Henlius

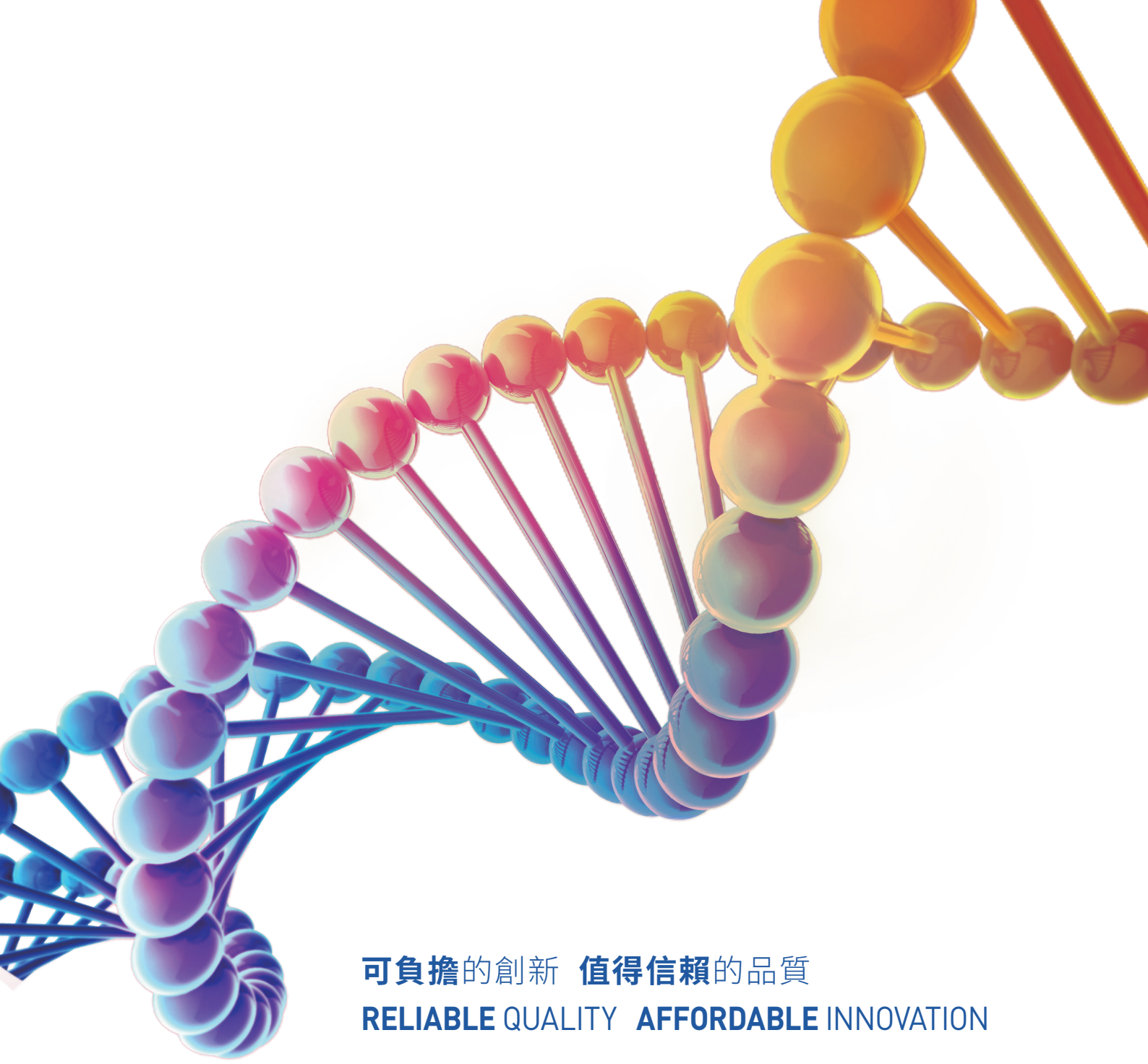
SHANGHAI HENLIUS BIOTECH, INC.
上海復宏漢霖生物技術股份有限公司

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

Stock Code: 2696

2021 ANNUAL REPORT

RELIABLE QUALITY
AFFORDABLE INNOVATION



可負擔的創新 **值得信賴**的品質

RELIABLE QUALITY **AFFORDABLE** INNOVATION

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive director

Wenjie Zhang *(Chairman and Chief Executive Officer)*[1]

Non-executive directors

Qiyu Chen (陳啟宇)[2]
Yifang Wu (吳以芳)
Xiaohui Guan (關曉暉)
Aimin Hui
Zihou Yan (晏子厚)

Independent non-executive directors

Tak Young So (蘇德揚)
Lik Yuen Chan (陳力元)
Guoping Zhao (趙國屏)
Ruilin Song (宋瑞霖)

SUPERVISORS

Rongli Feng (馮蓉麗) *(Chairman)*
Deli Kong (孔德力)
Junhong Liu (劉俊宏)

AUDIT COMMITTEE

Tak Young So (蘇德揚) *(Chairman)*
Lik Yuen Chan (陳力元)
Xiaohui Guan (關曉暉)

NOMINATION COMMITTEE

Wenjie Zhang *(Chairman)*[1]
Guoping Zhao (趙國屏)
Ruilin Song (宋瑞霖)
Qiyu Chen (陳啟宇)[2]

REMUNERATION COMMITTEE

Ruilin Song (宋瑞霖) *(Chairman)*
Lik Yuen Chan (陳力元)
Yifang Wu (吳以芳)

STRATEGY COMMITTEE

Wenjie Zhang *(Chairman)*[1]
Qiyu Chen (陳啟宇)[2]
Yifang Wu (吳以芳)
Aimin Hui
Zihou Yan (晏子厚)
Tak Young So (蘇德揚)
Ruilin Song (宋瑞霖)

Notes:

1. Mr. Wenjie Zhang was appointed as the chairman of the Board, the chairman of the Nomination Committee and the chairman of the Strategy Committee on 30 November 2021.
2. Mr. Qiyu Chen resigned as the chairman of the Board, the chairman of the Strategy Committee and the chairman of the Nomination Committee on 30 November 2021 and continues to serve as a non-executive director and a member of the Strategy Committee.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Lik Yuen Chan (陳力元) *(Chairman)*
Tak Young So (蘇德揚)
Ruilin Song (宋瑞霖)
Wenjie Zhang
Zihou Yan (晏子厚)

JOINT COMPANY SECRETARIES

Yan Wang (王燕)[3]
Ching Ching Leung (梁晶晶) *(Fellow of the Hong Kong Chartered Governance Institute)*
Xinjun Guo (郭新軍)[4]

AUTHORISED REPRESENTATIVES

Wenjie Zhang
Ching Ching Leung (梁晶晶)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

9F, Innov Tower (Capitaland Building)
1801 Hongmei Road
Xuhui District
Shanghai
PRC

REGISTERED OFFICE IN CHINA

Room 330, Complex Building
No. 222, Kangnan Road
China (Shanghai) Pilot Free Trade Zone
PRC[5]

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

H SHARES REGISTRAR

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

AUDITOR AND REPORTING ACCOUNTANTS

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

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong and U.S. laws:
Freshfields Bruckhaus Deringer
55th Floor, One Island East
Taikoo Place, Quarry Bay
Hong Kong

As to PRC law:
Llinks Law Offices
19/F, One Lujiazui
No. 68 Yin Cheng Road Middle
Shanghai
PRC

STOCK SHORT NAME

HENLIUS[6]

STOCK CODE

2696

COMPANY WEBSITE

www.henlius.com

Notes:

3. Ms. Yan Wang was appointed as the secretary to the Board and a joint company secretary on 5 November 2021.
4. Mr. Xinjun Guo resigned as the secretary to the Board and a joint company secretary on 5 November 2021.
5. Took effect upon approval by the 2021 First Extraordinary General Meeting held on 27 July 2021.
6. Took effect from 23 April 2021.

CHAIRMAN'S STATEMENT

Wenjie Zhang
Chairman, Executive Director and Chief Executive Officer

Dear Shareholders, investors,

On behalf of the board of directors, I am hereby pleased to present you the annual results of Henlius for the financial year ended 31 December 2021.

We made significant progress on our innovation agenda and saw great progress in R&D, manufacturing and commercialization in 2021. Along the journey of benefiting patients worldwide with high-quality biologics, we stayed true to our original aspiration, and made unremitting efforts. With the successive launching of HANBEITAI (bevacizumab), the new indication rheumatoid arthritis (RA) of HANLIKANG (rituximab) and PD-1 inhibitor HANSIZHUANG (serplulimab), we now have 5 products launched in China, 1 in Europe and 13 indications approved around the globe. 1 New Drug Application (NDA) was accepted for review by the NMPA. Up to date, we have benefited as many as over 170,000 patients worldwide.

We continue to unleash innovation potential by enhancing in-house capabilities and strengthening collaboration on external innovative assets. With serplulimab as the backbone, we carry out a total of 9 immuno-oncology combination clinical trials in the countries and regions including China, Turkey, Poland, Georgia, etc., covering a wide variety of indications including lung cancer, esophageal carcinoma, head and neck squamous cell carcinoma, gastric cancer, etc. The international multi-center Phase 3 study of serplulimab in previously untreated extensive small-cell lung cancer (ES-SCLC) reached the primary endpoint, potentially making serplulimab the first anti-PD-1 mAb for first-line treatment of SCLC in the world. With the close synergy between Shanghai and US Innovation Center, we gather pace in building our pipeline. In 2021, we saw robust clinical progress in 12 projects and received multiple clinical approvals on 6 candidates and 1 combination therapy worldwide, covering innovative targets such as 4-1BB, LAG-3, TIGIT, CD73, etc. Looking forward, we will advance "antibody-centric" innovations, expand new modalities and build a comprehensive "AXC" platform. Meanwhile, we continue to strengthen in-licensing through business development. In 2021, we licensed in HLX208, a small-molecule inhibitor targeting the human BRAF protein V600E mutation, an antibody targeting human TROP2 and other products, further expanding our presence in multiple cancer types.

We continue to sharpen our advantage of the integrated manufacturing platform. In 2021, we ramped up capacity progress in a bid to build competitiveness with economics of scale. Xuhui Facility currently has commercial capacity of 24,000L. We have completed the construction of 24,000L for Songjiang First Plant, which was approved for the manufacturing of HANQUYOU in 2021. Commercial capacity is expected to hit 48,000L in 2022. For the long-term plan, we have designed 96,000L for the Phase 1 project of Songjiang Second Plant, potentially making a total commercial capacity of 144,000L by the Company in 3 years. We have been committed to delivering products with "Henlius Quality" based on international standards. In 2021, we received Shanghai Drug Manufacturer Credit Assessment Grade A, the highest level of its kind. We strike a pioneer path of adopting new technologies with the first continuous manufacturing plant constructed in China. In 2021, we also succeeded in end-to-end continuous manufacturing and thus improving productivity with stable and controllable quality.

We continue to maximize commercial value of core assets. The domestic commercialization of HANQUYOU (Zercepac® in Europe), the first Chinese mAb biosimilar approved in both China and Europe, is in the charge of our in-house commercial team. In 2021, we saw its robust growth in Chinese market. With the approval for the dual dosage form of 60mg/vial and 150mg/vial, we stand greater chance to reach more patients. In the overseas market, Zercepac® has been launched in nearly 20 European countries and regions including the United Kingdom, Germany, France, etc, with out-licensing covering more than 80 markets worldwide. In 2021, we continued to build up a stable and highly-efficient commercial team united by trust. We centered on patients and focused on marketing efficiency, as part of our efforts to realize a sound and sustainable development. While building HANQUYOU team, we have also established Immune-Oncology Business Unit at the beginning of 2022, getting us well positioned for the advent of HANSIZHUANG. With its successful launch, the team will gear up for its market penetration and facilitate higher patient access. Meanwhile, we expand the label for launched products. With the approval of HANLIKANG for the treatment of RA, HANLIKANG has become the rituximab with the largest number of approved indications in China, providing an alternative treatment option for patients with autoimmune diseases.

We delivered solid results in 2021. Looking beyond, we remain on a rapid growth trajectory with determination and move forward along the evolution from a Biotech company to a Biopharma by diversifying innovation through strategic collaboration and in-house innovation, globalizing manufacturing and quality system, localizing supply chain, and by maximizing the commercial value of late-stage assets. We will continue to extend the breadth of our value chain and refuel our momentum for development. Our heartfelt gratitude goes to shareholders and all walks of life for their great support and trust all along. There is no shortcut to follow but unrelenting efforts to pay on our way ahead. Down to the earth to touch the sky, my fellow colleagues and I will redouble our efforts for the development of China biopharmaceutical industry.

OPERATION HIGHLIGHTS

I. FINANCIAL SUMMARY

For the Year Ended 31 December 2021

	2021 RMB' 000	2020 RMB' 000
Revenue	**1,682,472**	587,586
Cost of sales	**(522,748)**	(182,119)
Gross profit	**1,159,724**	405,467
Other income and gains	**45,091**	43,737
Selling and distribution expenses	**(520,261)**	(243,648)
Administrative expenses	**(280,606)**	(192,640)
Impairment losses on financial assets, net	**(174)**	14
Research and development expenses	**(1,023,930)**	(894,144)
Other expenses	**(251,763)**	(68,622)
Financial costs	**(84,820)**	(43,705)
Loss before tax	**(956,739)**	(993,541)
Income tax expense	**(27,313)**	–
Loss for the year	**(984,052)**	(993,541)

Total revenue was approximately RMB1,682.5 million for the year ended 31 December 2021, as compared to approximately RMB587.6 million for the year ended 31 December 2020. For the year ended 31 December 2021, such revenue was primarily from drug sales, R&D services provided to customers, and licence income.

Expensed R&D expenses increased by approximately RMB129.8 million to approximately RMB1,023.9 million for the year ended 31 December 2021, compared to approximately RMB894.1 million for the year ended 31 December 2020, primarily due to the other clinical trials of innovative drug candidates.

Selling, marketing and business development expenses were approximately RMB520.3 million for the year ended 31 December 2021, primarily due to the expansion of our sales and marketing capacity and activities in preparation for the drug candidates.

Total loss decreased by approximately RMB9.4 million to approximately RMB984.1 million for the year ended 31 December 2021, compared to approximately RMB993.5 million for the year ended 31 December 2020, primarily due to the higher sales volume of core products and more and continuous investment into research and development.

II. FIVE YEARS' FINANCIAL SUMMARY

Results

	2021	2020	2019	2018	2017
			RMB' 000		
Revenue	**1,682,472**	587,586	90,929	7,421	33,910
Loss before tax	**(956,739)**	(993,541)	(874,810)	(500,220)	(379,997)
Income tax expense	**(27,313)**	–	(655)	(4,569)	(4,330)
Loss for the year	**(984,052)**	(993,541)	(875,465)	(504,789)	(384,327)
Loss for the year attributable to owners of the parent	**(984,052)**	(993,541)	(875,465)	(493,686)	(270,562)

Assets and Liabilities

	2021	2020	2019	2018	2017
			RMB' 000		
Total assets	**7,172,844**	6,439,176	5,899,817	3,094,790	1,484,517
Total liabilities	**(4,876,088)**	(3,240,404)	(1,899,402)	(1,292,241)	(1,560,507)
Net assets	**2,296,756**	3,198,772	4,000,415	1,802,549	(75,990)

III. HIGHLIGHTS OF THE YEAR

1 HANQUYOU (trastuzumab injection, EU brand name: Zercepac®):

- HANQUYOU (150mg) : completed the tendering process on the procurement platform and was included into the medical insurance procurement platform for all provinces in Mainland China in the first half of 2021.
- HANQUYOU (60mg): completed the tendering process on the procurement platform in 25 provinces and was included into the medical insurance procurement platform in 31 provinces in Mainland China.
- Zercepac®: following 150mg obtaining marketing approval in the EU in July 2020, Zercepac® 60mg and 420mg were approved for marketing in the EU in April 2021 and June 2021 respectively; in July 2021, the Swissmedic approved the new drug application of Zercepac® (150mg).

2 HANLIKANG (rituximab injection):

- HANLIKANG (100mg/10ml): included into the medical insurance procurement platform in 30 provinces in Mainland China, and completed the tendering process on the procurement platform in 28 provinces, and procured by more than 70% of major hospitals.
- HANLIKANG (500mg/50ml): completed the tendering process on the procurement platform in 19 provinces and has been included into the medical insurance procurement platform in 14 provinces in Mainland China.

3 HANDAYUAN (adamumab injection):

completed the tendering process on the procurement platform in 27 provinces and has been included into the medical insurance procurement platform in 30 provinces in Mainland China as at the end of the Reporting Period.

4 HANBEITAI (bevacizumab injection):

was approved for marketing in Mainland China in November 2021.

5 HANSIZHUANG (serplulimab injection):

was approved for marketing in Mainland China in March 2022.

6 Business Expansion:

- After the signing of the binding term sheet with Accord Healthcare Inc. in September 2020, the Group entered into a formal agreement with Intas, the parent company of Accord Healthcare Inc., in January 2021, pursuant to which, the Group agreed to grant a license to Intas for the development and commercialization of HANQUYOU (trastuzumab injection, EU brand name: Zercepac®) in the United States and Canada.

- In January 2021, the Company entered into an exclusive license agreement with Chiome Bioscience, Inc., pursuant to which, the Company licensed in an exclusive right for antibodies targeting human TROP2 (trophoblast cell surface antigen 2) and to research, develop, manufacture and commercialize the related intellectual property rights in China (including Hong Kong, Macau and Taiwan regions of China).

- In March 2021, the Company entered into a binding term sheet with Suzhou NeuPharma Co., Ltd., pursuant to which the Company licensed in an exclusive right for HLX208, a small-molecule inhibitor targeting V600E mutation in human BRAF protein to develop, manufacture, commercialize and sublicense in China (including Hong Kong, Macau and Taiwan regions of China). Relevant cooperation agreement was formally entered into in May 2021.

- In February 2022, the Group entered into an agreement with Getz Pharma, pursuant to which, the Group agreed to grant a license to Getz Pharma to commercialize HANDAYUAN in Pakistan, Philippines, Vietnam and other regions.

