), aged 46, is a senior vice president of our Group and has been appointed to this position since January 2013. Ms. Zhong Chunhua is primarily responsible for overseeing production and human resources management of our Group.

Ms. Zhong Chunhua has 20 years of managerial experience in pharmaceutical manufacturing quality control and human resources and joined our Group in July 2000. She was appointed as a quality assurance supervisor in February 2002, and was then promoted to quality assurance manager in August 2004. In March 2009, Ms. Zhong Chunhua was appointed as executive deputy general manager of the production division of Jiangsu Hansoh and has been responsible for managing the pharmaceutical production division.

Ms. Zhong Chunhua received her bachelor of pharmaceutical sciences degree from China Pharmaceutical University (中國藥科大學) (formerly known as Nanjing Medical College (南京醫學院)) in Nanjing in July 2000.

Mr. XU Chuanhe (徐傳合), aged 57, is a senior vice president of our Group and has been appointed to this position since March 2009. Mr. Xu is primarily responsible for matters related to sales management of our Group.

Mr. Xu has more than 20 years of experience in pharmaceutical sales management. Mr. Xu joined our Group in August 1997 and was appointed as deputy general manager of the sales division in October 1997.

Mr. Xu obtained his bachelor of science degree from China Pharmaceutical University (中國藥科大學) (formerly known as Nanjing Medical College (南京藥學院)) in Nanjing in July 1985 and his EMBA from Wuhan University (武漢大學) in December 2008.

SENIOR MANAGEMENT *(Continued)*

Mr. BAO Rudi (包如迪), aged 57, is a senior vice president of our Group and has been appointed to this position since October 2016. Mr. Bao joined our Group in September 2012 as deputy general manager of Shanghai Hansen. Mr. Bao is mainly responsible for the management of R&D of innovative drugs and the scientific development of our Group.

Mr. Bao has approximately 25 years of experience in the pharmaceutical manufacturing industry, including 18 years of experience in management of R&D of drugs. Prior to joining our Group, he was a senior researcher at Novartis Pharmaceuticals from October 2002 to December 2006, and a senior director at Curis Inc. from December 2006 to July 2012.

Mr. Bao obtained his bachelor's degree in medicine from Changwei Medical College (昌濰醫學院) (formerly known as Weifang Medical College (濰坊醫學院)) in July 1986 and his master's degree in medicine from Harbin Medical University (哈爾濱醫科大學) in December 1989. He obtained his doctorate degree in medicine from Peking Union Medical College (北京協和醫學院) (formerly known as China Union Medical College (中國協和醫科大學)) in October 1992.

Mr. Hu Min (胡旻), aged 44, is a vice president of our Group. Mr. Hu joined our Group in September 2019 and was appointed as chief financial officer.

Mr. Hu has years of experience in finance, auditing, consulting and capital markets in the pharmaceutical and healthcare industries. Before joining our Group, Mr. Hu served as an audit partner for the pharmaceutical and healthcare industries at Deloitte Touche Tohmatsu China. Mr. Hu holds qualifications of certified public accountant of China and the United States.

Mr. Hu obtained his bachelor of economics from Xiamen University in July 1999.

JOINT COMPANY SECRETARIES

Ms. ZHONG Shengli (鍾勝利), aged 53, has served as a joint company secretary and a senior vice president of our Group since August 2018 and March 2012, respectively.

Ms. Zhong Shengli joined our Group in July 2010 as investment director and was responsible for investment management.

Before joining our Group, she had more than ten years of work experience in financial institutions. Ms. Zhong Shengli joined Ping An Bank in November 1998 and she was serving as a senior manager of Ping An Bank when she left in July 2010.

Ms. Zhong Shengli obtained her bachelor of arts degree from Beijing Foreign Studies University (北京外國語大學) (formerly known as Beijing Foreign Studies College (北京外國語學院)) in July 1991.

Ms. LI Yan Wing Rita (李昕穎) was appointed as a joint company secretary of our Company with effect from the Listing Date. Ms. Li is an executive director of Corporate Services of Tricor Services Limited and has over 20 years of experience in the corporate secretarial field, providing professional corporate secretarial services to listed companies as well as multi-national, private and offshore companies. She is currently the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Li is a chartered secretary, a chartered governance professional and a fellow of both of The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Chartered Governance Institute (formerly "The Institute of Chartered Secretaries and Administrators"). She is a holder of the Practitioner's Endorsement from HKICS. Ms. Li received her bachelor of arts degree from City University of Hong Kong in November 1994.

Independent Auditor's Report

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Independent auditor's report
To the shareholders of Hansoh Pharmaceutical Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hansoh Pharmaceutical Group Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 48 to 112, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables	
As at 31 December 2020, the Group's net trade receivables amounted to approximately RMB2,743,774,000, which represented approximately 13% of total assets of the Group. According to Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("**HKFRS 9**"), a forward-looking ECL approach was applied by the Group. The measurement of ECLs involves significant judgement and assumptions used in the ECL approach as the ECLs must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money. The Group's disclosures about the ECLs of the trade receivables are included in Note 2.4 Summary of significant accounting policies, Note 3 Significant accounting judgements and estimates, Note 16 Trade and bills receivables and Note 31 Financial instruments by category to the consolidated financial statements, which specifically explain the accounting policies, management's judgements and estimates, and the overdue receivables and the related provision.	Our procedures in relation to management's assessment on ECLs of trade receivables included: – Obtained an understanding, evaluated the design and tested the operating effectiveness of the controls that the Group had implemented to manage and monitor its credit risk; – Tested the accuracy and completeness of the data used by management to develop the historical loss rates and evaluated management's assessment of the sufficiency, reliability and relevance of that data; – Evaluated the forward-looking adjustments made to reflect current and forecast future economic conditions; – Tested, on a sample basis, the ageing profile of the trade receivables as at 31 December 2020 by comparing individual items in the ageing profile with the relevant sales agreement, sales invoices and other supporting documents; and – Inquired of management for the status of each of the material trade receivable past due as at the year end and evaluated management's assessment of collectability by performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records and other correspondence with the customers. We also read and assessed the relevant disclosures made in the consolidated financial statements, including disclosures of the basis for this estimation.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2021

Consolidated Statement of Profit or Loss

Year ended 31 December 2020

	Notes	**2020** ***RMB'000***	2019 *RMB'000*
REVENUE	5	**8,690,234**	8,682,746
Cost of sales		**(801,561)**	(729,540)
Gross profit		**7,888,673**	7,953,206
Other income	5	**220,637**	221,219
Selling and distribution expenses		**(3,103,018)**	(3,266,380)
Administrative expenses		**(758,641)**	(777,692)
Research and development costs		**(1,252,246)**	(1,120,681)
Other gains/(expenses), net	5	**102,894**	(8,747)
PROFIT BEFORE TAX	6	**3,098,299**	3,000,925
Income tax expense	9	**(529,392)**	(444,183)
PROFIT FOR THE YEAR		**2,568,907**	2,556,742
Attributable to:			
Owners of the parent		**2,568,907**	2,556,742
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic (RMB)		**0.44**	0.47
Diluted (RMB)		**0.44**	0.47

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
PROFIT FOR THE YEAR	**2,568,907**	2,556,742
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(978,194)**	185,286
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(978,194)**	185,286
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(978,194)**	185,286
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,590,713**	2,742,028
Attributable to:		
Owners of the parent	**1,590,713**	2,742,028