7 Efficient Advancement on Clinical Research Projects both Domestically and Internationally:

- In January 2021, the enrollment of subjects was completed in a phase 2 clinical study of HANSIZHUANG (serplulimab injection) in combination with HANBEITAI for the treatment of advanced hepatocellular carcinoma (HCC).
- In March 2021, the first patient has been dosed in a phase 2/3 clinical study of HANSIZHUANG (serplulimab injection) in combination with HANBEITAI and chemotherapy (XELOX) for first-line treatment of metastatic colorectal cancer (mCRC) in Mainland China.
- In March 2021, a single-arm, open-label, multi-center phase 2 clinical study of HANSIZHUANG (serplulimab injection) for the treatment of unresectable or metastatic microsatellite instability-high (MSI-H) solid tumors that fail to respond to the standard therapy met the primary study endpoint. HANSIZHUANG (serplulimab injection) was approved for marketing in March 2022.
- In December 2021, the phase 2 investigational new drug application (IND) of HANSIZHUANG (serplulimab injection) in combination with HLX07 (recombinant anti-EGFR humanized monoclonal antibody injection) for the treatment of solid tumors was approved by the NMPA.
- In December 2021, the enrollment of subjects was completed in a phase 3 clinical study of HANSIZHUANG (serplulimab injection) in combination with chemotherapy (cisplatin + 5-FU) for first-line treatment of patients with locally advanced/metastatic esophageal squamous cell carcinoma (ESCC).
- In December 2021, a randomized, double-blind, international multi-center phase 3 clinical trial of HANSIZHUANG (serplulimab injection) or placebo in combination with chemotherapy (carboplatin-etoposide) in previously untreated patients with extensive-stage small cell lung cancer (ES-SCLC) has met the primary study endpoint of the overall survival (OS) in the first interim analysis after the assessment of the Independent Data Monitoring Committee (IDMC).
- In January 2022, the phase 3 investigational new drug application (IND) of HANSIZHUANG (serplulimab injection) in combination with chemotherapy concurrent radiotherapy for the treatment of limited-stage small cell lung cancer (LS-SCLC) was accepted by the NMPA, and it obtained relevant approval in March 2022.
- In February 2022, the phase 2 investigational new drug application (IND) of HANSIZHUANG (serplulimab injection) in combination with HLX07 (recombinant anti-EGFR humanized monoclonal antibody injection) and HANBEITAI for first-line treatment of unresectable or metastatic hepatocellular carcinoma (HCC) was accepted by the NMPA.
- From January 2021 to the Latest Practicable Date, the application for HLX04-O (recombinant humanized anti-VEGF monoclonal antibody injection) for the treatment of wet age-related macular degeneration (wAMD) was approved to commence the phase 3 clinical trial in Australia, the United States, Latvia, Singapore and some EU countries such as Spain, Czech Republic and Poland. The international multi-center phase 3 clinical trial of this subject is intended to be launched soon. In July 2021, the first patient has been dosed in a phase 1 clinical trial of HLX04-O for the treatment of wet age-related macular degeneration (wAMD) in Mainland China, and the first patient has been dosed in the related phase 3 clinical study in November 2021.
- In January 2022, a phase 1b/2 investigational new drug application (IND) of HLX208 (BRAF V600E inhibitor) monotherapy or in combined therapy for the treatment of BRAF V600E or BRAF V600 mutation-positive advanced solid tumors was approved by the NMPA. In January 2022, the first patient has been dosed in the phase 2 clinical trial of HLX208 (BRAF V600E inhibitor) for the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation in Mainland China.

8 Efficient Advancement for Pre-Clinical Development Projects:

During the Reporting Period, the Group accelerated the submission of investigational new drug application (IND) of pre-clinical research projects covering targets such as CD38, CD73, LAG-3, EGFR×4-1BB and PD-L1×TIGIT.

9 Biopharmaceutical Industrialization Base Layout with International Standards and High Cost-Efficiency:

During the Reporting Period, Xuhui Facility which had obtained GMP certificates both in China and EU, kept on improving its production efficiency through a series of lean management and process optimization initiatives. Two 2,000L bioreactors were newly constructed in Xuhui Facility, increasing the commercial production capacity from 20,000L to 24,000L. As at the Latest Practicable Date, the Group has completed production capacity construction of 24,000L for the Songjiang First Plant in Songjiang District, Shanghai. The Group received the Drug Manufacturing Certificate(《藥品生產許可證》) issued by the Shanghai Medical Products Administration and agreed to add the Songjiang First Plant for the production of HANQUYOU. The supplemental new drug application (sNDA) for second-generation process of HANQUYOU was also accepted. As at the Latest Practicable Date, the designed production capacity for Phase I project of Songjiang Second Plant increased from 36,000L to 96,000L. The construction of the main structure and secondary structure of the two main production buildings and the supporting public works and warehouses has been completed for the first and second stage for the Phase I of Songjiang Second Plant. The main structure of the auxiliary production buildings was completed and accepted, and most of the main production facilities such as the drug substance lines and the drug product lines has been completed the factory acceptance testing and installed in place.

For details of the above, please refer to this report and (if applicable) the Company's previous announcements on the Stock Exchange and the Company's websites.

OPERATION HIGHLIGHTS

IV. OUR PRODUCT PIPELINE

	Product		Target	Indication	Pre-clinical	IND	Phase 1	Phase 2	Phase 3	NDA	Launched	Global business partners
Marketed products	漢利康®(rituximab)(1)		CD20	Non-Hodgkin lymphoma, chronic lymphocytic leukemia and rheumatoid arthritis(2)								FOSUN PHARMA, FARMA
	漢曲優®(trastuzumab)(3)		HER2	Breast cancer and metastatic gastric cancer								accord, Cipla, Jacobson, mAbxience
	漢達遠®(adalimumab)(4)		TNF-α	Rheumatoid arthritis, ankylosing spondylitis, psoriasis and uveitis								万邦医药, FOSUN PHARMA, Getz Pharma
	漢貝泰®(bevacizumab)(5)		VEGF	Metastatic colorectal cancer and locally advanced, recurrent or metastatic non-squamous non-small cell lung cancer								
	漢斯狀®(serplulimab)(6)		PD-1	MSI-H solid tumours								KGbio
With near-term commercial visibility	漢斯狀®(serplulimab)(7)	+Chemo	PD-1	Squamous non-small cell lung cancer			Global multi-centre clinical trial					
Under clinical research	漢斯狀®(serplulimab)(7)	+Chemo	PD-1	Extensive-stage small cell lung cancer			Global multi-centre clinical trial			★ Met primary endpoint OS		
				Metastatic esophageal squamous-cell carcinoma								
				Neo-/adjuvant treatment of gastric cancer								
		+漢貝泰®	PD-1+VEGF	Non-squamous non-small cell lung cancer								
				Hepatocellular carcinoma								
				Metastatic colorectal cancer								
		+HLX07	PD-1+EGFR	Squamous-cell carcinoma of the head and neck								
				Squamous non-small cell lung cancer								
	HLX04-O(8)		VEGF	Wet age-related macular degeneration								ESSEX 亿腾
	HLX22	+漢曲優®	HER2+HER2	Gastric cancer								
	HLX07(9)		EGFR	Solid tumours (non-small cell lung cancer, esophageal carcinoma, etc.)								
	HLX208(10)		BRAF V600E	Solid tumours (metastatic colorectal cancer, non-small cell lung cancer, etc.) , Langerhans cell histiocytosis and Erdheim-Chester disease								
	HLX11 (pertuzumab)		HER2	Breast cancer								
	HLX05 (cetuximab)(11)		EGFR	Metastatic colorectal cancer and squamous-cell carcinoma of the head and neck								Jingze
	HLX12 (ramucirumab)		VEGFR2	Gastric cancer, metastatic non-small cell lung cancer and metastatic colorectal cancer								
	HLX20(12)		PD-L1	Solid tumours								
	HLX14 (denosumab)		RANKL	Osteoporosis								
	HLX26		LAG-3	Solid tumours and lymphomas								
	HLX35(13)		EGFR x 4-1BB	Solid tumours								BINACEA
	HLX301(14)		PD-L1 x TIGIT	Solid tumours								
	HLX13 (ipilimumab)		CTLA-4	Melanoma, renal cell carcinoma and metastatic colorectal cancer								
	HLX15 (daratumumab)		CD38	Multiple myeloma								
	HLX23(15)		CD73	Solid tumours								

(1) Approved by the NMPA in February 2019, being the first domestic biosimilar.
(2) The only rituximab injection approved for the treatment of rheumatoid arthritis in mainland China.
(3) Approved in the EU in July 2020 (EU brand name: Zercepac ®); Approved in China in August 2020.
(4) Approved by the NMPA in December 2020.
(5) Approved by the NMPA in November 2021.
(6) Indication of MSI-H solid tumours approved by the NMPA in March 2022.
(7) IND approved in China, the United States, the EU etc.
(8) IND approved in Mainland China, Australia, the United States, Singapore, and the EU countries.
(9) IND approved in China and the United States.
(10) Commercialisation rights in China including Hong Kong, Macao and Taiwan China were obtained.
(11) Commercialisation rights in Mainland China have been granted to Shanghai Jingze.
(12) IND approved in China and Australia.
(13) Global commercialisation rights in Mainland China excluding Hong Kong, Macau and Taiwan regions have been granted to Binacea.
(14) Clinical Trial Notification has been acknowledged in Australia.
(15) IND approved in the United States.

Core Products

I. BUSINESS REVIEW

As part of our commitment to provide affordable and high-quality biomedicines for patients worldwide, the Group has been dedicated to the innovation and layout of the three major segments of R&D, production and commercialization. During the Reporting Period, we have worked to promote the efficient development of the global commercialization of product pipeline and implement production capacity deployment for the biomedicines with high economic benefit based on international standards. With great achievements in clinical development and drug registration of pipeline products, the Group was gradually evolving from Biotech model to Biopharma model that is more scaled up and highly competitive in the market. From the beginning of 2021 to the Latest Practicable Date, HANBETAI, HANLIKANG for the treatment of the innovative indication of rheumatoid arthritis (RA) and HANSIZHUANG were approved for marketing, while other marketed products achieved steady progress in sales. During the Reporting Period, the Group made significant progress in 12 clinical trials, and received approvals for multiple clinical trials worldwide for 6 products and 1 combined therapy.

As at the Latest Practicable Date, 5 products (13 indications) of the Group have been successfully marketed in Mainland China, 1 product has been successfully marketed in Europe, new drug application of 1 indication of 1 new drug have been accepted in Mainland China, and more than 20 clinical trials are being carried out around the world.

(I) STRONG GLOBAL PRODUCT COMMERCIALIZATION CAPABILITY

During the Reporting Period, the Group actively implemented the concept of excellent commercialization bearing patients' needs in mind. Our commercialization team comprises of five major segments, namely market promotion, channel management, pricing and market access, domestic sales and strategic planning, covering the whole process of commercialization, in order to achieve continuous growth in sales scale of products. Following the launch of HANLIKANG, the first monoclonal antibody approved in China in accordance with the Guidelines for Biosimilars in 2019, several core products of the Group such as HANQUYOU (trastuzumab injection, EU brand name: Zercepac®), HANDAYUAN, HANBEITAI and HANSIZHUANG, were successively approved for marketing. From the beginning of 2021 to the Latest Practicable Date, we have reached sales cooperation with international partners in the United States, Canada, Pakistan, Philippines, Vietnam and other regions for HANQUYOU (trastuzumab injection, EU brand name: Zercepac®) and HANDAYUAN.

1. COMMERCIALIZATION PROCESS OF MARKETED CORE PRODUCTS

Commercialization process of HANQUYOU (trastuzumab injection, EU brand name: Zercepac®) in Mainland China and EU (a therapeutic product for breast cancer and gastric cancer)

– Commercial sales of HANQUYOU in Mainland China

HANQUYOU is the core product of the Group in the field of anti-tumor therapy, and also the first product sold and promoted by the Group's in-house commercialization team in Mainland China. HANQUYOU (150mg) was launched for commercial sales since August 2020, and completed the tendering process on the procurement platform and was included into the medical insurance procurement platform for all provinces in Mainland China in the first half of 2021. Meanwhile, since its approval for marketing in August 2021, HANQUYOU (60mg) has completed the tendering process on the procurement platform in 25 provinces and was included into the medical insurance procurement platform in 31 provinces in Mainland China. In addition to the efficient market layout providing a strong foundation for the overall sales growth of HANQUYOU, the flexible dose portfolio of 150mg and 60mg also brings personalized and more economical treatment options for patients with different weight ranges. During the Reporting Period, the Group also actively cooperated with relevant enterprises in respect of physician education, medical big data, HER2 testing, innovative payment, patient management and education and has harvested a good market reputation in the construction of diagnosis and treatment ecosystem for HER2-positive breast cancer and gastric cancer patients. In addition, biosimilars were added to the new Chinese Society of Clinical Oncology (CSCO) Guidelines for Diagnosis and Treatment of Breast Cancer in 2021, and HANQUYOU was added to the new Chinese Society of Clinical Oncology (CSCO) Guidelines for Diagnosis and Treatment of Gastric Cancer in 2021.

The Group has an experienced commercialization core management team, the total member of which increased from approximately 400 at the end of 2020 to over 500 at the end of the Reporting Period, including a sales team of HANQUYOU composed of more than 400 professionals. We made full efforts to develop and further tap into other markets in Mainland China.

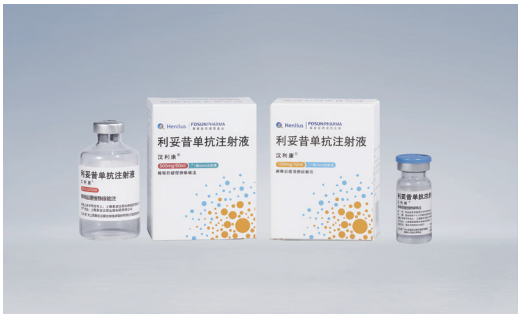
In September 2021, the Group received the Drug Manufacturing Certificate(《藥品生產許可證》) issued by the Shanghai Medical Products Administration. The supplemental new drug application (sNDA) for Second Generation Process of HANQUYOU has also been accepted during the Reporting Period.

– Commercial sales of Zercepac® in the international market

Following Zercepac® (150mg) obtaining marketing approval in the EU in July 2020, Zercepac® (60mg) and Zercepac® (420mg) were approved for marketing in the EU in April 2021 and June 2021 respectively, providing local patients with a wider choice of dosage and more flexible combination of medications. In July 2021, the Swissmedic approved the new drug application of Zercepac® (150mg), which symbolized further recognition of the Group's products in the European market.

The Group has worked with its business partner Accord to promote the commercialization of Zercepac® in Europe, parts of the Middle East and North Africa and some countries in Commonwealth of the Independent States. Zercepac® is also the first "Chinese" monoclonal antibody biosimilar drug approved for sale in the EU. As at the end of the Reporting Period, Zercepac® has been successfully marketed in the United Kingdom and nearly 20 EU countries and regions including Germany, Spain, France, Italy, Ireland, and Hungary.

Commercial sales of HANLIKANG (rituximab injection) (a therapeutic product for hematological tumors and autoimmune diseases)



In February 2022, HANLIKANG for the treatment of the innovative indication of rheumatoid arthritis (RA) was approved for marketing, which is used in combination with methotrexate to treat moderate to severe active rheumatoid arthritis (RA) in adult patients who have responded inadequately to one or more TNF-α inhibitors, providing a new drug option for patients with autoimmune diseases. This indication is an innovative indication developed by the Group based on the differentiated development strategy while which of the original drug has not been approved in Mainland China. HANLIKANG has advantages of less dosing frequency and lasting medicine effect in treatment of the innovative indication of rheumatoid arthritis (RA), which is expected to improve patients' compliance and enhance patients' quality of life as well as alleviate their medical burden, providing an additional bargaining chip for the marketing and sales of HANLIKANG.

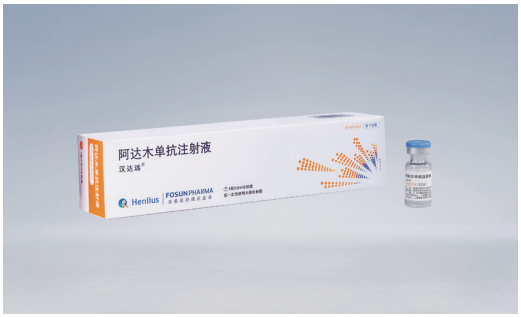
As at the Latest Practicable Date, HANLIKANG (100mg/10ml) has been included into the medical insurance procurement platform in 30 provinces in Mainland China, and has completed the tendering process on the procurement platform in 28 provinces, and was procured by more than 70% of major hospitals, laying a base for the sales of HANLIKANG. HANLIKANG (500mg/50ml) has been launched and supplied since May 2021, and has completed the tendering process on the procurement platform in 19 provinces and was included into the medical insurance procurement platform in 14 provinces in Mainland China.

In August 2021, the production base at Yishan Road, Xuhui District, Shanghai known as Xuhui Facility of the Group successfully passed the on-site inspection conducted by the Shanghai Medical Products Administration at drug product no.2 line for the production of HANLIKANG. In September 2021, the supplemental new drug application (sNDA) in respect of additional production site for Drug product of HANLIKANG (100mg/10ml) was approved by the NMPA.

Jiangsu Fosun, a subsidiary of Fosun Pharma, the controlling shareholder of the Company, was responsible for the domestic commercial sale of HANLIKANG. As at the Latest Practicable Date, the specifications of HANLIKANG covered 100mg/10ml and 500mg/50ml, and its indications were further expanded to the field of autoimmune diseases on the basis of covering all the indications of the original drug approved in Mainland China in the field of hematology oncology. The implementation of both types of indications will cover more patient groups, which is expected to further increase the market influence of HANLIKANG.

Commercial sales of HANDAYUAN (adamumab injection) (a therapeutic product for autoimmune disease)

HANDAYUAN is the third product of the Group marketed in Mainland China, which was granted marketing approval in December 2020. And it has been approved for the indications of rheumatoid arthritis, ankylosing spondylitis, psoriasis and uveitis in Mainland China until now. As at the end of the Reporting Period, HANDAYUAN has completed the tendering process on the procurement platform in 27 provinces and was included into the medical insurance procurement platform in 30 provinces in Mainland China.



Jiangsu Wanbang, a subsidiary of Fosun Pharma, the controlling shareholder of the Company, was responsible for the domestic commercial sale of HANDAYUAN. Jiangsu Wanbang has a sizeable Department of Rheumatology and Immunization and a mixed-line sales team serving the broad market. The marketing team has a high level of professional communication skills and medical knowledge. In order to improve the standardized diagnosis and treatment services for Chinese patients with rheumatism, Jiangsu Wanbang established the first whole-course care platform “Da’en Home” (formally known as Dayuan Home) for autoimmune patients in China, which integrates the functions of Internet hospital, popular science education, public assistance, medical insurance, patient management, drug purchase map, and community care, with an aim to realize the whole-course management of patients from medical treatment to rehabilitation, and benefit more patients with convenient and standardized medical experience. During the Reporting Period, Da’en Home provided a total of more than 5,000 patients with one-to-one exclusive services, covering consultation, diagnosis, treatment and prognosis. In addition, Jiangsu Wanbang took the lead in launching the “ASSC Ankylosing Spondylitis Standardized Treatment Project” in collaboration with the National Clinical Research Center for Skin and Immune Diseases in respect of HANDAYUAN. Through a four-tier medical consortium network, we are working together to help standardize the treatment of ankylosing spondylitis in China. In 2021, the project was implemented in more than 10 provinces in China, which benefited more than 14,000 patients by providing standardized diagnosis and treatment.

HANBEITAI (bevacizumab injection) was approved for marketing, providing high-quality drug options for patients with lung cancer and colorectal cancer

In November 2021, HANBEITAI, the fourth biosimilar product of the Group, was approved for marketing in Mainland China for the treatment of metastatic colorectal cancer (mCRC), advanced, metastatic or recurrent non-small cell lung cancer, and was the only biosimilar of bevacizumab with phase 3 clinical data of patients with metastatic colorectal cancer in China. In 2022, the Group will actively promote the inclusion into the medical insurance procurement platform, tendering process on the procurement platform and hospital access of HANBEITAI, and gradually achieve sales growth for provinces and municipalities adopting dual-channel medical insurance payment, with a view to providing new high-quality drug options for patients with high incidence of lung cancer and colorectal cancer in China. In April 2021, Xuhui Facility of the Group has successfully passed the on-site inspection of the drug substance south line and drug product no.1 line for the production of HANBEITAI by the Shanghai Medical Products Administration. Based on the indications for the original product approved for marketing in Mainland China, the Group also plans to submit the supplemental new drug application (sNDA) for new indications of HANBEITAI to treat recurrent glioblastoma, hepatocellular carcinoma, epithelial ovarian, fallopian tube or primary peritoneal cancer and cervical cancer in 2022.