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 *RMB'000*	2019 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	12	**2,039,329**	1,740,832
Right-of-use assets	13(a)	**264,489**	187,100
Intangible assets	14	**9,893**	4,568
Financial assets at fair value through profit or loss	18	**28,389**	–
Prepayments for purchase of property, plant and equipment		**1,163,971**	194,706
Total non-current assets		**3,506,071**	2,127,206
CURRENT ASSETS			
Inventories	15	**298,727**	414,348
Trade and bills receivables	16	**3,127,460**	2,245,959
Prepayments, other receivables and other assets	17	**142,098**	193,772
Financial assets at fair value through profit or loss	18	**200,000**	2,772,040
Other financial assets	19	**9,232,734**	3,583,457
Cash and bank balances	20	**4,284,970**	8,238,422
Total current assets		**17,285,989**	17,447,998
CURRENT LIABILITIES			
Trade and bills payables	21	**124,382**	192,850
Other payables and accruals	22	**2,347,033**	1,762,676
Contract liabilities	23	**195,688**	40,469
Lease liabilities	13(b)	**11,039**	3,653
Tax payable		**11,397**	40,684
Dividends payable		**–**	4,200,000
Total current liabilities		**2,689,539**	6,240,332
NET CURRENT ASSETS		**14,596,450**	11,207,666
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,102,521**	13,334,872
NON-CURRENT LIABILITIES			
Lease liabilities	13(b)	**81,710**	5,783
Deferred tax liabilities	24	**121,810**	284,767
Other non-current liabilities		**23,403**	–
Total non-current liabilities		**226,923**	290,550
NET ASSETS		**17,875,598**	13,044,322

Consolidated Statement of Financial Position

31 December 2020

	Notes	**2020**	2019
		RMB'000	*RMB'000*
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	**52**	51
Reserves	27	**17,875,546**	13,044,271
		17,875,598	13,044,322
Non-controlling interests		**–**	–
Total equity		**17,875,598**	13,044,322

Director

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent								
	Share capital *RMB'000*	Share premium* *RMB'000*	Merger reserve/ other reserve* *RMB'000*	Exchange fluctuation reserve* *RMB'000*	Statutory surplus reserves* *RMB'000*	Retained profits* *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2019	1	1,302,448	(57,100)	70,426	205,000	947,123	2,467,898	–	2,467,898
Profit for the year	–	–	–	–	–	2,556,742	2,556,742	–	2,556,742
Exchange differences on translation of foreign operations	–	–	–	185,286	–	–	185,286	–	185,286
Total comprehensive income for the year	–	–	–	185,286	–	2,556,742	2,742,028	–	2,742,028
Issue of shares for the Initial Public Offering ("**IPO**")	–	1,682,278	–	–	–	–	1,682,278	–	1,682,278
Capitalisation Issue	44	(44)	–	–	–	–	–	–	–
Issue of shares in connection with the IPO	6	7,960,847	–	–	–	–	7,960,853	–	7,960,853
Share issue expenses	–	(108,735)	–	–	–	–	(108,735)	–	(108,735)
Dividends declared	–	–	–	–	–	(1,700,000)	(1,700,000)	–	(1,700,000)
Transfer from retained profits	–	–	–	–	408,050	(408,050)	–	–	–
At 31 December 2019	51	10,836,794	(57,100)	255,712	613,050	1,395,815	13,044,322	–	13,044,322

		Attributable to owners of the parent									
	Notes	**Share capital** ***RMB'000***	**Share premium*** ***RMB'000*** **Note 27(a)**	**Share option reserve*** ***RMB'000***	**Merger reserve/ other reserve*** ***RMB'000*** **Note 27(b)**	**Exchange fluctuation reserve*** ***RMB'000*** **Note 27(c)**	**Statutory surplus reserves*** ***RMB'000*** **Note 27(d)**	**Retained profits*** ***RMB'000***	**Total** ***RMB'000***	**Non-controlling interests** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2020		**51**	**10,836,794**	**–**	**(57,100)**	**255,712**	**613,050**	**1,395,815**	**13,044,322**	**–**	**13,044,322**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**2,568,907**	**2,568,907**	**–**	**2,568,907**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**(978,194)**	**–**	**–**	**(978,194)**	**–**	**(978,194)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(978,194)**	**–**	**2,568,907**	**1,590,713**	**–**	**1,590,713**
Issue of shares by private placement	25(a)	**1**	**3,181,517**	**–**	**–**	**–**	**–**	**–**	**3,181,518**	**–**	**3,181,518**
Share-based payments	26	**–**	**–**	**68,590**	**–**	**–**	**–**	**–**	**68,590**	**–**	**68,590**
Share issue expenses		**–**	**(9,545)**	**–**	**–**	**–**	**–**	**–**	**(9,545)**	**–**	**(9,545)**
Dividends declared	10	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer from retained profits		**–**	**–**	**–**	**–**	**–**	**233,858**	**(233,858)**	**–**	**–**	**–**
At 31 December 2020		**52**	**14,008,766**	**68,590**	**(57,100)**	**(722,482)**	**846,908**	**3,730,864**	**17,875,598**	**–**	**17,875,598**

* These reserve accounts comprise the consolidated reserves of RMB17,875,546,000 (2019: RMB13,044,271,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**3,098,299**	3,000,925
Adjustments for:			
Impairment of trade receivables, net	5	**(309)**	(1,003)
Impairment of inventories, net	5	**1,850**	7,989
Depreciation of items of property, plant and equipment	6	**216,350**	183,675
Depreciation of right-of-use assets	6	**11,880**	5,886
Amortisation of intangible assets	6	**5,044**	11,993
Loss on disposal of items of property, plant and equipment	5	**39**	1,291
Fair value gains of financial assets at fair value through profit or loss	5	**(87,155)**	(23,113)
Investment income	5	**(71,879)**	(25,871)
Interest income from deposits with initial terms of over three months when acquired	5	**(47,625)**	(123,261)
Interest expense on lease liabilities	5	**1,645**	123
Share-based payments	5	**68,590**	–
		3,196,729	3,038,634
(Increase)/decrease in trade and bills receivables		**(881,192)**	400,251
Increase in prepayments, other receivables and other assets		**(79,860)**	(6,297)
Decrease in inventories		**113,771**	57,327
(Decrease)/increase in trade and bills payables		**(68,468)**	34,040
Increase in other payables and accruals		**544,382**	342,973
Increase in contract liabilities		**155,219**	4,158
Cash generated from operations		**2,980,581**	3,871,086
Income tax paid		**(590,102)**	(541,397)
Net cash flows from operating activities		**2,390,479**	3,329,689

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**8,071**	11,046
Purchases of items of property, plant and equipment		**(1,427,645)**	(592,476)
Purchases of intangible assets		**(11,605)**	(4,814)
Decrease/(increase) in time deposits with original maturity of over three months when acquired		**1,531,604**	(2,856,546)
Increase of financial products included in other financial assets		**(5,740,484)**	(3,040,872)
Decrease/(increase) of financial products included in financial assets at fair value through profit or loss		**2,545,306**	(761,000)
Interest income received from deposits with initial terms of over three months when acquired		**63,247**	107,527
Investment income received from financial products included in other financial assets		**71,879**	33,024
Investment income received from financial products included in financial assets at fair value through profit or loss		**85,500**	28,512
Net cash flows used in investing activities		**(2,874,127)**	(7,075,599)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares prior to the IPO		**–**	1,682,278
Net proceeds from issue of new shares in connection with the IPO		**–**	7,852,118
Net proceeds from private placement	25(a)	**3,171,973**	–
Dividends paid		**(4,200,000)**	(1,500,000)
Principal portion of lease payments		**(7,601)**	(41,668)
Net cash flows (used in)/from financing activities	28	**(1,035,628)**	7,992,728
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,519,276)**	4,246,818
Cash and cash equivalents at beginning of year		**5,344,859**	964,831
Effect of foreign exchange rate changes, net		**(762,267)**	133,210
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,063,316**	5,344,859
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**1,514,473**	3,411,166
Non-pledged time deposits with original maturity of less than three months when acquired	20	**1,548,843**	1,933,693
Cash and cash equivalents as stated in the consolidated statement of cash flows		**3,063,316**	5,344,859

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 June 2019.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") were principally engaged in the research and development, production and sale of a series of pharmaceutical products in the People's Republic of China (the "**PRC**").

As at the date of this report, the Company has direct and indirect interest in its subsidiaries, all of which are private limited liability companies (or if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong).

Particulars of the principal subsidiaries now comprising the Group are set out below:

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Hansoh Pharmaceutical Group Co., Ltd. ("**Jiangsu Hansoh**")	PRC/ Mainland China	RMB 1,000,000,000	July 1995	–	100%	Pharmaceutical
Jiangsu Hengte Pharmaceutical Trading Co., Ltd. ("**Jiangsu Hengte**")	PRC/ Mainland China	RMB 10,000,000	July 2006	–	100%	Pharmaceutical
Shanghai Hansen Biological Medicine Technology Co., Ltd. ("**Shanghai Hansen**")	PRC/ Mainland China	RMB 260,000,000	October 2011	–	100%	Pharmaceutical
Hansoh Pharma International Limited ("**Hansoh International**")	Hong Kong	HK$100	December 2015	–	100%	Investment holding and trading
Hansoh (Shanghai) Health Technology Co., Ltd. ("**Hansen Health**")	PRC/ Mainland China	US$ 90,000,000	September 2019	–	100%	Investment holding and trading

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended in 31 December 2020 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

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

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any significant impact on the financial position and performance of the Group.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

These new and revised HKFRSs are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

Buildings	20 years
Leasehold improvement	3 years
Machinery equipment	10 years
Computer and office equipment	3-5 years
Motor vehicles	4 years

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

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

Software	3 years

Research and development costs

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

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

Acquired in-process research and development costs

The Group has acquired rights to develop and commercialise product candidates. Upfront payments that relate to the acquisition of a new drug compound, as well as pre-commercial milestone payments, are immediately expensed as acquired in-process research and development in the period in which they are incurred, provided that the new drug compound did not also include processes or activities that would constitute a business, the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, has no established alternative future use. Milestone payments made to third parties subsequent to regulatory approval are capitalised as intangible assets and amortised over the estimated remaining useful life of the related product. Royalties owed on sales of the products licensed pursuant to the agreements are expensed in the period the related revenues are recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Land use right	50 years
Property	3-12 years

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

(b) Lease liabilities

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

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

The Group’s lease liabilities are presented in a separate line on the consolidated statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for lease of low-value assets to leases of office equipment that is considered to be low value.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to of ownership of an underlying assets to the lessee are accounted for as finance leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets at fair value through profit or loss

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

General approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (Continued)

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 1 year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

Simplified approach

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

Overdue by	Provision rate
Within 90 days	0%
90 days to 1 year	20%
Over 1 year	100%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables.

Subsequent measurement

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

Financial liabilities measured at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal. If the cost of inventories is higher than the net realisable value, the provision of inventories is recognised in profit or loss.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of pharmaceutical products

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

Some contracts for the sale of pharmaceutical products provide customers with rights of return. The rights of return give rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(b) *Collaboration arrangements*

The Group's collaborative arrangements may contain more than one performance obligation, including grants of licenses to intellectual property rights, agreement to provide research and development services and other deliverables. The collaborative arrangements do not include a right of return for any deliverable. As part of the accounting for these arrangements, the Group must develop assumptions that require judgement to determine the stand-alone selling price for each performance obligation identified in the contract. In developing the stand-alone selling price for a performance obligation, the Group considers competitor pricing for a similar or identical product, market awareness of and perception of the product, expected product life and current market trends. In general, the consideration allocated to each performance obligation is recognised when the respective obligation is satisfied either by delivering a good or providing a service, limited to the consideration that is not constrained. Non-refundable payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as advances from customers.

Licenses of intellectual property: Upfront non-refundable payments for licensing the Group's intellectual property are evaluated to determine if the license is distinct from the other performance obligations identified in the arrangement. For licenses determined to be distinct, the Group recognises revenues from non-refundable, up-front fees allocated to the license at a point in time, when the license is transferred to the licensee and the licensee is able to use and benefit from the license.

Research and development services: The portion of the transaction price allocated to research and development service performance obligations is recognised as collaboration revenue at a point in time upon delivery of such services.

Milestone payments: At the inception of each arrangement that includes development milestone payments, the Group evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestones related to the development-based activities may include initiation of various phases of clinical trials. Due to the uncertainty involved in meeting these development-based targets, they are generally fully constrained at contract inception. The Group will assess whether the variable consideration is fully constrained in each reporting period based on the facts and circumstances surrounding the clinical trials. Upon changes to the constraint associated with the developmental milestones, variable consideration will be included in the transaction price when a significant reversal of revenue recognised is not expected to occur and allocated to the separate performance obligations. Regulatory milestones are fully constrained until the period in which those regulatory approvals are achieved due to the inherent uncertainty with the approval process. Regulatory milestones are included in the transaction price in the period in which regulatory approval is obtained.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Group recognises revenue at the later of (i) when the related sales occur, and (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Other income

Rental income is recognised on a time proportion basis over the lease terms;

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

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

Contract liabilities

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

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

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

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Dividend distribution to the shareholders is recognised as a liability in the period in which the dividends are approved by the shareholders or directors, where appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

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

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year or period.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year or period are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2020 was RMB2,641,000 (2019: RMB8,451,000). The amount of tax losses that are not recognised as deferred tax assets as at 31 December 2020 was RMB406,287,000 (2019: RMB28,518,000). Further details are contained in note 24 to the financial statements.

Income tax

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

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the repair and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is recognised if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

Research and development costs

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

4. OPERATING SEGMENT INFORMATION

Information about geographical areas

Since over 90% of the Group's revenue and operating profit were generated from the sale of pharmaceutical products in Mainland China and most of the Group's identifiable operating assets and liabilities were located in Mainland China, no geographical segment information in accordance with HKFRS 8 *Operating Segments* is presented.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the reporting period.