HANSIZHUANG (serplulimab injection) was approved for marketing, providing new treatment options for patients with microsatellite instability-high (MSI-H) advanced solid tumours

HANSIZHUANG, one of the Group's self-developed core innovative PD-1 monoclonal antibody products, has obtained conditional approval from the NMPA in March 2022 for the treatment of patients with unresectable or metastatic microsatellite instability-high (MSI-H) advanced solid tumors that have failed to respond to the standard therapy, making a new immunological therapy option available for patients. For this indication, patients are screened for specific MSI-H tumor markers, rather than classifying the tumor types, covering a wide range of cancer types. The Group has also established a professional and experienced team in advance to focus on the sales of HANSIZHUANG after its marketing. As of the end of the Reporting Period, the recruitment of sales management positions of HANSIZHUANG has been completed. The Group expects to establish a HANSIZHUANG sales team of approximately 200 employees in the first quarter of 2022, and put in place differentiated layout and expand the domestic market comprehensively in China after the launch of HANSIZHUANG to the market.

2. Products to be commercialized in the near future

HANSIZHUANG (serplulimab injection)

During the Reported Period, an international multi-center phase 3 clinical trial to compare HANSIZHUANG (serplulimab injection) in combination with chemotherapy (carboplatin nab-paclitaxel) against chemotherapy (carboplatin nab-paclitaxel) as first-line therapy for locally advanced or metastatic squamous non-small cell lung cancer (sqNSCLC) has completed enrollment of subjects and met the predefined primary study endpoint. Study data showed that the combined therapy significantly prolongs the progression-free survival (PFS) of patients. The new drug application (NDA) of this indication, which is the second indication for HANSIZHUANG (serplulimab injection) submitted by the Company in Mainland China, has been accepted by the Center for Drug Evaluation of the NMPA in September 2021.

In addition, a randomized, double-blind, international multi-center phase 3 clinical trial of HANSIZHUANG (serplulimab injection) or placebo in combination with chemotherapy (carboplatin-etoposide) in previously untreated patients with extensive-stage small cell lung cancer (ES-SCLC) has completed enrollment during the Reporting Period. In December 2021, such combined therapy met the primary study endpoint of the overall survival (OS) in the first interim analysis after the assessment of the Independent Data Monitoring Committee (IDMC).

3. Commercialization deployment in international markets during the Reporting Period

From the beginning of 2021 to the Latest Practicable Date, the Group adhered to the internationalization strategy by adding HANQUYOU (trastuzumab injection, EU brand name: Zercepac®) and HANDAYUAN to its commercialization portfolio in the United States, Canada, Pakistan, the Philippines, Vietnam and other regions. After the signing of the binding term sheet with Accord Healthcare Inc., in September 2020, the Group entered into a formal agreement with Intas, the parent company of Accord Healthcare Inc. in January 2021, pursuant to which, the Group agreed to grant a license to Intas for the development and commercialization of HANQUYOU (trastuzumab injection, EU brand name: Zercepac®) in the United States and Canada. According to the agreement, the Company is entitled to receive a down payment of $27 million, a regulatory milestone payment of up to $13 million, a commercial sales milestone payment of $25 million for each $500 million in cumulative net sales of the licensed product in the territories, and a tiered royalty ranging from 18% to 50% of the net profit of the licensed product. The partnership is not only a significant milestone for the first entry into the North America market of HANQUYOU, but also a sign of its commercialization to cover the mainstream biologics market in Europe and the United States. The new drug application for HANQUYOU in the United States is expected to be filed in 2022. In February 2022, the Group has entered into an agreement with Getz Pharma, pursuant to which, the Group agreed to grant a license to Getz Pharma to commercialize HANDAYUAN in Pakistan, Philippines, Vietnam, Myanmar, Cambodia, Nigeria, Kenya, Sri Lanka, Ukraine, Kazakhstan and Uzbekistan and other regions. According to the agreement, the Company is entitled to receive a down payment of $500,000, and a milestone payment of up to $7.5 million.

In the meantime, given the slow implementation of the collaboration on HANLIKANG in the licensed territories (including Argentina, Paraguay, Uruguay and Bolivia) with Biosidus in May 2018, the Group signed a cooperation termination agreement with Biosidus during the Reporting Period. The Group will continue to seek other partners for cooperation on HANLIKANG in such licensed territories.

As at the Latest Practicable Date, the Group has signed business cooperation agreements for several products of the Company with various international pharmaceutical companies, including Accord, Cipla Limited, Jacobson Medical (Hong Kong) Limited, KG Bio, Farma De Colombia S.A.S, Mabxience Research, S.L., Intas, Essex, Binacea and Getz Pharma. The Group will continue to actively promote the global commercialization deployment through strategic commercialization cooperation with the leading pharmaceutical companies in the world.

(II) LAYOUT OF INDUSTRIALIZATION BASE FOR BIOMEDICINES WITH HIGH ECONOMIC BENEFIT BASED ON INTERNATIONAL STANDARDS

In order to meet the need for the gradual realization of commercial sales of drug candidates in the product pipeline of the Group, the Group has formulated phased capacity planning for different product development cycles, with an aim to gradually improve and enhance large-scale commercial production capacity based on a sound quality management system, so that it can expand capacity and improve economic cost-effectiveness while maintaining high quality standards. In addition, we have optimized the deployment of production technology, production cost control and other aspects in advance, which laid a solid foundation for the commercialization of the Group's products in multiple jurisdictions.

XUHUI FACILITY (GRANTED WITH DUAL GMP CERTIFICATION OF CHINA AND EU, WITH COMMERCIAL PRODUCTION CAPACITY INCREASING FROM 20,000L TO 24,000L)

As at the end of the Reporting Period, the Group has established Xuhui Facility, a biopharmaceutical production base in Shanghai Caohejing Hi-Tech Park, covering a total area of approximately 11,000 square meters, which has been granted with Chinese and EU GMP certificates and achieved normalized supply in China and the EU markets. During the Reporting Period, two 2,000L bioreactors were newly constructed in Xuhui Facility. As at the Latest Practicable Date, the commercial production capacity of Xuhui Facility has been increased from 20,000L to 24,000L, which can meet the Group's production needs in the near term. During the Reporting Period, Xuhui Facility continuously improved production efficiency through a series of lean management and process optimization measures. Furthermore, the Group promoted research and change on the localization of critical supplies, consumable materials and equipments for production, so as to minimize the risk related to material supply and equipment procurement against the prevailing international situation.

SONGJIANG FIRST PLANT (WITH PRODUCTION CAPACITY CONSTRUCTION OF 24,000 L AND EQUIPMENT VERIFICATION COMPLETED, MANUFACTURING CERTIFICATE GRANTED)

In order to further improve medium and long-term production capacity planning, the Group has completed production capacity construction of 24,000L for the Songjiang First Plant in Songjiang District, Shanghai, including the liquid fill line and lyophilized preparation line, to prepare for meeting the production demand before the Songjiang Second Plant is put into operation. The drug substance production workshop of Songjiang First Plant has started GMP production of clinical samples since May 2020. The verification of all twelve 2,000L bioreactors was completed on schedule in the first half of 2021, and the construction of packaging lines were also completed on time during the Reporting Period. In September 2021, the Group received the Drug Manufacturing Certificate (《藥品生產許可證》) issued by the Shanghai Medical Products Administration and agreed to add the Songjiang First Plant for the production of HANQUYOU. The supplemental new drug application (sNDA) for second-generation process of HANQUYOU was also accepted during the Reporting Period. In addition, during the Reporting Period, the Songjiang First Plant further promoted the development of continuous flow technology and successfully completed the pilot magnification of continuous production process for two products, including the end-to-end continuous production process of one product, i.e. upstream perfusion technology, downstream intelligent continuous production.

SONGJIANG SECOND PLANT (WITH TOTAL PLANNED LAND AREA OF 200 MU AND DESIGNED PRODUCTION CAPACITY FOR PHASE I PROJECT INCREASING FROM 36,000L TO 96,000L)

In order to meet the long-term demand on commercial production capacity, the construction of the Phase I of Songjiang Second Plant, with a total planned land area of 200 mu was started in 2019. The designed production capacity for the first and second stages of this project is totaled 36,000L. The construction of the main structure and secondary structure of the two main production buildings and the supporting public works and warehouses has been completed. The main structure of the auxiliary production buildings was completed and accepted, and most of the main production facilities such as the drug substance lines and the drug product lines has been completed the factory acceptance testing and installed in place. In addition, other ancillary projects are progressing steadily. In November 2021, the Board of the Company further approved the third stage construction plan for the Phase I of Songjiang Second Plant. The designed production capacity of the third stage was 60,000L, covering a drug substance line consisting of four 15,000L stainless steel reactors. The Phase I of Songjiang Second Plant expanded its capacity to 96,000L. The construction of the subsequent stage of Songjiang Second Plant will also be gradually implemented in accordance with the Group's strategy.

(III) SUSTAINABLE GLOBAL CLINICAL DEVELOPMENT CAPABILITY ON MEDICAL PRODUCTS

During the Reporting Period, based on clinical needs, the Group gradually improved the innovation pipeline including HANSIZHUANG (serplulimab injection) and related combined therapy (including HANSIZHUANG (serplulimab injection) in combination with HANBEITAI, HANSIZHUANG (serplulimab injection) in combination with HLX07 (recombinant anti-EGFR humanized monoclonal antibody injection)), HLX208 (BRAF V600E inhibitor), HLX301 (recombinant human anti-PD-L1 and anti-TIGIT bispecific antibody injection), HLX22 (anti-human epidermal growth factor receptor-2 (HER2) humanized monoclonal antibody injection) in combination with HANQUYOU, HLX26 (recombinant anti-LAG-3 humanized monoclonal antibody injection). The Company has orderly organized the development of innovative products indicated for the treatment of solid tumors, adult Langerhans cell histiocytosis (LCH) and Erdheim-Chester disease (ECD), gastric cancer, lymphomas, hepatocellular carcinoma, intestinal cancer, lung cancer and others.

HANSIZHUANG (serplulimab injection) is the core innovative monoclonal antibody product in the Group's product pipeline, based on which the Group also pioneered the introduction of combined immunotherapy. As at the Latest Practicable Date, HANSIZHUANG (serplulimab injection) has been successively approved for clinical trials in China, the United States, the EU and other countries/regions; 10 clinical researches are in the process in an orderly manner, including 2 international multi-center clinical trials; and as at the end of the Reporting Period, a total of over 2,800 subjects have been enrolled in the trials in China, Turkey, Poland and other countries/regions, representing an increase of over 800 subjects for trials as compared with the end of 2020. HLX208 (BRAF V600E inhibitor), an innovative product in-licensed by the Group during the Reporting Period, is currently in phase 2 clinical study and early clinical data have also demonstrated preliminary efficacy and minimal side effects. This target-focused product may have synergy with the Group's EGFR or PD-1-targeted monoclonal antibody products to enhance a high-quality, differentiated and innovative product portfolio for the treatment of various cancers. The clinical studies of HLX208 (BRAF V600E inhibitor) on the indications for the treatment of Langerhans cell histiocytosis (LCH) and Erdheim-Chester disease (ECD), metastatic colorectal cancer, non-small cell lung cancer are also progressing forward positively.

As at the end of the Reporting Period, the Group has established a global product development team with more than 350 staff for advancing the clinical research and drug registration of many candidate drugs across the world, and achieved significant progress in 12 clinical trials and multiple global clinical trial approvals for 6 products and 1 combined therapy during the Reporting Period.

1. CONTINUOUS AND EFFICIENT ADVANCEMENT ON CLINICAL RESEARCH PRODUCTS

As at the Latest Practicable Date, the Group is carrying out a total of more than 20 clinical trials for 12 products and 10 combined therapies in an orderly manner in various countries/regions.

Progress of international clinical research projects

- In January 2021, HLX04-O (recombinant humanized anti-VEGF monoclonal antibody injection) for the treatment of wet age-related macular degeneration (wAMD) was acknowledged by the Therapeutic Goods Administration, Australia, and the phase 3 clinical trial was given permission to commence in Australia. The application for phase 3 clinical trial was also approved by the United States Food and Drug Administration (FDA) and the State Agency of Medicines of Latvia in March 2021 and April 2021, respectively. In addition, HLX04-O has been successively approved to commence the phase 3 clinical trial in Singapore and some EU countries such as Spain, Czech Republic and Poland. The international multi-center phase 3 clinical trial is intended to be launched soon.

- In April 2021, the first subject was dosed in the phase 1 clinical trial of HLX71 (ACE2-Fc receptor fusion protein) for the treatment of novel coronavirus pneumonia (COVID-19) in the United States. The enrollment of subjects for clinical study was completed during the Reporting Period. The phase 1 clinical trial has been completed in March 2022.

- In November 2021, HLX301 (recombinant humanised anti-PD-L1 and anti-TIGIT bispecific antibody injection) for the treatment of locally advanced or metastatic solid tumors was acknowledged by Therapeutic Goods Administration, Australia, and the Phase 1 clinical trial is permitted to commence in Australia, and the first subject had been dosed in such clinical trial in Australia in February 2022.

- In December 2021, a randomized, double-blind, international multi-center phase 3 clinical trial of HANSIZHUANG (serplulimab injection) or placebo in combination with chemotherapy (carboplatin-etoposide) in previously untreated patients with extensive-stage small cell lung cancer (ES-SCLC) has met the primary study endpoint of the overall survival (OS) in the first interim analysis after the assessment of the Independent Data Monitoring Committee (IDMC).

Progress of domestic clinical study projects

– Progress of HANSIZHUANG (serplulimab injection)

  - In January 2021, the enrollment of subjects was completed in a phase 2 clinical study of HANSIZHUANG (serplulimab injection) in combination with HANBEITAI for the treatment of advanced hepatocellular carcinoma (HCC).

  - In March 2021, the first patient has been dosed in a phase 2/3 clinical study of HANSIZHUANG (serplulimab injection) in combination with HANBEITAI and chemotherapy (XELOX) for first-line treatment of metastatic colorectal cancer (mCRC) in Mainland China.

  - In March 2021, a single-arm, open-label, multi-center phase 2 clinical study of HANSIZHUANG (serplulimab injection) for the treatment of unresectable or metastatic microsatellite instability-high (MSI-H) solid tumors that fail to respond to the standard therapy met the primary study endpoint. HANSIZHUANG (serplulimab injection) was approved for marketing in March 2022.

  - In December 2021, the phase 2 investigational new drug application (IND) of HANSIZHUANG (serplulimab injection) in combination with HLX07 (recombinant anti-EGFR humanized monoclonal antibody injection) for the treatment of solid tumors was approved by the NMPA.

  - In December 2021, the enrollment of subjects was completed in a phase 3 clinical study of HANSIZHUANG (serplulimab injection) in combination with chemotherapy (cisplatin + 5-FU) for first-line treatment of patients with locally advanced/metastatic esophageal squamous cell carcinoma (ESCC).

  - In January 2022, the phase 3 investigational new drug application (IND) of HANSIZHUANG (serplulimab injection) in combination with chemotherapy concurrent radiotherapy for the treatment of limited-stage small cell lung cancer (LS-SCLC) was accepted by the NMPA, and it obtained relevant approval in March 2022.

  - In February 2022, the phase 2 investigational new drug application (IND) of HANSIZHUANG (serplulimab injection) in combination with HLX07 (recombinant anti-EGFR humanized monoclonal antibody injection) and HANBEITAI for first-line treatment of unresectable or metastatic hepatocellular carcinoma (HCC) was accepted by the NMPA.

– Progress of other products

- In July 2021, the first patient has been dosed in a phase 1 clinical trial of HLX04-O (recombinant humanized anti-VEGF monoclonal antibody injection) for the treatment of wet age-related macular degeneration (wAMD) in Mainland China, and the first patient has been dosed in the related phase 3 clinical study in November 2021.

- In September 2021, the first patient has been dosed in a phase 2 clinical trial of HLX22 (anti-human epidermal growth factor receptor-2 (HER2) humanized monoclonal antibody injection) in combination with HANQUYOU and chemotherapy (XELOX) versus placebo in combination with HANQUYOU and chemotherapy (XELOX) for first-line treatment of patients with HER2-positive locally advanced or metastatic gastric cancer in Mainland China.

- In January 2021, the investigational new drug application (IND) of HLX26 (recombinant anti-LAG-3 human monoclonal antibody injection) for the treatment of solid tumors and lymphomas was accepted by the NMPA. Such application was approved by the NMPA in April 2021. In October 2021, the first subject has been dosed in a phase 1 clinical trial of HLX26 (recombinant anti-LAG-3 humanized monoclonal antibody injection) for the treatment of solid tumors and lymphomas in Mainland China.

- In November 2021, a phase 1 clinical trial of HLX11(recombinant anti-HER2 domain II humanised monoclonal antibody injection) reached primary study endpoint and was successfully completed. HLX11 is intended for the treatment of metastatic/early breast cancer.

- In December 2021, HLX55 (recombinant humanised IgG2 anti-c-MET monoclonal antibody for injection) has demonstrated its good safety and tolerability in a phase 1 clinical trial for subjects with advanced solid tumors refractory to standard therapy, and the relevant clinical study report has been finished.

- In January 2022, a phase 1b/2 investigational new drug application (IND) of HLX208 (BRAF V600E inhibitor) monotherapy or in combined therapy for the treatment of BRAF V600E or BRAF V600 mutation-positive advanced solid tumors was approved by the NMPA. In January 2022, the first patient has been dosed in the phase 2 clinical trial of HLX208 (BRAF V600E inhibitor) for the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation in Mainland China.

2. Efficient advancement on IND application for pre-clinical development projects

During the Reporting Period, the Group continued to attach great importance to the pre-clinical project pipeline, and accelerated the submission of investigational new drug application (IND) of pre-clinical research projects covering targets such as CD38, CD73, LAG-3, EGFR×4-1BB and PD-L1×TIGIT.

- In January 2021, the investigational new drug application (IND) of HLX15 (recombinant anti-CD38 human monoclonal antibody injection) for the treatment of multiple myeloma (MM) was approved by the NMPA.

- In May 2021, the investigational new drug application of HLX23 (recombinant anti-CD73 fully human monoclonal antibody injection) for the treatment of advanced solid tumors was approved by the United States Food and Drug Administration (FDA).

- In January 2022, the investigational new drug application (IND) of HLX35 (recombinant humanised anti-EGFR and anti-4-1BB bispecific antibody injection) for the treatment of advanced malignant solid tumors was approved by the NMPA. The global commercialization rights for HLX35 outside of China were granted to Binacea in November 2020, and phase 1 clinical study for the relevant indications in Australia have also been approved and progressed.

- In January 2022, the investigational new drug application (IND) of HLX301(recombinant humanised anti-PD-L1 and anti-TIGIT bispecific antibody injection) for the treatment of advanced tumors was accepted by the NMPA, and it obtained relevant approval in March 2022.

- In February 2022, the investigational new drug application (IND) of HLX26 (recombinant anti-LAG-3 human monoclonal antibody injection) in combination with HANSIZHUANG (serplulimab injection) for the treatment of advanced/metastatic solid tumors or lymphomas was accepted by the NMPA.

The clinical and pre-clinical application results of the Group from the beginning of 2021 up to the Latest Practicable Date:

Product name (targets)	Indications	Progress as at the Latest Practicable Date
Efficient advancement on international clinical research projects		
HLX04-O (VEGF)	Wet age-related macular degeneration (wAMD)	In January 2021, the phase 3 investigational new drug application was approved by Therapeutic Goods Administration, Australia In March 2021, the phase 3 investigational new drug application was approved by FDA In April 2021, the phase 3 investigational new drug application was approved by the State Agency of Medicines of Latvia
HLX71 (S1 Protein of SARS-CoV-2)	COVID-19	In April 2021, the first subject dosing was completed in a phase 1 clinical study in the United States. The enrollment of subjects was completed during the Reporting Period In March 2022, the phase 1 clinical study was completed
HLX301 (PD-L1×TIGIT)	Solid tumor	In November 2021, the phase 1 investigational new drug application was approved by Therapeutic Goods Administration, Australia In February 2022, the first subject dosing in Australia was completed in a phase 1 clinical study
HANSIZHUANG in combination with chemotherapy (PD-1)	Extensive stage small cell lung cancer (ES-SCLC)	In December 2021, the international multi-center phase 3 clinical study reached the primary study endpoint
Smooth progress of domestic clinical projects		
HANSIZHUANG in combination with HANBEITAI (PD-1+VEGF)	Hepatocellular Carcinoma (HCC)	In January 2021, the enrollment of subjects was completed in a phase 2 clinical study
HANSIZHUANG in combination with HANBEITAI and chemotherapy (PD-1+VEGF)	Metastatic Colorectal Cancer (mCRC)	In March 2021, the first patient dosing was completed in a phase 2/3 clinical study
HANSIZHUANG (PD-1)	MSI-H Solid tumor	In March 2021, the phase 2 clinical study reached the primary study endpoint In March 2022, it was approved for marketing by the NMPA
HANSIZHUANG in combination with HLX07 (PD-1+EGFR)	Solid tumor	In December 2021, the phase 2 investigational new drug application was approved by the NMPA

Product name (targets)	Indications	Progress as at the Latest Practicable Date
HANSIZHUANG in combination with chemotherapy (PD-1)	Esophageal squamous cell carcinoma (ESCC)	In December 2021, the enrollment of subjects was completed in a phase 3 clinical study
HANSIZHUANG in combination with chemotherapy (PD-1)	Limited-stage small cell lung cancer (LS-SCLC)	In January 2022, the phase 3 investigational new drug application was accepted by the NMPA In March 2022, the phase 3 investigational new drug application was approved by the NMPA
HANSIZHUANG in combination with HLX07 and HANBEITAI (PD-1+EGFR+VEGF)	Hepatocellular carcinoma (HCC)	In February 2022, the phase 2 investigational new drug application was accepted by the NMPA
HLX04-O (VEGF)	Wet age-related macular degeneration (wAMD)	In July 2021, the first patient dosing was completed in a phase 1 clinical study In November 2021, the first patient dosing was completed in a phase 3 clinical study
HLX22 in combination with HANQUYOU and in combination with chemotherapy (HER2+HER2)	Gastric cancer (GC)	In September 2021, the first patient dosing was completed in a phase 2 clinical study
HLX26 (LAG-3)	Solid tumor, lymphomas	In January 2021, the investigational new drug application was accepted by the NMPA In April 2021, the investigational new drug application was approved by the NMPA In October 2021, the first patient dosing was completed in a phase 1 clinical study
HLX11 (HER2)	Breast cancer (BC)	In November 2021, the phase 1 clinical study reached the primary study endpoint
HLX55 (c-MET)	Solid tumor	In December 2021, the relevant clinical research report was completed for the phase 1 clinical study
HLX208 (BRAF V600E)	Solid tumor, Adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD)	In January 2022, the investigational new drug application of monotherapy or combined therapy was approved by the NMPA In January 2022, the first patient dosing was completed in a phase 2 clinical study

Product name (targets)	Indications	Progress as at the Latest Practicable Date
Efficient advancement on IND application for pre-clinical development projects		
HLX15 (CD38)	Myeloma (MM)	In January 2021, the investigational new drug application was approved by the NMPA
HLX23 (CD73)	Solid tumor	In May 2021, the investigational new drug application was approved by FDA
HLX35 (EGFR × 4-1BB)	Solid tumor	In January 2022, the investigational new drug application was approved by the NMPA
HLX301 (PD-L1 × TIGIT)	Solid tumor, lymphomas	In January 2022, the investigational new drug application was accepted by the NMPA In March 2022, the investigational new drug application was approved by the NMPA
HLX26 in combination with HANSIZHUANG (LAG-3+PD-1)	Solid tumor, lymphomas	In February 2022, the investigational new drug application was accepted by the NMPA

(IV) Social responsibility, environmental policies and performance

Adhering to the philosophy of "Affordable Innovation, Reliable Quality" and staying true to its mission, the Group has actively fulfilled its responsibilities toward stakeholders such as patients, employees, partners, and communities, and committed to providing more affordable but higher quality biopharmaceuticals for global patients. The Group has placed the legality and compliance as its core operating principle by strictly abiding by the relevant laws and regulations in the regions where it operates and restricting its own behavior. Also, the Group attaches great importance to the establishment and maintenance of relationships with its stakeholders, focusing on its ability to build an employment relationship of mutual facilitation with its employees, to establish a supply and demand relationship of mutual trust with the market, and to establish a cooperation relationship of mutual win-win with its cooperative partners. The Group actively assumes corporate social responsibilities by giving full play to its own advantages and cooperating with all walks of the society to jointly promote the development of social welfare undertakings. During the Year, the Group continued to promote its public welfare project of "Leaving No HER2-positive Patient Behind" and built a diversified ecosystem around patient health education, patient care, testing and screening, rural medical care, and other aspects. The Group also kept a close eye on rural revitalization, fighting floods and providing disaster relief, and exert material assistance by investing resources. In terms of environmental management, the Group greatly values the impact of the corporate value chain on the environment. The Group has been continuously improving the environmental management system, and also formulated environmental goals, strengthened the environmental governance, in order to strengthen the ability to respond to climate change risks. During the Reporting Period, the Group did not have any events that made us subject to any major penalties from relevant departments due to environmental issues.

Further information on the Group's social responsibility, corporate governance, environmental policies and performance will be set out in the Environmental, Social and Governance Report to be published by the Company in due course.

II. OUTLOOK FOR 2022

In 2022, the Group will further expand its biopharmaceutical product pipeline covering oncology, auto-immune diseases and other fields, capitalise on the achieved first-entrant advantages to consolidate the internationalised capability of "integrating research, production and marketing".Adhering to independent research and development, the Group keeps accelerating innovation progress in the fields of monoclonal antibody, bispecific antibody, ADC, small molecules, and other fields, quickly implementing production capacity construction to meet strong market demand, and actively improving the commercialization layout to build a powerful commercial organization with predominant strength, we will gradually evolve ourselves into a Biopharma with larger scale and stronger market competitiveness.

(I) CAPITALIZE ON FIRST-ENTRANT ADVANTAGES AND INCREASE THE GLOBAL MARKET COVERAGE OF PRODUCTS

As one of the leading biomedicine companies in China, the Group actively responds to the national call, cooperates with the national medical insurance reform, and provides patients with biological drugs of affordable price and high-quality. Also, based on the patient-oriented principle, the Group has established a comprehensive and efficient business operation model to continuously promote the successful commercialization of more products.

HANSIZHUANG (serplulimab injection) is one of the Group's core innovative monoclonal antibody products for the treatment of indications of unresectable or metastatic microsatellite instability-high (MSI-H) solid tumors that have failed to respond to the standard therapy. It has been approved for marketing in March 2022. The Group has established a professional and experienced team in advance for the sales of HANSIZHUANG (serplulimab injection) after its launch. While actively implementing the marketing and sales layout, the Group also plans to establish in-depth cooperation with genetic testing companies to jointly explore innovative solutions in the field of oncology, build a new patient service model, improve the standards and accessibility of MSI testing, and gradually establish diagnosis and treatment ecosystem for patients with gastrointestinal tumors and gynecological tumors. On this basis, with successive approvals for other indications (including advanced or metastatic squamous non-small cell lung cancer (sqNSCLC), extensive stage small cell lung cancer (ES-SCLC), etc.) of HANSIZHUANG (serplulimab injection) obtained, the Group will further consolidate the market sales layout in lung cancer and other fields, and build a complete diagnosis and treatment ecosystem for oncology patients in an orderly manner.

HANQUYOU is the Group's first core anti-tumor product promoted and sold within Mainland China as led by its self-built commercialization team. In 2022, the Group will take further actions to promote the inclusion of HANQUYOU (both 150mg and 60mg) into medical insurance procurement platforms and admission into hospitals. Also, the Group will rely on its exclusive advantages in HANQUYOU (both 150mg and 60mg) in terms of personalized dosage and cost to continue to promote the products into lower-tier cities. In 2022, the Group will continue to optimize the diagnosis and treatment ecosystem for HER2-positive patients by focusing on improving patient management and education platform construction and building a public welfare platform for primary medical care. The Group is planning to invite domestic experts in oncology and relevant teams from professional hospitals to go deep into the grassroots to conduct public welfare trainings on the prevention and treatment of breast cancer and other oncology diseases, and carry out exchange activities such as large-scale free diagnosis, ward rounds, case discussions, etc., to effectively implement cancer prevention, diagnosis and treatment projects, contributing to the standardization of cancer diagnosis and treatment in grassroots areas. In 2022, the sales network of HANQUYOU will continue to be strengthened, which plans to cover approximately 450 cities and nearly 5,500 DTP pharmacies/hospitals across China.

In February 2022, HANLIKANG was approved for marketing and sales of its innovative rheumatoid arthritis (RA) indication, which will add additional bargaining advantages to the marketing and sales of HANLIKANG. As the first monoclonal antibody drug approved for marketing under the Guidelines for Biosimilars in China, HANLIKANG is currently available in two dosage forms (100mg/10ml and 500mg/50ml) in the market, and its applicable indications include not only the indications of the original drug in the field of hematology oncology approved in Mainland China, but also the field of autoimmunity, providing high-quality and flexible treatment options for a larger patient population. The Group will maintain close cooperation with Jiangsu Fosun to seize the first-entrant advantages and promote the continuous growth of sales of HANLIKANG. In 2022, HANLIKANG will continue to cooperate with academic groups to promote the standardized diagnosis and treatment of lymphomas through academic exchanges and other means, and enter into the field of rheumatism to benefit patients with rheumatoid arthritis.

At the same time, the Group will continue to cooperate with Jiangsu Wanbang to carry out sales promotion of HANDAYUAN, focusing on the fields of rheumatism (ankylosing spondylitis, rheumatoid arthritis (RA)), dermatology (psoriasis), and ophthalmology (uveitis). In 2022, focusing on the four major indications, HANDAYUAN will continue to help patients stay away from the pains and suffering by relying on the platforms such as "ASSC Ankylosing Spondylitis Standardized Treatment Project" and "Da'en Home". It is intended that HANDAYUAN will be available to 4,500 specialists and approximately 3,500 DTP pharmacies/hospitals by 2022, which will gradually ensure the "channel accessibility" of HANDAYUAN on the basis of "economic accessibility".

While actively expanding the domestic market, the Group will constantly promote the business cooperation of its self-developed products in the international market. With the continuous advancement of the R&D and registration of pipeline products of the Group and the increasing understanding and full recognition of the Group's products of the international market, the Group will continue to seek business cooperation with more international leading pharmaceutical companies in 2022 to jointly promote the expansion of our products into broader international markets, especially emerging markets with huge unmet medical needs for affordable drugs, which, in our expectation, will benefit patients overseas.

(II) CONTINUE TO DRIVE APPROVAL FOR MORE PRODUCTS INDICATIONS

HANSIZHUANG (SERPLULIMAB INJECTION)

HANSIZHUANG (serplulimab injection) is the core innovative monoclonal antibody product of the Group, and the related R&D and production thereof strictly follow international quality standards. As of the Latest Practicable Date, 1 HANSIZHUANG (serplulimab injection) monotherapy and 9 combined therapies with HANSIZHUANG (serplulimab injection) as the core were undergoing clinical trials in multiple countries and regions around the world.

- The application for marketing of HANSIZHUANG (serplulimab injection) in Mainland China for its second indication, and the new drug application (NDA) of first-line treatment of locally advanced or metastatic squamous non-small cell lung cancer (sqNSCLC) in Mainland China is expected to be approved in 2022.

- The new drug applications of HANSIZHUANG (serplulimab injection) or placebo in combination with chemotherapy (Carboplatin-Etoposide) for indication of extensive-stage small cell lung cancer (ES-SCLC) in Mainland China and EU are expected to be submitted in 2022.

- The new drug application (NDA) of HANSIZHUANG (serplulimab injection) or placebo in combination with chemotherapy (cisplatin+5-FU) for first-line treatment of locally advanced/metastatic esophageal squamous cell carcinoma (ESCC) in Mainland China is expected to be submitted in 2022.

In 2022, the Group will also proactively cooperate with international partners to facilitate the submission of new drug applications in terms of HANQUYOU, HANLIKANG and HANSIZHUANG (serplulimab injection) in the United States, Colombia, Venezuela, Peru, Ecuador and other places.

(III) Continue to build innovative product pipeline through iterate R&D capabilities

In 2022, the Group, by making continuous use of international resources and advantages as well as advancing the internal innovation capacity building, will continue to create innovative product pipelines of high-quality, with affordable price and differentiated advantages. In terms of early research and development, the Group plans to closely focus on antibody technology that combined with new type of conjugation technology in order to vigorously expand various forms of antibody conjugated molecules, and to build a comprehensive AXC platform, which covered small molecules (ADC), functional enzymes (AEC), isotope (ARC), cell (ACC), PROTAC (APC) and nucleic acid (AOC), etc. The Group will also provide solutions for unmet clinical needs through innovative drug formats. The Group has spent more than one decade taking solid steps in the field of oncology, but still, it will proactively expand into the field of non-oncology diseases (including metabolism, cardiovascular, inflammation and other diseases). At the same time, the Group will also develop innovative products based on tumor metabolism, immune metabolism and other R&D concepts through continuous introduction of new scientific concepts. By doing so, the Group will build up its momentum in the process of developing and commercializing its innovative products, thereby truly meet the needs from the patients and demand from the market. Certain innovative monoclonal antibody/bispecific antibody products that independently developed by the Group are expected to make further advancement in 2022:

- A phase 3 clinical study to compare HANSIZHUANG (serplulimab injection) in combination with chemotherapy (carboplatin-pemetrexed), HANSIZHUANG (serplulimab injection) in combination with HANBEITAI in combination with chemotherapy (carboplatin-pemetrexed) with chemotherapy (carboplatin-pemetrexed) in the first-line treatment for metastatic non-squamous, non-small cell lung cancer (nsNSCLC), is expected to complete its enrollment of subjects by mid-2022.

- HLX301 (recombinant humanised anti-PD-L1 and anti-TIGIT bispecific antibody injection), an innovative bispecific antibody product, is used for the treatment of advanced tumors, and its investigational new drug application (IND) in Mainland China has been approved in March 2022, and clinical studies are expected to be launched soon.

- HLX35 (recombinant humanised anti-EGFR and anti-4-1BB bispecific antibody injection), an innovative bispecific antibody product, which is used for the treatment of advanced malignant solid tumor, is expected complete the first patient dosing in a phase 1 clinical trial in Mainland China in the first half of 2022.

On the basis of self-research and development, the Group also actively expanded the innovative potential targets through the introduction of licensing projects. During the Reporting Period, the Group introduced the antibodies against human TROP2 target and HLX208 (BRAF V600E inhibitor). The first patient has been dosed in the phase 2 clinical trial of HLX208 (BRAF V600E inhibitor), for the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation in Mainland China. Also, in 2022, the Group plans to work hard in order to lead advancement on clinical trial in respect of HLX208 (BRAF V600E inhibitor) for solid tumors including metastatic colorectal cancer, non-small cell lung cancer, and indications including adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD).

(IV) Maintain high quality standards and continue to promote industrialization deployment

The Group will plan in advance the construction of production base and the expansion of production capacity according to the product R&D and marketing process, in order to provide a strong guarantee for the continuous commercial sales of products and realize the efficient utilization of production capacity. The Group's Xuhui Facility has achieved stable and efficient commercial production after improving production efficiency and reducing production costs during the Reporting Period through a series of lean management and process optimization initiatives. The relevant measures will be further enhanced in 2022. In addition, the production materials and consumables, key production equipments will also go through further localization in 2022.

As of the Latest Practicable Date, Songjiang First Plant had completed the engineering construction and verification of facilities with production capacity of 24,000L. Also, The Drug Manufacturing Certificate (《藥品生產許可證》) was approved for the production of HANQUYOU, and the supplemental new drug application (sNDA) for the second-generation process of HANQUYOU has also been accepted during the Reporting Period. The Group anticipates that the supplemental new drug application (sNDA) and GMP compliance on-site inspection of the second-generation process of HANQUYOU are likely to be approved and passed in mid-2022, while Songjiang First Plant is expected to be officially put into commercial production for HANQUYOU in mid-2022. In addition, Songjiang First Plant will also continue to improve its international standard quality system and plan to complete the GMP inspection by the United States Food and Drug Administration (FDA) in the first half of 2023.

To achieve the long-term capacity planning, the Group will continue to promote the construction of the Songjiang Second Plant, in order to enhance the overall production capacity. The construction, installation of process equipments for the two main production buildings in the first and second stage of the Songjiang Second Plant Phase I Project are expected to be completed in the first half of 2022 and will enter into the joint commissioning and verification stage. Also, the verification work of facilities and equipment is expected to be completed in the second half of 2022 and will enter into the stage of trial production and process verification. The first batch production of the Songjiang Second Plant project is expected to be completed by the end of 2022. The concept and fundamental design of the third stage of the Songjiang Second Plant Phase I project has been completed and is scheduled to enter the full-scale construction phase in 2022. The Group will promote the construction and operation of the Songjiang Second Plant as soon as possible. When completed, the Songjiang Second Plant will become the monoclonal antibody biological drug research and development, pilot test and production base of the Group. This will further enhance the market competitiveness of the Group in its core business areas and meet the global commercial production needs of the Group's products.

III. FINANCIAL REVIEW

(I) REVENUE

During the Reporting Period, the Group has built a first-class commercialization team in the industry by virtue of innovative market access, business strategy and efficient executive capability in sales, through which the Group rapidly established a foothold in the broad domestic market and continued to penetrate into every corner of the market, laying a solid groundwork for the subsequent transformation of the Company. With the commercialization of four core products in the recent three years, the Group witnessed an increase in the sales of its major products during the Reporting Period with the help of its first-class self-built commercialization team and its close cooperation with its partners, making gratifying achievements.

As an international innovative biopharmaceutical company, the Group seeks to cooperate with global well-known biopharmaceutical companies by capitalizing on its own enhancing R&D capability and unique domestic clinical resources to establish presence in multiple global markets while making overall plans for the domestic market, covering European and American mainstream markets and many other emerging markets. Strategically, through the commercialization right of out-licensed products, the Group introduced its cost-effective products to a broader global market, bringing considerable R&D service revenue and licensing revenue for the Group while benefiting more patients around the world.

During the Reporting Period, the Group registered an operating income of approximately RMB1,682.5 million, an increase of 186.3% over the last year, mainly including the following:

1) REVENUE FROM CHINESE MARKET:

HANQUYOU: the first domestic trastuzumab approved for marketing, was independently developed by the Group and also the first product of the Group to adopt its own team to conduct commercialization promotion. It was commercialized in the domestic market in August 2020. During the Reporting Period, HANQUYOU recorded a sales revenue of approximately RMB868.0 million, an increase of approximately RMB758.5 million or 692.7% over 2020.