5. REVENUE, OTHER INCOME AND OTHER (GAINS)/EXPENSES, NET

An analysis of revenue, other income and other (gains)/expenses, net is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sales of goods – at a point in time	**8,621,808**	8,682,746
Collaboration revenue – at a point in time	**68,426**	–
	8,690,234	8,682,746
Other income		
Investment income	**71,879**	25,871
Government grants	**55,322**	33,520
Bank interest income	**92,037**	153,582
Others	**1,399**	8,246
	220,637	221,219
Other gains/(expenses), net		
Loss on disposal of items of property, plant and equipment	**(39)**	(1,291)
Fair value gains of financial assets at fair value through profit or loss	**88,909**	23,113
Donations	**(48,804)**	(38,661)
Foreign exchange gains, net	**63,370**	9,947
Impairment of trade receivables, net	**309**	1,003
Impairment of inventories, net	**(1,850)**	(7,989)
Interest expense on lease liabilities	**(1,645)**	(123)
Others	**2,644**	5,254
	102,894	(8,747)

Performance obligations

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

	2020	2019
	RMB'000	*RMB'000*
Amounts expected to be recognised as revenue:		
Within one year	**193,907**	15,684
After one year	**40,752**	38,773
	234,659	54,457

6. PROFIT BEFORE TAX

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

	Notes	**2020**	2019
		RMB'000	*RMB'000*
Cost of inventories sold		**562,083**	444,566
Depreciation of property, plant and equipment	12	**216,350**	183,675
Depreciation of right-of-use assets	13	**11,880**	5,886
Amortisation of intangible assets	14	**5,044**	11,993
Impairment of trade receivables, net	16	**(309)**	(1,003)
Impairment of inventories, net		**1,850**	7,989
Operating lease expenses		**26,020**	7,881
Auditors' remuneration		**3,760**	5,660
Loss on disposal of items of property, plant and equipment		**39**	1,291
Investment income		**(71,879)**	(25,871)
Fair value gains of financial assets at fair value through profit or loss		**(88,909)**	(23,113)
Bank interest income		**(92,037)**	(153,582)
Foreign exchange gains, net		**(63,370)**	(9,947)
Employee benefit expense (including directors' remuneration as set out in note 7):			
Wages and salaries		**1,420,705**	1,239,317
Social welfare and other benefits		**317,175**	326,634
Share-based payments		**68,590**	–
		1,806,470	1,565,951

7. DIRECTORS' REMUNERATION

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

	Group	
	2020	2019
	RMB'000	*RMB'000*
Fees	**–**	–
Other emoluments:		
Salaries and bonuses	**34,998**	39,324
Social welfare and other benefits	**222**	258
Share-based payments	**2,277**	–
	37,497	39,582
	37,497	39,582

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Note	**2020**	2019
		RMB'000	*RMB'000*
Mr. Lin Guoqiang	(ii)	**60**	30
Mr. Chan Charles Sheung Wai	(ii)	**360**	180
Ms. Yang Dongtao	(ii)	**290**	145
		710	355

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

7. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

	Note	Fees *RMB'000*	Salaries and bonuses *RMB'000*	Share-based payments *RMB'000*	Social welfare and other benefits *RMB'000*	Total remuneration *RMB'000*
2020						
Executive directors:						
Ms. Zhong Huijuan	(i)	**–**	**17,690**	**–**	**100**	**17,790**
Miss Sun Yuan		**–**	**14,073**	**–**	**31**	**14,104**
Mr. Lyu Aifeng		**–**	**3,235**	**2,277**	**90**	**5,603**
		–	**34,998**	**2,277**	**221**	**37,497**
Non-executive director:						
Ms. Ma Cuifang		**–**	**–**	**–**	**–**	**–**
		–	**34,998**	**2,277**	**222**	**37,497**
2019						
Executive directors:						
Ms. Zhong Huijuan	(i)	–	23,460	–	86	23,546
Miss Sun Yuan		–	12,758	–	86	12,844
Mr. Lyu Aifeng		–	3,106	–	86	3,192
		–	39,324	–	258	39,582
Non-executive director:						
Ms. Ma Cuifang		–	–	–	–	–
		–	39,324	–	258	39,582

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

Notes:

(i) Ms. Zhong Huijuan is also the chief executive officer of the Company.

(ii) Mr. Lin Guoqiang, Mr. Chan Charles Sheung Wai and Ms. Yang Dongtao were appointed as independent non-executive directors on 31 May 2019.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2019: three directors), details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2019: two) highest paid employees who are not directors of the Company are as follows:

	2020	2019
	RMB'000	*RMB'000*
Salaries and bonuses	**6,134**	3,446
Share-based payments	**2,088**	–
Social welfare and other benefits	**144**	172
	8,366	3,618

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

	Number of employees	
	2020	2019
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	–
	2	2

9. INCOME TAX

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

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

The subsidiary incorporated in Hong Kong and subsidiaries registered as a Hong Kong tax resident are subject to income tax at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period.

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

In 2014, Jiangsu Hansoh Pharmaceutical Group Co., Ltd. ("**Jiangsu Hansoh**"), the subsidiary of the Company, was accredited as a "High and New Technology Enterprise" ("**HNTE**") and was entitled to a preferential income tax rate of 15% for a period of three years from 2014 to 2016. Jiangsu Hansoh subsequently renewed its HNTE qualification in 2017 and 2020, and was entitled to the preferential tax rate of 15% from 2020 to 2022.

9. INCOME TAX *(Continued)*

In 2017, Shanghai Hansen Technology Co., Ltd. ("**Shanghai Hansen**"), the subsidiary of the Company, was initially accredited as a HNTE, and thus entitled to a preferential income tax rate of 15% from 2017 to 2019. Shanghai Hansen subsequently renewed its HNTE qualification in 2020, and was entitled to the preferential tax rate of 15% from 2020 to 2022.

The income tax expense of the Group for the year is analysed as follows:

	2020	2019
	RMB'000	*RMB'000*
Current income tax	**692,349**	402,104
Deferred income tax (note 24)	**(162,957)**	42,079
Tax charge for the year	**529,392**	444,183

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2020	2019
	RMB'000	*RMB'000*
Profit before tax	**3,098,299**	3,000,925
Tax at the statutory tax rate (25%)	**774,574**	750,231
Preferential income tax rate applicable to certain subsidiaries	**(233,877)**	(232,892)
Additional deductible allowance for qualified research and development costs	**(189,608)**	(194,299)
Adjustments in respect of current income tax of previous years	**15,143**	(14,132)
Income not subject to tax	**(16,760)**	(2,674)
Expenses not deductible for tax	**8,705**	15,874
Accrual for withholding tax	**125,649**	122,429
Tax losses utilised from previous years	**–**	(5,000)
Tax losses not recognised	**45,566**	4,646
Tax charge at the Group's effective rate	**529,392**	444,183

10. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Distribution to the then shareholders	–	1,700,000

Notes:

Pursuant to the Company's board resolution and the resolution of the shareholders of the Company dated 27 May 2019, the Company declared dividends of RMB1,700,000,000 to the then shareholders.

No dividend was proposed for the year ended 31 December 2020.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the parent of RMB2,568,907,000 (2019: RMB2,556,742,000), and the weighted average number of ordinary shares of 5,876,243,659 (2019: 5,477,489,291) in issue during the year, are adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of restricted share units expected to be unlocked in the future.