HANLIKANG: according to the cooperation agreement with Fosun Pharma, Fosun Pharma will reimburse all the expenses related to the clinical trials of HANLIKANG incurred by the Group after the relevant cooperation agreement is signed, while the Group is responsible for the production of HANLIKANG in China and the supply of HANLIKANG to Fosun Pharma after the commercialization of HANLIKANG, and shall share the profits from the sales of HANLIKANG in China. During the Reporting Period, the Group realized sales revenue of approximately RMB542.5 million and licensing revenue of approximately RMB10.4 million under the aforementioned profit-sharing arrangement with its partners.

HANDAYUAN: according to the cooperation agreement with Fosun Pharma, Fosun Pharma will reimburse all the expenses related to the clinical trials of HANDAYUAN incurred by the Group after the relevant cooperation agreement is signed, while the Group is responsible for the production of HANDAYUAN in China and the supply of HANDAYUAN to Fosun Pharma after the commercialization of HANDAYUAN, and shall share the profits from the sales of HANDAYUAN in China. During the Reporting Period, HANDAYUAN realized sales revenue of approximately RMB21.8 million and licensing revenue of approximately RMB1.0 million under the aforementioned profit-sharing arrangement with its partners.

2) REVENUE FROM INTERNATIONAL MARKET

As at the end of the Reporting Period, the Group realized revenue of approximately RMB40.6 million for Zercepac®, while realizing sales revenue of drug substance of trastuzumab of approximately RMB21.6 million.

3) Revenue from joint development and technology transfer/commercialization licensing

With the continuous improvement of the R&D system and innovation capabilities of the Group, our influence in the international market is growing, at the same time, the number and overall amount of licensed-out projects are constantly expanding. During the Reporting Period, the Group also carried out business cooperation with many partners around the world based on various projects, including intellectual property licensing, joint development, commercialization, etc..

In June 2018, the Group entered into a license agreement with Accord in relation to HANQUYOU (trastuzumab injection, EU brand name: Zercepac®), granting Accord exclusive commercial rights in special territories as agreed therein. In July 2020, the marketing authorization application of HANQUYOU (Zercepac®) submitted by a wholly-owned subsidiary of Accord was approved. Since then, HANQUYOU (Zercepac®) can be marketed in all EU Member States as well as in Iceland, Liechtenstein and Norway (each in the European Economic Area (EEA)) with its centralized marketing license. The Group has recognised licensing revenue and revenue from R&D services of approximately RMB11.0 million for the 12 months ended 31 December 2021.

In September 2019, the Group entered into a co-development and commercialization agreement with KG Bio in relation to HANSIZHUANG (serplulimab injection). With the continuous advancement of research and development services, the Group has recognised revenue from R&D services of approximately RMB16.3 million for the 12 months ended 31 December 2021.

In September 2020, the Group entered into a co-development and exclusive license agreement with Essex in relation to the HLX04-O (recombinant humanized anti-VEGF monoclonal antibody injection independently developed by the Group). The Group has recognised revenue from R&D services of approximately RMB71.4 million for the 12 months ended 31 December 2021.

In November 2020, the Group entered into a license and co-development agreement with Binacea in relation to HLX35 (recombinant humanized anti-EGFR and anti-4-1BB bispecific antibody injection independently developed by the Group). The Group has recognised licensing revenue of approximately RMB57.8 million for the 12 months ended 31 December 2021.

In January 2021, the Group entered into a license agreement with Intas in relation to HANQUYOU (trastuzumab injection, EU brand name: Zercepac®), granting Intas exclusive developing and commercial rights in special territories as agreed therein. The Group has recognised revenue from R&D services of approximately RMB19.2 million for the 12 months ended 31 December 2021.

(II) Cost of sales

Cost of sales of the Group primarily represents reagents and consumables, employee compensation, outsourcing expenses, utilities expenses and depreciation and amortisation. For the 12 months ended 31 December 2021, the Group recorded cost of sales of approximately RMB522.7 million, representing an increase of approximately RMB340.6 million as compared with that for the 12 months ended 31 December 2020, due to the increase of the sales volume of the key commercial products in the market.

(III) Gross profit

For the 12 months ended 31 December 2021, the Group recorded a gross profit of approximately RMB1,159.7 million, representing an increase of approximately RMB754.2 million, as compared with that for the twelve months ended 31 December 2020, mainly due to the gross profit contribution from the key commercial products of the Company.

(IV) OTHER INCOME AND GAINS

Other income and gains of the Group mainly included government grants and bank interest income. Government grants included (1) government grants for capital expenditure in relation to the purchase of machinery and equipment (recognised over the useful life of the relevant assets); (2) incentives for R&D activities and interest subsidy as well as other supports (recognised after satisfying certain conditions imposed by the government).

During the Reporting Period, the Group recognised other income and gains of approximately RMB45.1 million.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants	**41,896**	35,393
Interest income	**2,686**	7,404
Others	**509**	940
Total	**45,091**	43,737

(V) R&D EXPENDITURE

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Expensed R&D expenses		
Share-based compensation	**13,188**	11,147
R&D employee salaries	**338,988**	251,886
Outsourcing fees	**152,730**	138,320
Reagents and consumables	**92,712**	119,466
Utilities expenses	**15,822**	53,564
Depreciation and amortisation	**87,171**	43,334
Consulting expense	**24,709**	15,153
Technology expense	**136,808**	9,339
Clinical trials	**90,850**	154,215
Others	**70,953**	97,720
Total expensed R&D expenses	**1,023,930**	894,144
Capitalised R&D expenses		
Clinical trials	**420,143**	545,992
R&D employee salaries	**195,413**	131,174
Reagents and consumables	**36,849**	60,735
Depreciation and amortisation	**37,669**	10,693
Utilities expenses	**28,650**	21,302
Outsourcing fees	**4,593**	26,255
Consulting expense	**2,858**	7,008
Share-based compensation	**4,519**	9,268
Others	**9,100**	4,334
Total capitalised R&D expenses	**739,793**	816,761

For the 12 months ended 31 December 2021, the Group recognised R&D expenses of approximately RMB1,763.7 million, representing an increase of approximately RMB52.8 million as compared with that of approximately RMB1,710.9 million for the twelve months ended 31 December 2020. The increase in R&D expenses was mainly due to the increase of investment in innovative R&D projects to accelerate the Company's innovation and transformation.

(VI) Administrative expenses

Administrative expenses mainly included administrative staff costs, office administrative expenses, depreciation and amortisation, audit and consultating fees, etc.

For the 12 months ended 31 December 2021, the Group recognised administrative expenses of approximately RMB280.6 million as compared with that of approximately RMB192.6 million for the twelve ended 31 December 2020, representing an increase of 45.7%. The increase in administrative expenses of the Group was mainly due to: (1) the increase in the headcount of the administrative staff and the higher compensation resulted from the expansion of the operations and development of the Company; (2) the increase in office administrative expenses, lease expenses and promoting expenses; and (3) the corresponding increase in consulting expenses incurred from meetings to improve the Company's operational efficiency.

(VII) Selling and distribution expenses

Selling and distribution expenses of the Group mainly included salaries, promotional expenses and other expenses, etc.

For the 12 months ended 31 December 2021, the Group recognised selling and distribution expenses of approximately RMB520.3 million, which were mainly the marketing expenses incurred in the marketing and commercialization of the product of HANQUYOU.

(VIII) Loss for the year

In view of the above, loss of the Group decreased by approximately RMB9.4 million from approximately RMB993.5 million for the year ended 31 December 2020 to approximately RMB984.1 million for the year ended 31 December 2021.

(IX) Liquidity and capital resources

As of 31 December 2021, cash and bank balances of the Group were approximately RMB707.3 million, mainly denominated in Renminbi ("**RMB**"), United States Dollars ("**USD**"), New Taiwan Dollars ("**NTD**"), Hong Kong Dollars ("**HKD**") and Euro ("**EUR**"). Such decrease was mainly due to the daily R&D and manufacturing overhead of the Group. As of 31 December 2021, the current assets of the Group were approximately RMB1,647.2 million, including cash and cash equivalents of approximately RMB155.0 million, pledged deposits of approximately RMB1.7 million and the restricted cash for investments of approximately RMB550.6 million.

Inventories were approximately RMB420.1 million, trade receivables were approximately RMB295.7 million, prepayments, deposits and other receivables were approximately RMB224.0 million. As at 31 December 2021, the current liabilities of the Group were approximately RMB2,959.7 million, including trade payables of approximately RMB383.5 million, other payables and accruals of approximately RMB867.3 million, contract liabilities of RMB138.3 million and interest-bearing bank and other borrowings of approximately RMB1,570.7 million.

As at 31 December 2021, the bank balances in foreign exchange were as follows:

	RMB'000
RMB	116,978
HKD	7,297
USD	580,571
EUR	217
NTD	2,270

	Original amount
RMB	116,978
HKD	8,925
USD	91,061
EUR	30
NTD	9,862

(X) INVENTORIES

Inventories of the Group increased from approximately RMB305.2 million as at 31 December 2020 to approximately RMB420.1 million as at 31 December 2021, mainly due to (1) the increased purchases of raw materials and consumables in line with the clinical trial progress and preparation for commercialized production; (2) safety stock is prepared to meet the increasing demand for key commercial products.

(XI) TRADE RECEIVABLES

As at 31 December 2020 and 31 December 2021, trade receivables from customer contracts were approximately RMB196.2 million and RMB295.7 million, respectively. There were no changes in accounting estimates or key assumptions made in both years.

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Within 3 months	295,741	196,213
3 to 6 months	–	–
6 to 9 months	–	–
9 to 12 months	–	–
1 to 2 years	–	–
Total	295,741	196,213

(XII) INTEREST-BEARING BANK AND OTHER BORROWINGS

As of 31 December 2021, borrowings from bank and other institutions (exclusive of lease liabilities) of the Group were approximately RMB2,330.2 million. The Group incurred new borrowings for the following reasons: ongoing clinical research trials and preclinical research for drug candidates, commercialization of products and normal operating expenses. The borrowings of the Group were denominated in RMB, USD and NTD.

Such borrowings bear interest at fixed annual and floating interest rates. There is no significant seasonal impact on the Group's borrowing requirements.

(XIII) MATURITY STRUCTURE OF OUTSTANDING DEBTS

The following table sets forth the maturity structure of outstanding debts as at 31 December 2021 and 31 December 2020, of which lease liabilities were initially recognised upon the adoption of IFRS 16 – Leases on 1 January 2017.

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within one year	**1,570,674**	1,188,486
In the second year	**318,790**	82,089
In the third to fifth year (inclusive)	**177,956**	320,792
Over five years	**555,517**	242,250
Total	**2,622,937**	1,833,617

(XIV) COLLATERAL AND PLEDGED ASSETS

As at 31 December 2021, the Group's pledged assets in relation to borrowings included trade receivables of approximately RMB69.4 million, prepayments, deposits and other receivables of approximately RMB8.3 million, property, plant and equipment of approximately RMB364.1 million and land use right of approximately RMB201.1 million. The Group had a deposit of approximately RMB1.7 million due to issuance of letter of credit.

(XV) KEY FINANCIAL RATIOS

	31 December	31 December
	2021	2020
Current ratio [(1)]:	**55.7%**	96.5%
Quick ratio [(2)]:	**41.5%**	81.1%
Gearing ratio [(3)]:	**51.8%**	18.4%

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities as at the same day.

(2) Quick ratio is calculated as current assets minus inventories and then divided by current liabilities as of the same day.

(3) Gearing ratio is calculated as net debt divided by equity attributable to owners of the parent plus net debt, multiplied by 100%. Net debt represents the balance of indebtedness less cash and cash equivalents as at the end of the period.

(XVI) MATERIAL INVESTMENT

In order to satisfy the expected market demand for drugs in our pipeline, the Group is currently constructing a new manufacturing facility in Shanghai, the Songjiang Second Plant, to significantly increase our overall production capacity. We designed the Songjiang Second Plant to incorporate substantially similar manufacturing equipment, technologies and processes as those being used and to be implemented at our Xuhui Facility. This project is expected to become the monoclonal antibody biological drug research and development, pilot test and production base of the Group when completed, which is conducive to further strengthening the Group's research and development capabilities in the field of biomedicine (especially monoclonal antibody biomedicine) and meeting the global commercial production needs of the Group's biosimilar and bioinnovative products.

The Company is expected to invest not more than RMB2.54 billion for the construction of the Phase I project of the Songjiang Second Plant (first stage, second stage and third stage). As at the end of the Reporting Period, the facility is under construction and the subsequent stages of construction will be gradually carried out based on the strategy of the Group. The capital expenditure of the construction of the Songjiang Second Plant will be mainly funded through debt financing.

Save as disclosed in this report, as at 31 December 2021, the Group did not make other significant investments.

(XVII) CAPITAL COMMITMENTS AND CAPITAL EXPENDITURES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Plant and machinery	**55,745**	170,240
Construction in progress	**250,773**	274,769
Electronic equipment	**14,096**	15,822
Leasehold improvements	**45,706**	106,058
Others	**378**	473
Total	**366,698**	567,362

We had capital commitments for plant and machinery contracted but not provided for of approximately RMB463.1 million as at 31 December 2021. These capital commitments primarily relate to expenditures expected to be incurred for the purchase of machinery, renovation of our existing laboratories and buildings and the R&D expenditure to be capitalised.

(XVIII) CONTINGENT LIABILITIES

As of 31 December 2021, the Group did not have any material contingent liabilities.

(XIX) MATERIAL ACQUISITIONS AND DISPOSALS

As of 31 December 2021, the Group did not have any material acquisitions and disposals.

(XX) DIVIDENDS

The Company did not pay or declare any dividend for the year ended 31 December 2021.

IV. RISK MANAGEMENT

(I) FOREIGN EXCHANGE RISK

Up until 31 December 2021, the Group was principally engaged in business in the PRC, in which most of the transactions were settled in RMB with no significant foreign exchange risk. No financial instrument for hedging foreign exchange risk or other hedging purposes was employed.

(II) EXCHANGE RATE RISK

Currently, the major business operation of the Group is in the PRC and most of the revenue and expenses are settled in RMB, which is the Group's reporting currency. With the acceleration of the Group's development in overseas markets, it is expected that the sales revenue denominated in USD and EUR will increase in the future. Fluctuations in exchange rates may adversely affect the Group's cash flows, revenues, earnings and financial position.

(III) Potential risks

1. Market Risk

The biologics market is highly competitive, and the Group's existing commercialized products and products that may be commercialized in the future face competition from pharmaceutical companies around the world in respect of various factors such as indication treatment, drug novelty, drug quality and reputation, breadth of drug portfolio, manufacturing and distribution capacity, drug price, coverage and depth of customer, consumer behaviour and supply chain relationships. The Group's ability to remain competitive depends to a large extent on our ability to innovate, develop and promote new products and technologies that meet market needs in a manner to capture market share. At the same time, in October 2020, in the "Response to the Recommendation of No. 6450 of the Third Session of the 13th NPC", the National Healthcare Security Administration stated that centralized volume-based procurement will commence at an appropriate time, after considering the factors of the biosimilar similarity, production capacity and supply chain stability of companies and the clinical substitutability of specific products. Currently, biosimilar is not yet included in the drug application of centralized drug procurement. If any products are included in the centralized volume-based procurement in the future, our rivals (if they are evaluated on equivalence) may also choose to participate in tenders and be included in centralized procurement, hence bringing potential impact on the pricing of the drugs.

2. Business and Operational Risk

The global biologics market is constantly evolving, and the Group invests significant amounts of human and capital resources for R&D, to develop, enhance or acquire technologies that will allow the Group to expand the scope and improve the quality of the services. The currently available products of the Group include: HANLIKANG、HANQUYOU (trastuzumab injection, EU brand name: Zercepac®), HANDAYUAN and HANBEITAI. Most of the Group's drug candidates are still under development and are in the clinical development stages, and the course of clinical development involves a lengthy and expensive process with uncertainties in various aspects, as there can be no assurance from the Group of the development and clinical results. Furthermore, if the clinical development and regulatory approval process of the drug candidates are delayed or terminated, the successful development and commercialization of the Group's drug candidates in a timely manner may be adversely affected.

3. Potential Risks of Novel Coronavirus

After the outbreak of COVID-19, the Group immediately adopted anti-epidemic measures, to secure employees' safety and guarantee to carry out a variety of work duties in an orderly manner. Despite the weakened impact of COVID-19 on the Group's operations in China in the second half of 2021, there are still uncertainties about its impact on China and the world in the future. The epidemic of COVID-19 may have potential impacts on the Group's business, including but not limited to commodity sales, the hiring of staff for clinical trials and staff's involvement, approval of regulatory registration, procurement of raw materials, and construction progress of production base. The Group will continue to observe the epidemic situation and make all preparations in advance.

4. Force Majeure Risk

Our business, financial condition and results of operations may be materially and adversely affected by natural disasters or other unanticipated catastrophic events such as earthquakes, fires, terrorist attacks and wars. For example, the ability of our facilities to operate may be impaired, our equipment may be damaged, the development timeline of our drug candidates may be prolonged and even there may be a decrease in the demand for our products. The occurrence of any such event could adversely affect our business and financial condition.

V. EMPLOYEES AND REMUNERATION POLICIES

The following table sets forth the breakdown of our employees by function as at 31 December 2021:

Function	Number of employees
Management and administrative	203
R&D	335
Quality and technical support	255
Manufacturing	610
Clinical medical affairs	304
Commercial Operation	527
Total	2,234

The Group enters into individual employment contracts with our employees setting out terms such as salaries, bonuses, grounds for termination and confidentiality. Employment contracts with our R&D personnel also typically contain a non-competition clause. The Group also provides benefits to our employees as part of their compensation package which we believe are in line with industry norms. For example, PRC-based employees are entitled to social insurance as mandated by the PRC Social Insurance Law, including pension, basic medical insurance, maternity insurance, work-related injury insurance, unemployment insurance and housing provident fund. To stay competitive in the market for talents, we have also adopted share award schemes to give incentives to our employees. The Group emphasises on-the-job training as a constant and ongoing objective for the employees. All employees participate in formal training on an annual basis, where the Group focuses on the latest technical developments and updates in regulatory requirements.

REPORT OF THE BOARD OF DIRECTORS

REPORT OF THE DIRECTORS

The Board is pleased to present its 2021 annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company is principally engaged in (i) R&D, production and sale of monoclonal antibody (mAb) drugs and the provision of related technical services (except for the development and application of human stem cells, genetic diagnosis and therapy technology) and (ii) the transfer of its own technology and provision of the related technology consultation services.

Details of the principal activities of the subsidiaries of the Company are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2021 are set out in the Consolidated Statement of Profit or Loss on page 80.

The Board does not recommend a final dividend for the Reporting Period.

PROFIT DISTRIBUTION PLAN

The Company has adopted a profit distribution administration policy. According to the policy, the Company may distribute its dividend by means of cash, shares or a combination of cash and shares, and will give priority to distribution of cash dividends. Subject to the full distribution of cash dividends and a reasonable equity size and shareholding structure of the Company, the Company may make profit distribution by allocating dividend in shares in order to align the expansion of equity with performance growth. The Board shall comprehensively take account of the features of the industry where the Company operates, its stage of development, its own business model, and profitability and other factors such as whether there is any significant capital expenditure arrangement in forming practicable profit distribution plans. The specific plan for distribution shall be decided by the Shareholders at the general meeting according to the Company's actual operation results of the year.