The calculations of basic and diluted earnings per share are based on:

	2020 RMB'000	2019 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**2,568,907**	2,556,742

	Adjusted number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,876,243,659**	5,477,489,291
Effect of dilution – weighted average number of ordinary shares:		
Restricted shares	**1,835,071**	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**5,878,078,730**	5,477,489,291
Basic earnings per share (RMB per share)	**0.44**	0.47
Diluted earnings per share (RMB per share)	**0.44**	0.47

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019							
Cost	968,728	13,171	937,152	95,290	59,699	81,132	2,155,172
Accumulated depreciation	(250,992)	(11,764)	(396,509)	(65,955)	(48,127)	–	(773,347)
Net carrying amount	717,736	1,407	540,643	29,335	11,572	81,132	1,381,825
At 1 January 2019, net of accumulated depreciation	717,736	1,407	540,643	29,335	11,572	81,132	1,381,825
Additions	201,296	–	79,938	12,516	10,111	253,183	557,044
Disposals	(329)	–	(1,986)	(1,195)	(52)	(8,775)	(12,337)
Transfer	31,832	–	55,464	1,264	131	(90,716)	(2,025)
Depreciation provided during the year	(57,166)	(1,361)	(98,674)	(19,777)	(6,697)	–	(183,675)
At 31 December 2019, net of accumulated depreciation	893,369	46	575,385	22,143	15,065	234,824	1,740,832
At 31 December 2019:							
Cost	1,201,094	7,487	1,055,612	99,977	66,513	234,824	2,665,507
Accumulated depreciation	(307,725)	(7,441)	(480,227)	(77,834)	(51,448)	–	(924,675)
Net carrying amount	893,369	46	575,385	22,143	15,065	234,824	1,740,832
31 December 2020							
At 1 January 2020							
Cost	**1,201,094**	**7,487**	**1,055,612**	**99,977**	**66,513**	**234,824**	**2,665,507**
Accumulated depreciation	**(307,725)**	**(7,441)**	**(480,227)**	**(77,834)**	**(51,448)**	**–**	**(924,675)**
Net carrying amount	**893,369**	**46**	**575,385**	**22,143**	**15,065**	**234,824**	**1,740,832**
At 1 January 2020, net of accumulated depreciation	**893,369**	**46**	**575,385**	**22,143**	**15,065**	**234,824**	**1,740,832**
Additions	**37,019**	**716**	**74,389**	**56,146**	**10,512**	**348,595**	**527,377**
Disposals	**(2,399)**	**–**	**(6,117)**	**(173)**	**–**	**–**	**(8,689)**
Transfer	**89,422**	**1,722**	**131,071**	**9,677**	**–**	**(235,693)**	**(3,801)**
Translation differences	**–**	**–**	**(37)**	**(3)**	**–**	**–**	**(40)**
Depreciation provided during the year	**(63,307)**	**(413)**	**(122,575)**	**(23,063)**	**(6,992)**	**–**	**(216,350)**
At 31 December 2020, net of accumulated depreciation	**954,104**	**2,071**	**652,116**	**64,727**	**18,585**	**347,726**	**2,039,329**
At 31 December 2020:							
Cost	**1,324,808**	**9,925**	**1,244,007**	**164,636**	**75,733**	**347,726**	**3,166,835**
Accumulated depreciation	**(370,702)**	**(7,854)**	**(591,891)**	**(99,911)**	**(57,148)**	**–**	**(1,127,506)**
Net carrying amount	**954,106**	**2,071**	**652,116**	**64,725**	**18,585**	**347,726**	**2,039,329**

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group was applying for certificates of ownership for certain properties with the net book value of RMB143,802,000 as at 31 December 2020. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use rights and property. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms of 3 years. Equipment and vehicles generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Leasehold land	Property	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2019	142,005	–	142,005
Additions	39,591	11,390	50,981
Depreciation charge	(3,488)	(2,398)	(5,886)
As at 31 December 2019 and 1 January 2020	178,108	8,992	187,100
Additions		89,269	89,269
Depreciation charge	(3,950)	(7,930)	(11,880)
As at 31 December 2020	174,158	90,331	264,489

13. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Carrying amount at 1 January	**9,436**	–
New leases	**89,269**	50,981
Accretion of interest recognised during the year	**1,645**	123
Payments	**(7,601)**	(41,668)
Carrying amount at 31 December	**92,749**	9,436
Analysed into:		
Current portion	**11,039**	3,653
Non-current portion	**81,710**	5,783

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

	2020 *RMB'000*	2019 *RMB'000*
Interest on lease liabilities	**1,645**	123
Depreciation charge of right-of-use assets	**11,880**	5,886
Total amount recognised in profit or loss	**13,525**	6,009

14. INTANGIBLE ASSETS

	Software *RMB'000*
31 December 2020	
Cost at 1 January 2020, net of accumulated amortisation	**4,568**
Additions	**10,369**
Amortisation provided during the year	**(5,044)**
At 31 December 2020	**9,893**
At 31 December 2020:	
Cost	**42,225**
Accumulated amortisation	**(32,332)**
Net carrying amount	**9,893**
31 December 2019	
Cost at 1 January 2019, net of accumulated amortisation	10,475
Additions	4,061
Transfer from construction in process	2,025
Amortisation provided during the year	(11,993)
At 31 December 2019	4,568
At 31 December 2019:	
Cost	36,298
Accumulated amortisation	(31,730)
Net carrying amount	4,568

15. INVENTORIES

	2020 *RMB'000*	2019 *RMB'000*
Raw materials	**79,531**	89,359
Work in progress	**153,280**	221,313
Finished goods	**65,916**	103,676
	298,727	414,348

16. TRADE AND BILLS RECEIVABLES

	2020 *RMB'000*	2019 *RMB'000*
Trade receivables	**2,744,236**	1,551,688
Impairment	**(462)**	(1,011)
	2,743,774	1,550,677
Bills receivable	**383,686**	695,282
	3,127,460	2,245,959

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally from 60 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

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

	2020 *RMB'000*	2019 *RMB'000*
Within 90 days	**2,731,791**	1,517,015
91 days to 180 days	**11,213**	33,619
Over 180 days	**770**	43
	2,743,774	1,550,677

16. TRADE AND BILLS RECEIVABLES *(Continued)*

An ageing analysis of bills receivable as at the end of the reporting period, based on the billing date, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**297,847**	405,607
91 days to 180 days	**85,839**	289,675
Over 180 days	**–**	–
	383,686	695,282

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivables and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing. The movements in the loss allowance for impairment of trade receivables are as follows:

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**1,011**	5,870
Impairment losses, net (note 6)	**(309)**	(1,003)
Amount written-off as uncollectible	**(240)**	(3,856)
At end of year	**462**	1,011

16. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	Not overdue	Overdue by Within 90 days	Overdue by 90 days to 1 year	Overdue by Over1 year	Total
At 31 December 2020					
Expected credit loss rate	**0%**	**0%**	**20%**	**100%**	**0%**
Gross carrying amount (RMB'000)	**2,736,820**	**6,650**	**380**	**386**	**2,744,236**
Expected credit losses (RMB'000)	**–**	**–**	**76**	**386**	**462**
At 31 December 2019					
Expected credit loss rate	0%	0%	20%	100%	0%
Gross carrying amount (RMB'000)	1,463,984	86,650	54	1,000	1,551,688
Expected credit losses (RMB'000)	–	–	11	1,000	1,011

At 31 December 2020, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to settle the dividends payable, trade payables and other payables with a carrying amount of RMB77,511,000 (2019: RMB74,334,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated dividends payable, trade payables and other payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2020, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the reporting period and cumulatively.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020	2019
	RMB'000	*RMB'000*
Prepaid income tax	**–**	131,534
Prepayments	**48,611**	24,185
Deposits	**8,556**	4,740
Prepaid expenses	**2,111**	598
Other receivables	**82,820**	32,715
	142,098	193,772

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	*RMB'000*
Current		
Investments in financial products (note (a))	**200,000**	2,772,040
Non-current		
Other unlisted investments, at fair value (note (b))	**28,389**	–

Notes:

(a) The above investments represent investments in certain financial products issued by commercial banks in the PRC with expected return rates ranging from 3.30% to 3.45% per annum. The returns on all of these financial products are not guaranteed. The fair values of the investments approximate to their costs plus expected return. None of these investments are either past due or impaired.