BUSINESS REVIEW

The business review of the Group for the Reporting Period is set out in the sections headed "Chairman's Statement" on pages 4 to 5 and "Management Discussion and Analysis" on pages 13 to 39, respectively of this annual report. A discussion on the Company's social responsibility, environmental policies and performance is also set out in "Management Discussion and Analysis". All references to other sections or reports in this annual report form part of this Report of the Board of Directors.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The notice of the forthcoming annual general meeting has been published and dispatched to shareholders of the Company in accordance with the requirements of the Listing Rules and the Articles of Association. The period of closure of register of members has been announced in the notice of annual general meeting dated 8 April 2022.

SUMMARY OF FINANCIAL INFORMATION

A summary of the financial information for the last five financial years, as extracted from the audited financial statements, is set out in the section headed "Five Years' Financial Summary" on page 7 of this annual report.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as of 31 December 2021 are set out in note 25 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and its subsidiaries during the Reporting Period are set out in note 14 to the financial statements.

CHARGE ON ASSETS

As of 31 December 2021, the total amount of RMB201.1 million in right-of-use asset was pledged to banks as loan security (31 December 2020: RMB205.3 million). The total amount of RMB364.1 million in property, plant and equipment was pledged to banks as loan security (31 December 2020: Nil).

Details of collateral and pledged assets are set out in the section headed "Collateral and Pledged Assets" on page 36 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 29 to the financial statements.

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

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES

As of 31 December 2021, the Company did not have any distributable reserves.

Details of the movements in the respective reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 83.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the total amount of purchases attributable to the Group's five largest suppliers was 32.2% of the total purchases of the Group. The total amount of purchases attributable to the Group's largest supplier was 8.4% of the total purchases of the Group. The total amount of revenue attributable to the Group's five largest customers was 72.3% of the total revenue of the Group. The total amount of revenue attributable to the Group's largest customer was 31.8% of the total revenue of the Group.

During the Reporting Period, other than Jiangsu Fosun and Fosun Pharma Industrial Development (each a wholly-owned subsidiary of Fosun Pharma), to the knowledge of the Directors, none of the Directors or any of their close associates, or any Shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the issued Shares of the Company) had interests in the five largest suppliers or customers of the Company.

DIRECTORS

Unless otherwise stated, the following is the list of the Directors during the Reporting Period and as of the Latest Practicable Date:

Executive director

Mr. Wenjie Zhang *(Chairman and chief executive officer)*

Non-executive directors

Mr. Qiyu Chen
Mr. Yifang Wu
Ms. Xiaohui Guan
Dr. Aimin Hui
Mr. Zihou Yan

Independent non-executive directors

Mr. Tak Young So
Dr. Lik Yuen Chan
Dr. Guoping Zhao
Dr. Ruilin Song

SUPERVISORS

The following is the list of the Supervisors during the Reporting Period and as of the Latest Practicable Date:

Ms. Rongli Feng *(Chairman)*
Mr. Deli Kong
Ms. Junhong Liu

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and the senior management of the Company are set out on pages 67 to 74 of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a letter of appointment with the Company for a term of three years, subject to the provision of retirement and rotation of Directors and Supervisors under the Articles of Association.

None of the Directors and Supervisors has an unexpired service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REMUNERATION POLICY

The remuneration policy of the Group is set out in the section headed "Management Discussion and Analysis" on page 39 of this annual report.

Executive Directors do not receive remuneration for acting as directors of the Company but they are entitled to salaries for their services in connection with the management of the affairs of the Group. Non-executive Directors do not receive any emolument. The remuneration of independent non-executive Directors is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Details of the remuneration of the Directors, Supervisors and chief executives, senior management and the five highest paid employees are set out in notes 9 and 10 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Related Party Transactions", there is no transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in the Reporting Period was a Director/Supervisor or his or her connected entity had, directly or indirectly, a material interest subsisted at any time during the Reporting Period or at the end of the Reporting Period.

PENSION SCHEME

The full-time employees of the Group are covered by various government-regulated defined contribution retirement benefit schemes under which the employees are entitled to a monthly pension. The Group contributes a percentage of the employees' salaries (subject to maximum caps) to these retirement benefit schemes on a monthly basis. Under these schemes, the Group has no legal obligation for retirement benefits beyond the contributions made. Contributions to these schemes are expensed as incurred. There were no forfeited contributions available for the Group to reduce its existing level of contributions to the defined contribution scheme as at 31 December 2021. The pension cost paid by the Group during the Reporting Period was RMB57.0 million.

MANAGEMENT CONTRACT

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

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except as disclosed in this annual report, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the Reporting Period or at the end of the Reporting Period.

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors or Supervisors is interested in any businesses apart from the Group's business which competes with or is likely to compete, either directly or indirectly, with the Group's business.

DIRECTORS'/SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, none of the Directors/Supervisors and chief executives of the Company has interest and short positions in the shares of the Company, or short positions in the underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO). The interest or long positions of Directors, Supervisors and chief executives of the Company in the underlying shares and debentures of any of its associated corporations of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

INTEREST IN SHARES OF THE ASSOCIATED CORPORATION

Name	Name of the associated corporation	Nature of interest and capacity	Class	Number of Shares	Approximate percentage in relevant class of Shares
Wenjie Zhang	HenLink, Inc.	Beneficial owner	Ordinary Shares	1,000,000	6.30%
Qiyu Chen	Fosun International	Beneficial owner	Ordinary Shares	9,498,000	0.11%
	Fosun International	Beneficial owner	Share Option	13,500,000	0.16%
	Fosun International	Beneficial owner	A Shares	114,075	0.01%
	Fosun Tourism Group	Beneficial owner	Ordinary Shares	1,478	0.00%
Yifang Wu	Fosun Pharma	Beneficial owner	H Shares	342,000	0.06%
	Fosun Pharma	Beneficial owner	A Shares	718,900	0.04%
Xiaohui Guan	Fosun Pharma	Beneficial owner	A Shares	181,000	0.01%
Deli Kong	Fosun Pharma	Beneficial owner	A Shares	8,500	0.00%

Save as disclosed in the foregoing, during the Reporting Period, none of the Directors/Supervisors or chief executive of the Company or their respective close associates had any interests or short/long positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

During the Reporting Period, no rights to acquire benefits by means of the acquisition of shares, underlying shares or debentures of the Company were granted to any Directors/Supervisors or chief executive or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement which enabled the Directors/Supervisors or chief executive to acquire such rights in any other corporation.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 31 December 2021, the following persons (other than the Directors/Supervisors or chief executive of the Company) had the following interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of Part XV of the SFO:

Name of Shareholder	Nature of interest and capacity	Class	Number of Shares	Approximate percentage in relevant class of Shares	Approximate percentage in total Shares
Fosun New Medicine	Beneficial owner	Domestic Shares	265,971,569	73.03%	48.94%
Fosun Pharma Industrial Development[1]	Beneficial owner	Domestic Shares	25,393,818	6.97%	4.67%
	Interest in controlled entity	Domestic Shares	265,971,569	73.03%	48.94%
Fosun Pharma[2]	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	24,211,239	14.81%	4.45%
Fosun High Tech[3]	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	24,211,239	14.81%	4.45%
Fosun International[4]	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	24,211,239	14.81%	4.45%
FHL[5]	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	24,211,239	14.81%	4.45%
FIHL[6]	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	24,211,239	14.81%	4.45%
Guangchang Guo[7]	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	24,211,239	14.81%	4.45%
Fosun Industrial	Beneficial owner	H Shares	21,018,900	12.86%	3.87%
	Security interest	H Shares	3,192,339	1.95%	0.59%
Al Rayyan Holding LLC	Beneficial owner	H Shares	11,370,960	6.96%	2.09%
Qatar Holding LLC[8]	Interest in controlled entity	H Shares	11,370,960	6.96%	2.09%
Qatar Investment Authority[8]	Interest in controlled entity	H Shares	11,370,960	6.96%	2.09%
DIC Holding LLC	Beneficial owner	H Shares	2,842,740	1.74%	0.52%
Qatar Investment Authority (in the capacity of investment manager of DIC Holding LLC)[9]	Interest in controlled entity	H Shares	2,842,740	1.74%	0.52%
Cayman Henlius[10]	Beneficial owner	H Shares	51,877,060	31.74%	9.55%
Wei-Dong Jiang[11]	Beneficial owner	H Shares	686,455	0.42%	0.13%
	Interest in controlled entity	H Shares	51,877,060	31.74%	9.55%
Scott Shi-Kau Liu[12]	Beneficial owner	H Shares	2,410,695	1.48%	0.44%
	Interest in controlled entity	H Shares	51,877,060	31.74%	9.55%
Henlink	Beneficial Owner	Unlisted Foreign Shares	15,876,694	100%	2.92%

Notes:

(1) As at 31 December 2021, Fosun New Medicine was wholly owned by Fosun Pharma Industrial Development. Fosun Pharma Industrial Development was deemed to be interested in the Domestic Shares which Fosun New Medicine was interested in.

(2) On 24 December 2019, Cayman Henlius pledged a total of 3,192,339 H Shares to Fosun Industrial, therefore Fosun Industrial had security interest in these H Shares. As of 31 December 2021, Fosun Pharma Industrial Development and Fosun Industrial were wholly owned by Fosun Pharma. Fosun Pharma was deemed to be interested in the Domestic Shares and H Shares which Fosun Pharma Industrial Development and Fosun Industrial were interested in.

(3) As at 31 December 2021, Fosun High Tech held approximately 39.39% of the shares in Fosun Pharma. Fosun International was deemed to be interested in the Domestic Shares and H Shares which Fosun High Tech was interested in.

(4) As at 31 December 2021, Fosun High Tech was wholly owned by Fosun International. Fosun International was deemed to be interested in the Domestic Shares and H Shares which Fosun High Tech was interested in.

(5) As at 31 December 2021, FHL directly held approximately 72.66% of the shares in Fosun International. FHL was deemed to be interested in the Domestic Shares and H Shares which Fosun International was interested in.

(6) As at 31 December 2021, FHL was wholly owned by FIHL. FIHL was deemed to be interested in the Domestic Shares and H Shares which FHL was interested in.

(7) As at 31 December 2021, Mr. Guangchang Guo held approximately 85.29% of the shares in FIHL. Mr. Guangchang Guo was deemed to be interested in the Domestic Shares and H Shares which FIHL was interested in.

(8) As at 31 December 2021, Al Rayyan Holding LLC was wholly owned by Qatar Holding LLC, which was wholly owned by Qatar Investment Authority. Qatar Holding LLC and Qatar Investment Authority were deemed to be interested in the H Shares which Al Rayyan Holding LLC was interested in.

(9) As at 31 December 2021, DIC Holding LLC was wholly owned by Qatar Investment Authority (in the capacity of investment manager of DIC Holding LLC). Qatar Investment Authority (in the capacity of investment manager of DIC Holding LLC) was deemed to be interested in the H Shares which DIC Holding LLC was interested in.

(10) As at 31 December 2021, Cayman Henlius was held by Dr. Scott Shi-Kau Liu and Dr. Wei-Dong Jiang as to approximately 62.96% and 37.04% of the total equity interests, respectively. On 24 December 2019, Cayman Henlius pledged a total of 3,192,339 H Shares to Fosun Industrial, a wholly-owned subsidiary of Fosun Pharma, while Cayman Henlius continues to be the beneficial owner of such Shares.

(11) As at 31 December 2021, Dr. Wei-Dong Jiang held approximately 37.04% of the shares in Cayman Henlius. Dr. Wei-Dong Jiang was deemed to be interested in the H Shares which Cayman Henlius was interested in.

(12) As at 31 December 2021, Dr. Scott Shi-Kau Liu held approximately 62.96% of the shares in Cayman Henlius. Dr. Scott Shi-Kau Liu was deemed to be interested in the H Shares which Cayman Henlius was interested in.

Save as disclosed herein, there is no other person known to the Directors/Supervisors or chief executive of the Company who, as of 31 December 2021, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 under Part XV of the SFO or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

PERMITTED INDEMNITY

Pursuant to the Articles of Association, subject to the applicable laws and regulations, every Director and Supervisor shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the directors and supervisors of the Group.

SHARE OPTION SCHEME

For the year ended 31 December 2021, the Company did not have any share option scheme.

SHARE AWARD SCHEME

On 10 December 2020, the Company amended the terms of the 2018 Share Award Scheme. The major amendments relate to, among other things, the transfer restrictions on incentive shares and the special adjustment mechanism. Details of the 2018 Share Award Scheme and amendments to the 2018 Share Award Scheme are set out in notes 31 to the financial statements.

In addition, on 10 December 2020, the Company adopted the 2020 Share Award Scheme as certain participants in the 2018 Share Award Scheme were no longer employed by the Group and had to assign their Restricted Interests under the 2018 Share Award Scheme. The Participants of the 2020 Share Award Scheme will acquire the Restricted Interests from the Resigned Participants of the 2018 Share Award Scheme. The Participants of the 2021 Share Award Scheme will acquire the Restricted Interests from the Resigned Participants of the 2018 and 2020 Share Award Scheme. Details of the amendments to the 2020 Share Award Scheme are set out in notes 31 to the financial statements.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group during the Reporting Period or subsisted at the end of the Reporting Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, during the Reporting Period, the Company has maintained sufficient public float as required by the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Articles of Association or under the applicable laws of the PRC where the Company is incorporated.

DONATIONS

During the Reporting Period, the Group made donations of RMB6.0 million.

CONTINUING CONNECTED TRANSACTIONS

Framework property leasing agreement

On 31 December 2019, the Company entered into a Framework Property Leasing Agreement with Clone High Tech, a wholly-owned subsidiary of Fosun Pharma, pursuant to which, the Group has agreed to lease premises to Clone High Tech for its use as manufacturing facilities, laboratories and/or office buildings from time to time, for a period of three years commencing from 1 January 2020 and ending on 31 December 2022.

Clone High Tech is a wholly-owned subsidiary of Fosun Pharma, the controlling shareholder of the Company. Therefore, Clone High Tech is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, under Chapter 14A of the Listing Rules, the entering into of the Framework Property Leasing Agreement constitutes a continuing connected transaction of the Company.

The annual caps for the premises leased by the Group from Clone High Tech under the Framework Property Leasing Agreement for the two years ending 31 December 2021 and 2022 are set at RMB15.6 million and RMB17.5 million, respectively. On 30 June 2021, the Company increased the annual caps for the two years ending 31 December 2021 and 2022 to RMB83.0 million and RMB54.0 million, respectively.

Promotional services agreement

On 24 August 2020, Henlius Biopharmaceuticals, a wholly-owned subsidiary of the Company, entered into a Promotional Services Agreement with Jiangsu Fosun to engage Jiangsu Fosun to provide promotional services to the Group in relation to the Group's HANQUYOU (trastuzumab injection, EU brand name: Zercepac®) for the year of 2020. As the Group intends to continue to engage Jiangsu Fosun to provide the promotional services, Henlius Biopharmaceuticals entered into a supplemental agreement to the Promotional Services Agreement with Jiangsu Fosun on 31 December 2020, to extend the term of the Promotional Services Agreement for a further term from 1 January 2021 to 30 June 2022.

Jiangsu Fosun is a wholly-owned subsidiary of Fosun Pharma (a controlling shareholder of the Company), therefore, Jiangsu Fosun is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Promotional Services Agreement (as amended) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The maximum transaction amount (on a tax-exclusive basis) to be paid by the Group to Jiangsu Fosun under the Promotional Services Agreement (as amended) for the year ended 31 December 2021 and the six months ending 30 June 2022 will not exceed RMB6,480,000 and RMB4,800,000, respectively. On 30 November 2021, the Company increased the annual caps for the year ended 31 December 2021 and the six months ending 30 June 2022 to RMB10 million and RMB10 million, respectively.

Administrative framework agreement

On 24 June 2020, the Company entered into an Administrative Framework Agreement with Fosun High Tech to set out the framework terms governing the procurement of services and products for administrative purposes, including without limitation, office supplies, employee medical benefits and personnel training services between the Group and the Remaining Fosun High Tech Group. On 31 December 2020, the Company and Fosun High Technology renewed the Administrative Framework Agreement, extending the term of the Administrative Framework Agreement by one year from 31 December 2020 to 31 December 2021. As the expiry date of the Administrative Framework Agreement is 31 December 2021, the Company renewed the Administrative Framework Agreement with Fosun High Tech for a further term of one year from 1 January 2022 to 31 December 2022 on 31 December 2021.

Fosun High Tech was interested in approximately 39.39% of the total issued ordinary shares of Fosun Pharma, which in turn indirectly held approximately 57.48% of the Shares of the Company in issue as at 31 December 2021. Accordingly, each of Fosun High Tech and Fosun Pharma is a controlling shareholder of the Company. Therefore, the transactions under the Administrative Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The maximum transaction amount (on a tax-exclusive basis) to be paid by the Group to the Remaining Fosun High Tech Group under the Administrative Framework Agreement for the two years ending 31 December 2021 and 31 December 2022 will not exceed RMB4.0 million and RMB9.5 million.

Sinopharm procurement framework agreement

On 24 April 2020, the Company entered into a Sinopharm Procurement Framework Agreement to procure (i) warehousing and logistics services, and (ii) raw materials, including reagent, from Sinopharm Group. The agreement will expire on 31 December 2022. The term of Sinopharm Procurement Framework Agreement is automatically renewed for a successive period of three years thereafter, subject to the compliance with the Hong Kong Listing Rules.

As at 24 April 2020 and 31 December 2020, Fosun Pharma (a controlling shareholder of the Company) directly held 49% of the interests in Sinopharm Industrial Investment and Sinopharm is a subsidiary of Sinopharm Industrial Investment. Therefore, Sinopharm is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Sinopharm Procurement Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The maximum transaction amount to be paid by the Group to Sinopharm Group for the procurement of warehousing and logistic services pursuant to the Sinopharm Procurement Framework Agreement for the years ending 31 December 2021 and 2022 will not exceed RMB14,000,000 and RMB19,000,000, respectively.

The maximum transaction amount to be paid by the Group to Sinopharm Group for the purchase of raw materials pursuant to the Sinopharm Procurement Framework Agreement for the years ending 31 December 2021 and 2022 will not exceed RMB4,000,000 and RMB6,000,000, respectively. On 31 December 2020, the Company has increased the annual caps for the two years ending 31 December 2021 and 2022 to RMB5,000,000 and RMB7,000,000 respectively.

SINOPHARM DISTRIBUTION FRAMEWORK AGREEMENT

On 24 April 2020, the Company entered into a Sinopharm Distribution Framework Agreement to distribute the Biopharmaceutical Products of the Group to the Sinopharm Group from time to time. On 12 June 2020, the Shareholders approved the Sinopharm Distribution Framework Agreement dated 24 April 2020 at the 2020 second extraordinary general meeting. The distribution price will be determined between the parties on an arm's length market basis with reference to the sales price of similar products to end customers and regulatory requirements.

As at 24 April 2020, Fosun Pharma (a controlling shareholder of the Company) directly held 49% of the interests in Sinopharm Industrial Investment and Sinopharm is a subsidiary of Sinopharm Industrial Investment. Therefore, Sinopharm is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Sinopharm Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The maximum transaction amount to be received by the Group from Sinopharm Group for the distribution of the Biopharmaceutical Products pursuant to the Sinopharm Distribution Framework Agreement for the years ending 31 December 2021 and 2022 will not exceed RMB1,462,000,000, and RMB1,995,000,000, respectively.