(b) The amount represents unlisted equity investments in one American and one Chinese venture capital firms which specialise in making equity investments in the life science industry. The Group has an intention of holding it as a long-term investment.

19. OTHER FINANCIAL ASSETS

	2020	2019
	RMB'000	*RMB'000*
Investments in financial products	**9,232,734**	3,583,457

The above investments represent investments in certain financial products issued by commercial banks. These financial products had terms of less than one year and had guaranteed annual return rates ranging from 0.73% to 1.97%. None of these investments are either past due or impaired.

20. CASH AND BANK BALANCES

	2020 RMB'000	2019 RMB'000
Cash and bank balances, unrestricted	**1,514,473**	3,411,166
Time deposits with original maturity of less than three months when acquired	**1,548,843**	1,933,693
Time deposits with original maturity of over three months when acquired (note (a))	**1,221,654**	2,893,563
Cash and bank balances	**4,284,970**	8,238,422
Denominated in:		
RMB	**2,437,355**	1,486,429
United States dollar	**1,021,222**	2,599,918
Hong Kong dollar	**825,256**	4,152,075
Others	**1,137**	–
	4,284,970	8,238,422

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Note:

(a) The above investments represent time deposits with initial terms of over three months when acquired (including three months) issued by commercial banks with annual return rates ranging from 1.35% to 4.13%. None of these investments are either past due or impaired. None of these deposits are pledged.

21. TRADE AND BILLS PAYABLES

	2020 *RMB'000*	2019 *RMB'000*
Trade payables	**67,520**	88,432
Bills payable	**56,862**	104,418
	124,382	192,850

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

	2020 *RMB'000*	2019 *RMB'000*
Within 90 days	**122,932**	139,094
91 days to 180 days	**594**	52,965
181 days to 1 year	**98**	151
Over 1 year	**758**	640
	124,382	192,850

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

22. OTHER PAYABLES AND ACCRUALS

	2020 *RMB'000*	2019 *RMB'000*
Accrued expenses	**1,437,440**	1,009,471
Staff payroll, welfare and bonus payables	**331,266**	385,345
Payables for purchase of items of property, plant and equipment	**92,023**	73,059
Other tax payables	**108,406**	63,875
Other payables	**377,898**	230,926
	2,347,033	1,762,676

23. CONTRACT LIABILITIES

	2020	2019
	RMB'000	*RMB'000*
Amounts received in advance of delivery of products and services	**195,688**	40,469

Set out below is the amount of revenue and other income recognised from:

	2020	2019
	RMB'000	*RMB'000*
Amounts included in contract liabilities at the beginning of the year	**22,643**	6,840

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits	Decelerated depreciation/ amortisation for tax purposes	Unrealised profit from intercompany transactions	Accrued expenses	Provision of impairment for trade receivables and inventories	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	**8,451**	**3,819**	**40**	**47,460**	**1,352**	**–**	**61,122**
Deferred tax recognised in the consolidated statement of profit or loss during the year	**(5,810)**	**61,276**	**(40)**	**2,841**	**270**	**–**	**58,537**
At 31 December 2020	**2,641**	**65,095**	**–**	**50,301**	**1,622**	**–**	**119,659**
At 1 January 2019	23,635	7,301	40	25,387	1,124	1,148	58,635
Deferred tax recognised in the consolidated statement of profit or loss during the year	(15,184)	(3,482)	–	22,073	228	(1,148)	2,487
At 31 December 2019	8,451	3,819	40	47,460	1,352	–	61,122

24. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Accelerated depreciation for tax purposes *RMB'000*	Accrual for withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2020	**(39,461)**	**(306,428)**	**(345,889)**
Deferred tax recognised in the consolidated statement of profit or loss during the year	**(13,731)**	**118,151**	**104,420**
At 31 December 2020	**(53,192)**	**(188,277)**	**(241,469)**
At 1 January 2019	(34,056)	(267,267)	(301,323)
Deferred tax recognised in the consolidated statement of profit or loss during the year	(5,405)	(39,161)	(44,566)
At 31 December 2019	(39,461)	(306,428)	(345,889)

The Group has no tax loss arising in Hong Kong (2019: RMB15,494,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of RMB360,791,000 (2019: RMB13,024,000) that will expire in one to ten years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in certain subsidiaries that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign invested enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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

	2020 *RMB'000*	2019 *RMB'000*
Net deferred tax liabilities recognised in the consolidated statement of financial position	**121,810**	284,767

25. SHARE CAPITAL

	2020	2019
	RMB	*RMB*
Issued and fully paid:		
5,918,991,200 shares of HK$0.00001 each (31 December 2019: 5,788,611,200 shares of HK$0.00001 each)	**52,140**	50,951

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital**
		RMB
At 1 January 2020	**5,788,611,200**	**50,951**
Private placement – issue of shares of HK$0.00001 each (Note (a))	**130,380,000**	**1,189**
At 31 December 2020	**5,918,991,200**	**52,140**

Note:

(a) Pursuant to the placing agreement dated 22 April 2020, 130,380,000 shares of the Company have been successfully placed on 29 April 2020 at the price of HK$26.75 per share, representing a discount of approximately 10.54% to the closing market price of the Company's ordinary shares on the immediate preceding business day before the completion date. The net proceeds from the placing amounted to HK$3,477,202,000 (equivalent to approximately RMB3,171,973,000).

26. SHARE-BASED PAYMENTS

The Group's Restricted Share Unit Scheme (the "**RSU Scheme**") was adopted pursuant to a resolution passed on 27 May 2019 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 13 June 2029.

The table below discloses movement of the RSU Scheme:

	Number of restricted shares
Outstanding as at 1 January 2020	–
Granted during the year	**9,035,000**
Lapsed during the year	**161,100**
Exercised during the year	–
Cancelled during the year	–
Outstanding as at 31 December 2020	**8,873,900**

In the current reporting period, restricted shares were granted on 22 April 2020 and 15 June 2020. The closing price of the Group's shares immediately before 22 April 2020 and 15 June 2020, the dates of grant, were HK$28.45 and HK$36.75 per share, respectively.

The fair values of the restricted shares determined at the dates of grant using the Binomial model were HK$21.44 and HK$31.59 respectively. The following assumptions were used to calculate the fair values of restricted shares:

	22 April 2020	15 June 2020
Grant date share price	HK$27.96	HK$36.91
Exercise price	HK$5.36	HK$5.36
Exercise life	3 years	3 years
Exercise volatility	41.9%-46.7%	40.9%-46.2%
Dividend yield	0%	0%
Risk-free interest rate	0.41%-0.52%	0.34%-0.43%

The Binomial model has been used to estimate the fair value of the restricted shares. The variables and assumptions used in computing the fair value of the restricted shares are based on the directors' best estimate. Changes is estimates and assumptions may result in changes in fair value of the restricted shares.