COLLABORATION ARRANGEMENTS UNDER THE HLX01 AGREEMENT AND THE HLX03 AGREEMENT

The Company has entered into the HLX01 Agreement (as amended) with Fosun Pharma Industrial Development (a subsidiary of Fosun Pharma) on 18 September 2015 in connection with HLX01 (HANLIKANG). Pursuant to the terms of the HLX01 Agreement, the Company has agreed to (i) be responsible for the R&D, regulatory submission, clinical trials as well as the manufacturing and supply of HANLIKANG in the PRC; and (ii) grant an exclusive right to Fosun Pharma Industrial Development to promote and commercialise HANLIKANG in the PRC. The Company and Fosun Pharma Industrial Development have also agreed to share the net profit (as defined in the HLX01 Agreement) derived from the sales of HANLIKANG in the PRC. The HLX01 Agreement became effective on the date of signing, and will continue until terminated in accordance with its terms. Frost & Sullivan has confirmed that it is a market practice. The HLX01 Agreement may be terminated if (i) any party materially breaches the terms of the HLX01 Agreement and such breach cannot be cured within 90 days by the breaching party upon receiving notice from the non-breaching party, or (ii) any party is under liquidation, whether voluntary or otherwise, or enters into any agreements with its creditors which may be detrimental to the performance of the obligations under the HLX01 Agreement. In addition, if there is a change of control of Fosun Pharma Industrial Development, Fosun Pharma Industrial Development and the Company should negotiate in good faith for continuing to carry out the cooperation arrangement under the HLX01 Agreement, failing which, the Company may terminate the HLX01 Agreement. Accordingly, the term of the HLX01 Agreement will continue until it is terminated in accordance with its terms.

The Company entered into an agreement with Jiangsu Wanbang (a wholly-owned subsidiary of Fosun Pharma) in relation to HLX03 (HANDAYUAN) on 18 September 2017 to commercialise HANDAYUAN. The HLX03 Agreement contains the similar terms as those of the HLX01 Agreement.

The (i) supply of products; and (ii) the sharing of the net profits derived from the sales of the relevant products by the Company to Fosun Pharma and/or its associate are regarded as continuing connected transactions of the Company. For such transactions, the Company has applied to, and the Stock Exchange has granted to the Company, a waiver from strict compliance with Rules 14A.52 and 14A.53 of the Listing Rules, with a waiver period ending on 31 December 2024.

During the Reporting Period, the actually received amount of the Group for the supply of products and sharing of net profit from sales of related products were RMB547.3 million.

Review by and confirmation of independent non-executive directors of the company

The independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that such transactions were:

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

(ii) conducted on normal commercial terms or better (as defined in the Listing Rules); and

(iii) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation of the auditors

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued its unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 142 to 147 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the Reporting Period are disclosed in note 36 to the financial statements.

Apart from the continuing connected transactions as disclosed in this annual report, none of the related party transactions constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, which are subject to announcement or independent shareholders' approval requirements.

NON-COMPETITION UNDERTAKING

Fosun Pharma has provided a non-compete undertaking to the Company in connection with the Listing to ensure there remains a clear delineation of their respective businesses in the future.

The Non-competition Undertaking commenced on the listing date and will end on the earlier of (i) the date on which Fosun Pharma or its subsidiaries (other than the Group) cease to be controlling shareholders (as defined under the Listing Rules) of the Company and (ii) the date on which the Shares cease to be listed on the Stock Exchange.

The independent non-executive Directors have performed an annual review and confirmed that they are not aware of any circumstances which indicate that Fosun Pharma is not in compliance with Non-competition Undertaking.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, at no time during the Reporting Period had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholders or any of their subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholders or any of their subsidiaries to the Company or any of its subsidiaries.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 25 September 2019, the Company issued 64,695,400 H Shares at HK$49.6 per H Share in connection with the global offering and listing of the H Shares on the Hong Kong Stock Exchange. The total gross proceeds amounted to approximately HK$3,209 million by way of initial public offering of the Company on the Hong Kong Stock Exchange.

On 22 October 2019, the over-allotment option granted in connection with the Global Offering was partially exercised and the Company issued an aggregate of 4,366,400 H Shares at HK$49.6 per H Share. The total gross proceeds amounted to approximately HK$216.6 million.

After deduction of listing expenses, the total net proceeds from the Global Offering (including the net proceeds from the partial exercise of the over-allotment option) was approximately HK$3,147.1 million (approximately RMB2,800.9 million), the use and allocation ratio of which have been adjusted in accordance with the announcement of the Company dated 26 March 2021 (the "**Announcement**"). As at the end of the Reporting Period, details of the proceeds that have been used and will continue to be used in accordance with those set out in the Prospectus and subject to the adjustment of the Announcement are set out below:

Intended use of proceeds as set out in the Prospectus		Allocation of net proceeds in the proportion as set out in the Prospectus and as adjusted in the Announcement[4]	Amounts utilized as at 31 December 2020 (RMB million)	Amounts utilized during the Reporting Period (RMB million)	Amounts not yet utilized as at 31 December 2021 (RMB million)
(a)	Fund the ongoing clinical trials, regulatory filing and registration for Core Products[1]	approximately 32.9% (RMB920.4 million)	588.9	104.7	226.8
	– Fund the ongoing clinical trials, regulatory filing and registration for HLX02	approximately 6.0% (RMB168.1 million)	167.3	0.7	0.1
	– Fund the ongoing clinical trials, regulatory filing and registration for HLX04 for the mCRC indication	approximately 8.0% (RMB224.1 million)	158.6	2.3	63.2
	– Develop immune-oncology combination therapy comprised of HLX04 and HLX10 for the treatment of advanced solid tumours	approximately 18.9% (RMB528.2 million)	263.0	101.7	163.5
(b)	Fund the ongoing clinical trials, regulatory filing and registration for other biosimilar candidates, including HLX12, HLX11 and HLX14[2]	approximately 8.7% (RMB244.1 million)	222.0	22.1	0.0
(c)	Fund the ongoing clinical trials, regulatory filing and registration for bio-innovation drugs and the development of immune-oncology combination therapy[3]	approximately 48.4% (RMB1,356.3 million)	940.8	127.2	288.3
	– HLX07	approximately 3.3% (RMB92.8 million)	92.8	0.0	0.0
	– HLX20	approximately 0.2% (RMB5.6 million)	4.2	0.0	1.4
	– HL X10 and immune-oncology combination therapies involving HLX10 (including HLX10+HLX07)	approximately 44.9% (RMB1,257.9 million)	843.8	127.2	286.9
(d)	Working capital and general corporate purposes	approximately 10.0% (RMB280.1 million)	277.2	1.6	1.3
TOTAL[5]		100% (RMB2,800.9 million)	2,028.9	255.6	516.4

Notes:

(1) The use of proceeds to be applied to the research and development of the Core Products depends on the development progress of each Core Product. Please refer to the section headed "Management Discussion and Analysis" in this annual report for further details.

(2) The use of proceeds to be applied to the research and development of the other biosimilar candidates depends on the development progress of each of these biosimilar candidates. Please refer to the section headed "Management Discussion and Analysis" in this annual report for further details.

(3) The use of proceeds to be applied to the research and development of the bio-innovative drugs and the development of immuneoncology combination therapy depends on the development progress of each of these drugs and therapies. Please refer to the section headed "Management Discussion and Analysis" in this annual report for further details.

(4) The net proceeds figures have been translated to Renminbi for the allocation and the utilization calculation, and have been adjusted slightly due to the fluctuation of the foreign-currency exchange rates since the listing and proportionally in accordance with the Prospectus after taking into account the final offer price of the Global Offering and the partial exercise of the over-allotment options. Please see the Announcement for details of the adjustment of the use and allocation of the net proceeds from the Global Offering.

(5) The majority of the net proceeds from the Global Offering are allocated to fund ongoing clinical trials, regulatory filings and registrations of the Company's drugs and therapies, the outcome and hence the timeframe, of which are not within the control of the Company. Please refer to the section headed "Management Discussion and Analysis" in this annual report for further details.

Other than fund raising activity as set out above, the Company has not conducted any other fund raising activities involving the issue of equity securities within 12 months immediately prior to the Latest Practicable Date.

PROPOSED A SHARE OFFERING ON THE SHANGHAI STOCK EXCHANGE

On 30 March 2020, the Company has announced the proposal to make an application to the relevant regulatory authorities in the PRC for the allotment and issue of A Shares and an application to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares on the Science and Technology Innovation Board of Shanghai Stock Exchange. On 27 April 2020, a circular containing the details of the Proposed A Share Offering was despatched to the Shareholders. On 12 June 2020, the resolutions in relation to the Proposed A Share Offering were duly passed. On 23 April 2021, a circular containing the details of extension of the Proposed A Share Offering and Listing was despatched to the Shareholders. On 25 May 2021, the resolutions in relation to extension of the Proposed A Share Offering and Listing were duly passed.

Other than fund raising activity as set out above, the Company has not conducted any other fund raising activities involving the issue of equity securities within 12 months immediately prior to the Latest Practicable Date.

SUBSEQUENT EVENTS

No major subsequent events have occurred since the end of the Reporting Period and as at the Latest Practicable Date.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes the importance of compliance with regulatory requirements. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the Reporting Period, the Group has complied, to the best of our knowledge, with all relevant rules and regulations that have a significant impact on the Company.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2021, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

RELATIONSHIP WITH STAKEHOLDERS

The Company recognizes that its employees, customers and business partners are keys to its sustainability journey. The Company has been striving to achieve corporate sustainability through engaging its employees, providing quality services for its customers, collaborating with business partners and supporting communities.

The Company places significant emphasis on human resources. The Company provides a fair workplace, promoting non-discrimination and diversity to its staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. The Company provides regular trainings for staff to keep them abreast of the latest developments in the market and industry, by means of both internal trainings and trainings provided by experts from external organizations.

To enhance customer satisfaction and promote a customer-oriented culture within the Group, the Company takes "Customer First" as one of its core values. It values the feedback from customers and collects feedbacks through daily communication, regular meeting, etc. It has also established the mechanism about customer service, support and complaints. When dealing with a customer complaint, the Company treats it as an opportunity to improve its relationship with the customer, and solves it in a timely manner and in accordance with international standards.

The Company believes that its suppliers are equally important in driving quality delivery of its products. It proactively collaborates with its business partners (including suppliers and contractors) to deliver high-quality and sustainable products and services.

AUDITORS

The financial statements of the Group have been audited by Ernst & Young.

A resolution to re-appoint Ernst & Young as the auditors of the Company and to authorize the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On Behalf of the Board
Wenjie Zhang
Chairman
Hong Kong, 16 March 2022

REPORT OF THE BOARD OF SUPERVISORS

During the reporting period, in accordance with the Company Law, the Listing Rules and other relevant laws, regulations and the Articles of Association, the Rules of Procedures of the Board of Supervisors and relevant regulations, all members of the Board of Supervisors performed their supervisory functions, carefully and objectively considered the issues related to the finance and operation of the Company, and earnestly supervised the legality and compliance of Directors' and senior management's performance. They have fully developed the supervisory role, and played an active role in ensuring the implementation of resolutions passed on general meetings of the Company, and safeguarding the legitimate rights and interests of the Company and shareholders as a whole.

THE DAILY OPERATION OF THE BOARD OF SUPERVISORS

During the reporting period, the second session of the Board of Supervisors of the Company held a total of 4 meetings, which reviewed the financial situation and other annual events for the year 2020 of the Group, and the financial position for the first quarter, the first half year and the third quarter of 2021 and other relevant matters.

REVIEW OPINIONS OF THE BOARD OF SUPERVISORS ON THE RELATED MATTERS OF THE COMPANY IN 2021

1. Compliance with Laws in Operations

   The Board of Supervisors considers that, the Company can operate in strict accordance with the requirements of the Company Law, the Articles of Association and other relevant requirements. The Company's decision-making procedures are legal and effective, and a relatively complete internal control system is in place. No violations of laws, regulations, the Articles of Association or any detriment to the interests of the Company were found when the Directors and senior management of the Company performing their functions.

2. Financial Position

   The Board of Supervisors considers that, the Company's financial system is sound with standardised financial operations, various expenses are reasonable, and the preparation and review procedures of the Company's financial reports are in compliance with the Company Law and the Articles of Association and other relevant provisions, and the financial report can authentically reflect the Group's operating conditions and financial position, with no significant omissions or false statements.

3. Internal Control

   The Board of Supervisors considers that, the Company has established a relatively complete internal control system, which is in compliance with relevant requirements such as the Company Law and the Articles of Association, and has played a better role in risk prevention and control in all aspects of the Company's daily operations and management.

4. Connected Transactions

   The Board of Supervisors considers that, during the reporting period, the Company's connected transactions were carried out in accordance with the principles of openness, fairness and equity, and the transaction procedures were legal and compliant, without any detriment to the rights and interests of the Company and shareholders.

On Behalf of the Board of Supervisors
Rongli Feng
Chairman
Hong Kong, 16 March 2022

CORPORATE GOVERNANCE REPORT

The Board hereby presents to the Shareholders the corporate governance report for the year ended 31 December 2021.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code.

The Company has also in place a corporate governance framework and has established a set of policies and procedures based on the CG Code. Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

In the opinion of the Directors, the Company has complied with all principles and code provisions of the CG Code during the Reporting Period, except for code provision C.2.1 which requires the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The details of deviation are set out in section headed "Chairman, chief executive officer and president" below in this corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding the securities transactions of directors, supervisors and relevant employees who are likely to be in possession of inside information of the Company.

Specific enquiry has been made of all the Directors and Supervisors and the Directors and Supervisors have confirmed that they have complied with the Model Code during the Reporting Period.

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

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board shall regularly review the contribution from a Director when performing his/her responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

Board Composition

The Board of the Company currently comprises the following Directors:

Executive director

Mr. Wenjie Zhang *(Chairman and chief executive officer)*

Non-executive directors

Mr. Qiyu Chen
Mr. Yifang Wu
Ms. Xiaohui Guan
Dr. Aimin Hui
Mr. Zihou Yan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tak Young So
Dr. Lik Yuen Chan
Dr. Guoping Zhao
Dr. Ruilin Song

Mr. Qiyu Chen resigned as the chairman of the Board on 30 November 2021. Mr. Wenjie Zhang was appointed as the chairman of the Board on 30 November 2021.

The biographical information of the Directors is set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 67 to 74 of this annual report.

None of the members of the Board is related to one another, including financial, business, family, or other material or relevant relationship(s).

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT

Mr. Qiyu Chen served as the chairman of the Board from 1 January 2021 to 30 November 2021. After the resignation of Mr. Qiyu Chen as the chairman of the Board, Mr. Wenjie Zhang was appointed as the chairman of the Board. During the Reporting Period, Mr. Wenjie Zhang has been the chief executive officer of the Company. Mr. Wenjie Zhang served as the president of the Company from 1 January 2021 to 30 November 2021. After the resignation of Mr. Wenjie Zhang as the president of the Company, Mr. Jun Zhu was appointed as the president of the Company. The chairman of the Board leads and is responsible for the effective functioning of the Board of the Company. The terms of reference of the chief executive officer and the president are set out in the Articles of Association. The chief executive officer is responsible for organizing the formulation and implementation of the Company's strategic plan, annual investment plan, and implementing board resolutions, while the president is responsible for presiding over the Company's production and operation management, organizing and implementing the Company's annual business plan and investment plan, drawing up the setting plan of the Company's internal management organization, basic management systems and regulations.

Code provision C.2.1 of CG Code provides that roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

From 30 November 2021 to 31 December 2021, Mr. Wenjie Zhang served both as the chairman of the Board and chief executive officer, resulting the deviation of the code provision by the Company. Mr. Wenjie Zhang joined the Company in March 2019 and has successively served in various key positions in the Company, including the chief commercial operation officer and chief strategy officer of the Company, his familiarity with the business operation of the Company and his roles as the chairman of the Board and the chief executive officer of the Company can facilitate the formulation and implementation of business strategies of the Company. The Board considered that the current structure will not impair the balance of power and authority between the Board and the management of the Company. The Board will make decisions on important matters of the Company within the authority granted by the articles of association of the Company and its shareholders at the general meetings. In addition, the Board, which currently comprises one executive Director, five non-executive Directors and four independent non-executive Directors, is appropriately structured with a balance of power to provide sufficient checks to protect the interests of the Company and the Shareholders as a whole.

Saved as disclosed above, the Company has complied with all principles and code provisions of the CG Code during the reporting year.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least 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.

Appointment, Removal and Re-election of Directors

Directors shall be elected at the general meeting and a director's term of office shall be three years. The term of office of a Director may be renewed upon re-election when it expires. The chairman of the Board shall be elected and removed by a majority of all directors, and term of office thereof shall be three years, and may be renewed upon re-election when it expires.

The Articles of Association provides that subject to the relevant regulations and regulatory rules of the place where the shares of the Company are listed, if the Board appoints a new director to fill up the temporary vacancy of the Board or add the number of directors, the term of office of the director so appointed shall end only upon the next annual general meeting of the Company, and the said director shall be qualified for re-election and renewal.

Under the Articles of Association, in case a Director has failed to be present in person twice consecutively without any due causes, nor authorized another director to be present at the board meeting on his behalf, he shall be considered unable to fulfill his duties as a director, and the Board may suggest the general meeting making replacement.

In accordance with the Articles 102 of the Articles of Association, all existing Directors will continue in office until their term of office expiring on 7 August 2022.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision 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 co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

During the Reporting Period, the Company organized training sessions conducted by the lawyer for its Directors. Such training sessions cover a wide range of relevant topics including directors' duties and responsibilities/corporate governance etc. In addition, relevant reading materials including directors' manual/legal and regulatory update/seminar handouts have been provided to the directors for their reference and studying.

The Company understands that Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally organized briefings for Directors will be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The records of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the Reporting Period are summarized as follows:

Name of Directors	Type of Training[Note]
Executive Director	
Mr. Wenjie Zhang	A&B
Non-executive Directors	
Mr. Qiyu Chen	A&B
Mr. Yifang Wu	A&B
Ms. Xiaohui Guan	A&B
Dr. Aimin Hui	A&B
Mr. Zihou Yan	A&B
Independent Non-executive Directors	
Mr. Tak Young So	A&B
Dr. Lik Yuen Chan	A&B
Dr. Guoping Zhao	A&B
Dr. Ruilin Song	A&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

BOARD COMMITTEE

The Board has established a total of five committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee, Strategy Committee and Environmental, Social and Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

AUDIT COMMITTEE

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held a total of 4 meetings for reviewing the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and arrangements for the audit to raise concerns about possible improprieties.

The Audit Committee also held a total of 2 meetings with the external auditors.

Remuneration Committee

The terms of reference of the Remuneration Committee are no less exacting than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration packages of individual 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.

During the Reporting Period, the Remuneration Committee held a total of 6 meetings to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the executive Directors and senior management and other related matters.

Details of the remuneration of the Directors and senior management are set out in note 9 to the financial statements for the year ended 31 December 2021.

Nomination Committee

The terms of reference of the Nomination Committee are no less exacting than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy.