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

26. SHARE-BASED PAYMENTS *(Continued)*

As instructed by the Board, the Trustee is appointed to acquire a certain number of shares from the secondary market for the RSU Scheme, and the purchased shares will be held by the Trustee until such shares are vested in accordance with the provisions of the Scheme.

During the year of 2020, the Trustee has not acquired any shares.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

(a) Share premium

The proceeds from the issue of shares that exceed the nominal value of the shares were credited into the share premium.

(b) Merger reserve

The merger reserve of the Group represents the capital contributions from the then shareholders of the subsidiaries.

(c) Exchange fluctuation reserve

The functional currencies of certain overseas subsidiaries are currencies other than the Renminbi ("**RMB**"). As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(d) Statutory reserves

In accordance with the Company Law of the People's Republic of China (the "**PRC**"), the subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC Generally Accepted Accounting Principles, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Except for the transactions mentioned in note 16, there were no major non-cash transactions during the years ended in 31 December 2020 and 2019.

(b) Changes in liabilities arising from financing activities

	Dividends payable *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2020	**4,200,000**	**9,436**	**4,209,436**
Changes from financing cash flows:			
Dividend paid to the then shareholders	**(4,200,000)**	**–**	**(4,200,000)**
Principal portion of lease payments	**–**	**(7,601)**	**(7,601)**
Total changes from financing cash flows	**–**	**(7,601)**	**(4,207,601)**
Other changes:			
Additions to lease liabilities	**–**	**89,269**	**89,269**
Accretion of interest recognised during the year	**–**	**1,645**	**1,645**
Total other changes	**–**	**90,914**	**90,914**
At 31 December 2020	**–**	**92,749**	**92,749**
At 1 January 2019	4,000,000	–	4,000,000
Changes from financing cash flows:			
Dividend paid to the then shareholders	(1,500,000)	–	(1,500,000)
Principal portion of lease payments	–	(41,668)	(41,668)
Total changes from financing cash flows	(1,500,000)	(41,668)	(1,541,668)
Other changes:			
Dividend declared	1,700,000	–	1,700,000
Additions to lease liabilities	–	50,981	50,981
Accretion of interest recognised during the year	–	123	123
Total other changes	1,700,000	51,104	1,751,104
At 31 December 2019	4,200,000	9,436	4,209,436

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2020
	RMB'000
Within operating activities	**26,020**
Within investing activities	**–**
Within financing activities	**7,601**
	33,621

29. COMMITMENTS

Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2020	2019
	RMB'000	*RMB'000*
Contracted, but not provided for acquisition of property, plant and equipment	**339,900**	197,628

Other business agreements

The Group enters into collaboration agreements with institutions and companies to license intellectual property. The Company may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specified products associated with its collaboration agreements. Payments under these agreements generally become due and payable upon achievement of such milestones or sales. These commitments are not recorded on the consolidated statement of financial position because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales have occurred, the corresponding amounts are recognised in the consolidated financial statements.

Viela Bio

The Company entered into strategic collaboration with Viela Bio, Inc. to develop and commercialise inebilizumab for autoimmune diseases and hematologic cancers in China on 28 May 2019. Under the terms of the license and collaboration agreement for inebilizumab, Viela Bio received total upfront payments of US$20,000,000 and is eligible to receive additional payments of US$200,000,000 upon the achievement of development and commercial milestones. In addition, Viela Bio will be eligible to receive tiered royalties on future sales of inebilizumab in the licensed territory.

The upfront payments were expensed to research and development expense during the year ended 31 December 2019. No milestone payments were accrued as of 31 December 2020.

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
江蘇恒瑞醫藥股份有限公司 (“**Jiangsu Hengrui Medicine**”)	Joint stock company of a close family member of a director

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2020	2019
	RMB'000	*RMB'000*
Revenue from collaboration agreement		
Jiangsu Hengrui Medicine	**28,302**	–
Expense for services received		
Jiangsu Hengrui Medicine	**18,874**	–

The directors of the Company are of the opinion that the above sales to related parties and purchased from related parties were conducted in the ordinary course of business and on normal commercial terms.

(c) Compensation of key management personnel of the Group:

	2020	2019
	RMB'000	*RMB'000*
Salaries and bonuses	**45,774**	63,816
Social welfare and other benefits	**1,607**	1,855
Share-based payments	**33,411**	–
Total compensation paid to key management personnel	**80,792**	65,671

Further details of directors' emoluments are included in note 7 to the financial statements.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

2020

Financial assets

	Financial assets at fair value through profit or loss, mandatorily designated as such *RMB'000*	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through other comprehensive income *RMB'000*	Total *RMB'000*
Trade receivables	–	2,743,774	–	2,743,774
Bills receivable	–	–	383,686	383,686
Financial assets at fair value through profit or loss	228,389	–	–	228,389
Financial assets included in prepayments, other receivables and other assets	–	91,376	–	91,376
Other financial assets	–	9,232,734	–	9,232,734
Cash and bank balances	–	4,284,970	–	4,284,970
	228,389	16,352,854	383,686	16,964,929

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	124,382
Financial liabilities included in other payables and accruals	1,907,361
Lease liabilities	92,749
Dividends payable	–
	2,124,492

31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows: *(Continued)*

2019

Financial assets

	Financial assets at fair value through profit or loss, mandatorily designated as such *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	2,245,959	2,245,959
Financial assets at fair value through profit or loss	2,772,040	–	2,772,040
Financial assets included in prepayments, other receivables and other assets	–	37,455	37,455
Other financial assets	–	3,583,457	3,583,457
Cash and bank balances	–	8,238,422	8,238,422
	2,772,040	14,105,293	16,877,333

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	192,850
Financial liabilities included in other payables and accruals	1,313,456
Lease liabilities	9,436
Dividends payable	4,200,000
	5,715,742

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Financial assets

	Carrying amount		Fair value	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets at fair value through profit or loss	**228,389**	2,772,000	**228,389**	2,772,040

Management has assessed that the fair values of cash and cash equivalents, Time deposits with original maturity of over three months when acquired, trade and bills receivables, trade and bills payables, other financial assets, deposits and other receivables, financial liabilities included in other payables and accruals and dividends payable approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at 31 December 2020 were assessed to be insignificant.

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
As at 31 December 2020				
Financial assets at fair value through profit or loss	**–**	**228,389**	**–**	**228,389**
Bills receivable	**–**	**–**	**383,686**	**383,686**
As at 31 December 2019				
Financial assets at fair value through profit or loss	–	2,772,040	–	2,772,040

At 31 December 2020, the Group held bills receivable within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Bills receivable are measured at fair value through other comprehensive income. The fair values of bills receivable approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 and 2020.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and cash equivalents, bank deposits with original maturity of over three months when acquired, financial assets at fair value through profit or loss and other financial assets. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. To keep the Group's exposure to these risks to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. The Group's business are located in Mainland China and nearly all transactions are conducted in RMB. As nearly all of the assets and liabilities of subsidiaries in Mainland China were denominated in RMB, these subsidiaries were not subject to significant foreign currency risk. As at 31 December 2020, the Group's assets and liabilities denominated in currencies other than RMB were mainly held by the Company and certain subsidiaries incorporated outside Mainland China which had currencies other than RMB as their functional currencies. The Company and those subsidiaries incorporated outside Mainland China also held bank balances denominated in currencies other than their functional currencies, from which foreign currency exposures arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency *%*	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in profit for the year *RMB'000*
2020			
If the RMB weakens against the United States dollar	**5**	**4,320**	**3,672**
If the RMB strengthens against the United States dollar	**(5)**	**(4,320)**	**(3,672)**
2019			
If the RMB weakens against the United States dollar	5	1,623	1,380
If the RMB strengthens against the United States dollar	(5)	(1,623)	(1,380)

(b) Credit risk

The carrying amounts of cash and cash equivalents, time deposits with original maturity of over three months when acquired, other financial assets, financial assets at fair value through profit or loss, trade receivables and other receivables represent the Group's maximum exposure equal to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash and cash equivalents, time deposits with original maturity of over three months when acquired, other financial assets and financial assets at fair value through profit or loss since they are substantially held in reputable state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group trades only with recognised and creditworthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable periodically and management also has monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group measures loss allowances for bills receivable at an amount equal to lifetime ECLs. Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivables and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experiences do not indicate significantly different loss patterns for different segments, the loss allowance based on the past due status is not further distinguished between the Group's different customer bases.

The Group also expects that there is no significant credit risk associated with amounts due from related parties and other receivables since counterparties to these financial assets have no history of default.

For other financial assets, amounts due from related parties and other receivables, impairment is measured as 12-month expected credit losses as there has been no significant increase in credit risk since initial recognition.

(c) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

	2020				
	Within 3 months or on demand *RMB'000*	**3 months to 1 year** *RMB'000*	**1 year to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Lease liabilities	**2,418**	**8,621**	**34,875**	**46,835**	**92,749**
Financial liabilities included in other payables and accruals	**1,907,361**	**–**	**–**	**–**	**1,907,361**
Trade and bills payables	**124,382**	**–**	**–**	**–**	**124,382**
	2,034,161	**8,621**	**34,875**	**46,835**	**2,124,492**

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk *(Continued)*

	2019				
	Within 3 months or on demand *RMB'000*	3 months to 1 year *RMB'000*	1 year to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	893	2,760	5,783	–	9,436
Financial liabilities included in other payables and accruals	1,313,456	–	–	–	1,313,456
Trade and bills payables	192,850	–	–	–	192,850
Dividends payable	–	4,200,000	–	–	4,200,000
	1,507,199	4,202,760	5,783	–	5,715,742

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of the reporting periods were as follows:

	2020 ***RMB'000***	2019 *RMB'000*
Total liabilities	**2,916,462**	6,530,882
Total assets	**20,792,060**	19,575,204
Debt-to-asset ratio	**14%**	33%

34. CONTINGENT LIABILITIES

As at 31 December 2020, the Group and the Company were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group and the Company expect would materially adversely affect their financial position or results of operations.

35. EVENTS AFTER THE REPORTING PERIOD

On 22 January 2021, the Company issued 3,000 units of convertible bonds (the "Bonds") with a nominal value of US$200,000 per unit, totalling US$600,000,000. After deduction of the expenses in relation to the issuance, the total net proceeds were approximately US$595,650,000. The Bonds are zero coupon and will mature on 22 January 2026 (the "**Maturity Date**"). The Bonds are convertible at the option of the bondholders into ordinary shares on or after 4 March 2021 up to the close of business on the date falling ten days prior to the Maturity Date. Assuming full conversion of the Bonds at the initial conversion price of HK$60.00 per share, the Bonds will be convertible into 77,529,000 shares. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at its principal amount on the Maturity Date.

On 11 February 2021, Hansoh (Shanghai) Health Technology Co., Ltd. and Jiangsu Hansoh Pharmaceutical Group Co., Ltd. (collectively, the "**Licensees**"), each a wholly-owned subsidiary of the Company, have entered into an exclusive license and collaboration agreement (the "**Licensing Agreement**") with SCYNEXIS, Inc. ("**SCYNEXIS**"). Pursuant to the Licensing Agreement, the Licensees will obtain an exclusive license from SCYNEXIS to research, develop and commercialise ibrexafungerp (the "**Product**") in the People's Republic of China (including Hong Kong, Macau and Taiwan) (the "**Territory**"). In consideration for the exclusive license, the Licensees agree to pay to SCYNEXIS an upfront payment of US$10,000,000 plus potential milestone payments and royalties. Such milestone payments are subject to the achievement of the relevant milestone events, such as the obtaining of product regulatory approvals within the Territory.

Save as disclosed above, the Group had no other material events after the reporting period up to the date of this report.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		**68,590**	–
Financial assets at fair value through profit or loss		**28,389**	–
Amounts due from subsidiaries		**11,450,454**	1,047,792
Total non-current assets		**11,547,433**	1,047,792
CURRENT ASSETS			
Amounts due from subsidiaries		**104,531**	4,238,511
Prepayments, other receivables and other assets		**3,930**	14,260
Other financial assets		**–**	3,383,457
Cash and bank balances		**1,866,030**	6,647,334
Total current assets		**1,974,491**	14,283,562
CURRENT LIABILITIES			
Dividends payable		**–**	4,200,000
Other payables and accruals		**72,022**	64,560
Total current liabilities		**72,022**	4,264,560
NET CURRENT ASSETS		**1,902,469**	10,019,002
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,449,902**	11,066,794
NON-CURRENT LIABILITIES			
Dividends payable		**–**	–
Total non-current liabilities		**–**	–
NET ASSETS		**13,449,902**	11,066,794
EQUITY			
Share capital		**52**	51
Reserves	(a)	**13,449,850**	11,066,743
Total equity		**13,449,902**	11,066,794

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(a) A summary of the Company's reserves is as follows:

	Share premium *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits/ (accumulated losses) *RMB'000*	Total *RMB'000*
At 1 January 2019	1,302,448	81,684	4,090	1,388,222
Profit for the year	–	–	1,685,748	1,685,748
Exchange differences related to foreign operations	–	158,427	–	158,427
Total comprehensive income for the year	–	158,427	1,685,748	1,844,175
Issue of shares prior to the Initial Public Offering ("**IPO**")	1,682,278	–	–	1,682,278
Capitalisation Issue	(44)	–	–	(44)
Issue of shares in connection with the IPO	7,960,847	–	–	7,960,847
Share issue expenses	(108,735)	–	–	(108,735)
Dividends declared	–	–	(1,700,000)	(1,700,000)
At 31 December 2019	10,836,794	240,111	(10,162)	11,066,743

	Share premium ***RMB'000***	**Share option reserve** ***RMB'000***	**Exchange fluctuation reserve** ***RMB'000***	**Retained profits/ (accumulated losses)** ***RMB'000***	**Total** ***RMB'000***
At 1 January 2020	**10,836,794**	**–**	**240,111**	**(10,162)**	**11,066,743**
Profit for the year	**–**	**–**	**–**	**4,313,138**	**4,313,138**
Exchange differences related to foreign operations	**–**	**–**	**(970,593)**	**–**	**(970,593)**
Total comprehensive income for the year	**–**	**–**	**(970,593)**	**4,313,138**	**3,342,545**
Issue of shares by private placement	**3,181,517**	**–**	**–**	**–**	**3,181,517**
Share-based payments	**–**	**68,590**	**–**	**–**	**68,590**
Share issue expenses	**(9,545)**	**–**	**–**	**–**	**(9,545)**
Dividends declared	**–**	**–**	**–**	**(4,200,000)**	**(4,200,000)**
At 31 December 2020	**14,008,766**	**68,590**	**(730,482)**	**102,976**	**13,449,850**

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.