In evaluating and nominating suitable candidates for directorships, the Nomination Committee would consider the following criteria of the candidate before making recommendation to the Board:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and the experience related to the Company's business and strategy, and diversity factors as referred in the Board Diversity Policy;
- any measurable objectives adopted for achieving diversity on the Board;
- the Board shall include independent non-executive Directors in accordance with the Listing Rules and whether the candidate would be considered independent by reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can make to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- the willingness and ability to devote adequate time to discharge duties as a member of the Board and Board committee(s); and
- other factors that are applicable to the Company's business and succession plan, and relevant factors that can be revised by the Nomination Committee and/or the Board when necessary.

During the Reporting Period, the Nomination Committee held a total of 4 meetings to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider and recommend to the Board on the appointment of Directors and Supervisors.

Strategy Committee

The main responsibility of the Strategy Committee is to conduct research on the Company's long-term development strategies and significant investment decisions and make recommendations to the Board of the Company, including:

- studying and making recommendations on the Company's long-term strategic development plan;
- tackling other matters related to strategic investment as required by the laws, regulations, regulatory documents, Listing Rules, Articles of Association and other internal management systems of the Company or authorized by the Board;
- studying and making recommendations on other significant events that affect the Company's development;
- inspecting the implementation of the above matters approved by the Board or the general meeting; and
- studying and making recommendations on significant investments, financing, significant capital operations, and asset operating projects subject to the approval by the Board or the general meeting as required by the Articles of Association or other internal management systems of the Company.

During the Reporting Period, the Strategy Committee held 2 meetings in total.

Environmental, Social and Governance Committee

The main responsibility of the Environmental, Social and Governance Committee is to develop the vision, objectives, strategies and structure for the Company's environmental, social and governance efforts, and to review matters related to the implementation of the vision, strategies and structure in environmental, social and governance terms.

During the Reporting Period, the Environmental, Social and Governance Committee held one meeting in total.

Board Diversity Policy

The Company has adopted the board diversity policy, which sets out the approaches to achieve the diversity of the Board. The Company recognizes that the Board shall possess the skills, experience and principles of diverse opinions and perspectives that are necessary and appropriate to the Company's business.

Pursuant to the board diversity policy, in order to achieve diversity in opinions and perspectives of the members of the Board, the Nomination Committee will consider diverse factors in appointment and re-appointment of members of the Board, including gender, age, cultural and educational background, race, place of residence, expertise, skills, knowledge, service period, regulatory requirements and legal rights. All of the above factors are considered to be relevant to the Company's business on grounds that:

– As the Company facing diverse operating environment, in order to fulfill the best interests of shareholders, due consideration shall be given to the interests of employees, customers, suppliers and other business counterparties, governments and other institutions that have an influence on the Company and public shareholders. The composition of the Board that is based on the gender, age, cultural and educational background and race of the members can help strike a right balance among the interests of all parties.

– Expertise, skills, knowledge, and service period are important factors that determine whether the Board can make a wise decision.

All members of the Board are appointed based on the strengths of the candidates, taking into account their skills, knowledge and experience as a whole as required by the Board and the above diverse opinions and perspectives of the Board.

The Board will review this policy from time to time to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions as set out in the code provision A.2.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosures in this corporate governance report.

ATTENDANCE RECORDS OF DIRECTORS

The Company held 13 Board meetings, 4 Audit Committee meetings, 6 Remuneration Committee meetings, 4 Nomination Committee meeting, 2 Strategy Committee meetings, 1 Environmental, Social and Governance Committee meeting and 4 general meetings during the Reporting Period.

The attendance record of the Board meetings and Board committee meetings and the annual general meeting of the Company during the Reporting Period is set out in the table below:

	Attendance/number of Meetings						
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee	Environmental, Social and Governance Committee	General Meeting[1]
Mr. Wenjie Zhang	13/13				2/2	1/1	4/4
Mr. Qiyu Chen	13/13			4/4	2/2		4/4
Mr. Yifang Wu	13/13		6/6		2/2		4/4
Ms. Xiaohui Guan	13/13	4/4					4/4
Dr. Aimin Hui	13/13				2/2		4/4
Mr. Zihou Yan	13/13				2/2	1/1	4/4
Mr. Tak Young So	13/13	4/4			2/2	1/1	4/4
Dr. Lik Yuen Chan	13/13	4/4	6/6			1/1	4/4
Dr. Guoping Zhao	13/13			4/4			4/4
Dr. Ruilin Song	13/13		6/6	4/4	2/2	1/1	4/4

Note:

(1) During the Reporting Period, the Company held a total of 4 general meetings, including 1 annual general meeting, 1 extraordinary general meeting, and 1 domestic shareholders' class meeting and 1 H shareholders' class meeting.

For the year ended 31 December 2021, the chairman held one meeting with independent non-executive Directors without the presence of other Directors.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

– the Audit Committee of the Company assists the Board in leading the management and oversees the formulation, implementation and monitoring of the risk management and internal control systems.

– the Company has established an in-house audit department as the full-time internal control agency and internal audit department. The internal control agency and internal audit department implements supervision and management in the course of business operation of the Company. The internal audit department uses the internal auditing technology of the Company to conduct post – supervision and audit of the Company's daily business to ensure that the Company's business operations continue to meet the Company's system requirements and external regulatory requirements.

– the Company has established risk management and internal control systems, enabling the Company to maintain the highest standard of corporate governance and identify and reduce any potential risks.

– the Company has developed adequate and effective risk management procedures and internal control systems based on the corporate governance manual, which are implemented through the Company's daily business and office functions, such as research and development, production, sales, procurement, engineering, human resources, information technology, financial reporting and management.

– the Company has formulated a number of policies to ensure that the Company complies with the Listing Rules, including but not limited to corporate governance, connected transactions, notifiable transactions, inside information and directors' securities transactions.

All departments conducted internal control assessment regularly to identify risks that could potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to ensure the proper compliance with control policies by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2021.

The Internal Audit Department is responsible for performing independent review of the effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2021, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021.

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

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 75 to 79.

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2021 amounted to RMB2,050,000 and RMB978,000 respectively.

An analysis of the remuneration paid to the external auditor of the Company, Ernst & Young, for the year ended 31 December 2021 is set out below:

Service Category	Fees Paid/Payable (RMB)
Audit Services	
—annual audit service	2,050,000
Non-audit Services	
– Interim review service	750,000
– Others	228,000
	3,028,000

JOINT COMPANY SECRETARIES

Mr. Xinjun Guo, the senior vice president of the Company, served as the secretary to the Board and a joint company secretary from 1 January 2021 to 5 November 2021. After the resignation of Mr. Xinjun Guo, Ms. Yan Wang was appointed as the secretary to the Board and a joint company secretary. During the Reporting Period, Ms. Ching Ching Leung of Tricor Services Limited, an external service provider, has been acting as a joint company secretary of the Company. The primary contact person of Ms. Ching Ching Leung was changed from Mr. Xinjun Guo to Ms. Yan Wang with effect from 5 November 2021. For the year ended 31 December 2021, Mr. Guo, Ms. Wang and Ms. Leung undertook not less than 15 hours of the relevant professional training in compliance with Rule 3.29 of the Listing Rules.

All Directors have access to the advice and services provided by the joint company secretaries on corporate governance and practices and matters of the Board.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting

Pursuant to Article 62 of the Articles of Association, if Shareholders request the convening of an extraordinary general meeting or class meeting of shareholders, the following procedures shall be carried out:

(i) The Shareholders holding, individually or in aggregate, more than 10% of the voting shares of the Company may sign one or more copies of written requests in the same form requesting the Board to convene an extraordinary general meeting or a class meeting of shareholders, and stating the matters to be considered at the meeting. The Board shall within ten days of receipt of the said written request give the written feedback opinion on approval or disapproval for convening an extraordinary general meeting or a class meeting of shareholders. If the Board approves convening an extraordinary general meeting or a class meeting of shareholders, it will within five days of adopting the resolution of the Board issue the notice of convening the meeting, and any changes in the original request in the notice shall be subject to the consent of relevant Shareholders. The aforesaid number of shares held shall be calculated on the date when the Shareholders make the written request.

(ii) If the Board fails to issue the notice of convening a meeting within thirty days of receipt of the written request, the requesting Shareholders may themselves convene such a meeting in a manner as similar as possible to the manner in which general meeting are convened by the Board within four months of receipt of the request by the Board.

Where the Shareholders convene and preside over a meeting by themselves as the Board fails to convene the meeting pursuant to the aforesaid request, the reasonable expenses incurred therefrom shall be borne by the Company and deducted from the amounts due from the Company to the defaulting Directors.

Putting Forward Proposals at General Meetings

Pursuant to Article 68 of the Articles of Association, Shareholders individually or in aggregate holding more than 3% of shares of the Company shall have the right to put forward proposals. The contents of the proposal shall fall within the terms of reference of the general meeting and have specified subjects and specific resolutions, in further compliance with the laws and regulations and the Company's Articles of Association.

In addition, Shareholders individually or in aggregate holding more than 3% of the Shares of the Company may propose and submit a temporary proposal to the convener in writing form ten days prior to date of the general meeting; the convener shall issue a supplementary notice of general meeting within two days after receipt of the said temporary proposal, to notify other shareholders and to submit the said temporary proposal to the general meeting for consideration. The contents of the temporary proposal shall fall within the terms of reference of the general meeting and have specified subjects and specific resolutions.

The general meeting shall not vote and adopt a resolution on any proposal that is not listed in the notice of the general meeting or that is inconsistent with the Article 68.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the Company by means of facsimile, email or post. The details of contact are as follows:

Shanghai Henlius Biotech, Inc. (For the attention of the Board of Directors)

Address: 9F, Innov Tower (Capitaland Building), 1801 Hongmei Road, Xuhui District, Shanghai, PRC, 200233
Fax: +86 021-34611802
Email: ir@henlius.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full names, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor's understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board and the chairman of all Board committees (or their delegates) will attend the annual general meetings in person to meet Shareholders and answer their enquiries.

During the Reporting Period, the Company has amended Articles of Association of the Company. Details of the amendments are set out in the Company's circular dated 6 July 2021. The latest version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

To promote effective communication, the Company maintains a website at http://www.henlius.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Policies Relating to Shareholders

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a profit distribution administration policy. Such details have been disclosed in the section headed "Profit Distribution Plan" on page 40 of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Mr. Wenjie Zhang, aged 55, was appointed as the executive director of the Company on 19 November 2020, and was appointed as the Chairman of the Board on 30 November 2021. Mr. Zhang has been the chief executive officer of the Company since September 2020, responsible for the operation management of the Group. He focuses on building the innovative commercial operation mode of the Group and creating an international strategic layout, and successfully promotes the commercialisation of HANLIKANG (rituximab injection)、HANQUYOU (trastuzumab injection, EU brand name: Zercepac®), the core products of the Group.

Mr. Zhang served as the senior vice president, chief strategy officer and the chief commercial operation officer of the Company from March 2019 to February 2020, the president of the Company from February 2020 to November 2021. Mr. Zhang has been the president of Henlius Biopharmaceutical since February 2020, the president of Henlius Pharmaceutical from February 2020 to March 2021, and the chief executive officer of Henlius Pharmaceutical from September 2020 to March 2021. Mr. Zhang served as the director and chief executive officer of Henlius Biopharmaceutical, the director of Taiwan Henlius, the chairman of the board of directors of Henlius Pharmaceutical, the director, chief executive director and chief financial officer of Hengenix Biotech, Inc. and the managing director of Henlius Europe GmbH since September 2020, and the general manager of Taiwan Henlius since December 2020. He worked as the director of Henlius Industrial since February 2021, the director of Aton Guangzhou since November 2021, the director of Jollin Tech since December 2021, the director of Aton Shanghai since January 2022 and the chairman of the board of directors of Aton Ruilin since March 2022.

Mr. Zhang has nearly 30 years of commercial operation and management experience in the pharmaceutical industry. Prior to joining the Group, Mr. Zhang has previously served in various roles including the general manager at Amgen China, USA, the vice president of oncology business unit 2 of Shanghai Roche Pharmaceuticals, China, and the head of specialty therapeutics & oncology unit-Bayer Schering Pharma, Germany. Mr. Zhang obtained a bachelor's degree in microbiology from Shandong University (山東大學), China, in July 1990 and a master's degree of business administration from Yale University, USA, in May 1998.

Mr. Qiyu Chen (陳啟宇), aged 49, was appointed as a non-executive director of the Company on 15 January 2013 and served as the chairman of the Board from December 2018 to November 2021. Mr. Chen joined Fosun Pharma in April 1994, who was appointed as a director in May 2005, and served as the chairman of Fosun Pharma from June 2010 to October 2020. Mr. Chen was appointed as an executive director of Fosun International since July 2015, a co-president from March 2017 to February 2020, and a co-chief executive officer since February 2020. Mr. Chen has been a non-executive director and a vice chairman of Sinopharm since May 2010 and September 2014, respectively, a director of Beijing Sanyuan Foods Co., Ltd.* (北京三元食品股份有限公司) (Shanghai Stock Exchange stock code: 600429) since March 2015, and the co-chairman of New Frontier Health Corporation (delisted from the New York Stock Exchange in January 2022) since December 2019, a non-executive director of Gland Pharma Limited (stock code of Bombay Stock Exchange Limited and National Stock Exchange of India: GLAND) since October 2020. In addition, Mr. Chen holds directorships in various companies invested by Fosun International and its affiliated companies. Mr. Chen was a non-executive director of Babytree Group (Stock Exchange stock code: 01761) from June 2018 to June 2020 and a director of Dian Diagnostics Group Co., Ltd.* (迪安診斷技術集團股份有限公司) (Shenzhen Stock Exchange stock code: 300244) from May 2010 to February 2019.

Mr. Chen has been the chairman of China Medical Pharmaceutical Material Association (中國醫藥物資協會), a vice president of China Pharmaceutical Innovation and Research Development Association (中國醫藥創新促進會), the honorary chairman and chief supervisor of Shanghai Biopharmaceutics Industry Association(上海市生物醫藥行業協會), and a member of the 13th Shanghai Standing Committee of the Chinese People's Political Consultative Conference. Mr. Chen was awarded "Asia's Best CEO" by Corporate Governance Asia, etc.. Mr. Chen obtained a bachelor's degree in genetics from Fudan University (復旦大學) in the PRC in July 1993 and a master's degree of business administration from China Europe International Business School (中歐國際工商學院) in the PRC in September 2005.

Mr. Yifang Wu (吳以芳), aged 52, was appointed as a non-executive director of the Company on 12 June 2015. Mr. Wu joined Fosun Pharma Group in April 2004, and was the senior vice president of Fosun Pharma from July 2014 to January 2016, the senior vice president and chief operating officer of Fosun Pharma from January 2016 to June 2016, the president of Fosun Pharma from June 2016 to October 2020, and has been the chief executive officer since June 2016 and an executive director since August 2016, and he has been the chairman of Fosun Pharma since October 2020. Mr. Wu serves as a non-executive director of Sisram Medical Ltd. (復鋭醫療科技有限公司) (Stock Exchange stock code: 01696) since October 2016, a non-executive director of Gland Pharma Limited (stock code of Bombay Stock Exchange Limited and National Stock Exchange of India: GLAND) since October 2020 and was the chairman of the board of supervisors of Sinopharm from September 2020 to June 2021.

Prior to joining Fosun Pharma Group, Mr. Wu has been a technician, director, production officer, finance director, assistant to director of Xuzhou Biochemical Pharmaceutical Factory* (徐州生物化學製藥廠), a deputy director of Xuzhou (Wanbang) Biopharmaceuticals Manufactures Plant* (徐州(萬邦)生物化學製藥廠), the deputy general manager of Xuzhou Wanbang Biochemical Pharmaceutical Co., Ltd.* (徐州萬邦生化製藥有限公司) and Jiangsu Wanbang Biopharmaceutical Co., Ltd.* (江蘇萬邦生化醫藥股份有限公司) (where Xuzhou Biochemical Pharmaceutical Factory* (徐州生物化學製藥廠), Xuzhou (Wanbang) Biopharmaceuticals Manufactures Plant* (徐州(萬邦)生物化學製藥廠), Xuzhou Wanbang Biochemical Pharmaceutical Co., Ltd.* (徐州萬邦生化製藥有限公司) and Jiangsu Wanbang Biopharmaceutical Co., Ltd.* (江蘇萬邦生化醫藥股份有限公司) were predecessors of Jiangsu Wanbang). Mr. Wu graduated from Nanjing University of Science and Technology (南京理工大學) majoring in international commerce in the PRC in 1996 and obtained a master's degree in business administration from Saint Joseph's University in the United States in 2005.

Ms. Xiaohui Guan (關曉暉), aged 51, was appointed as a non-executive director of the Company on 24 December 2018. Ms. Guan joined Fosun Pharma Group in May 2000, and had been the vice president, chief accountant and general manager of finance department of Fosun Pharma from December 2014 to June 2015, the senior vice president and chief financial officer of Fosun Pharma from June 2015 to October 2020, the executive president and chief financial officer of Fosun Pharma since October 2020 and the executive director of Fosun Pharma since December 2021. Ms. Guan has been a non-executive director of Sinopharm from March 2019 to March 2021, and a non-executive director of Gland Pharma Limited (stock code of Bombay Stock Exchange Limited and National Stock Exchange of India: GLAND) since October 2020. Prior to joining Fosun Pharma Group, Ms. Guan worked at Jiangxi Branch of Industrial and Commercial Bank of China. Ms. Guan obtained a bachelor's degree of economics from Jiangxi University of Finance and Economics (江西財經大學) in the PRC in June 2000 and acquired a master's degree of professional accountancy from Chinese University of Hong Kong in December 2007. Ms. Guan is qualified as Chinese Certified Public Accountant and a member of the Association of Chartered Certified Accountants.

Dr. Aimin Hui, aged 59, was appointed as a non-executive director of the Company on 10 April 2018. Dr. Hui joined the Fosun Pharma in November 2017 and served as the senior vice president of Fosun Pharma since November 2017 to March 2021, and has been the executive president since March 2021. Prior to joining the Fosun Pharma Group, Dr. Hui was an assistant professor and lecturer at the Faculty of Medicine of University of Tokyo (東京大學醫學院) from October 1997 to October 2000, a visiting scientist and researcher at National Cancer Institute in the U.S. from October 2000 to December 2006, a medical director of GE Healthcare Group from January 2007 to December 2008, a medical director of Cephalon, Inc. from January 2009 to April 2010, a clinical oncology director and senior director of Takeda Pharmaceutical Company Limited from April 2010 to November 2015, and a vice president of the global clinical research and development of Sanofi from November 2015 to October 2017. Dr. Hui obtained a bachelor's degree of medicine from Hebei Medical University (河北醫科大學) in the PRC in August 1984 and a doctoral degree from the School of Medicine of Shinshu University (信州大學醫學院) in Japan in September 1994.

Mr. Zihou Yan (晏子厚), aged 58, has been appointed as the non-executive director of the Company since 19 February 2020. Mr. Yan has been the senior vice president of Fosun Pharma Industrial Development since January 2019. Previously, Mr. Yan served as a secretary of the CPC Committee and deputy head of Chengdu Institute of Biological Products Co., Ltd.* (成都生物製品研究所有限責任公司) (formerly known as Ministry of Health Chengdu Institute of Biological Products* (衛生部成都生物製品研究所) and Chengdu Institute of Biological Products* (成都生物製品研究所)) from January 2007 to September 2010. From September 2010 to December 2018, Mr. Yan worked for Shanghai Institute of Biological Products Co., Ltd.* (上海生物製品研究所有限責任公司) as the general manager and deputy secretary of the CPC Committee. Mr. Yan obtained a bachelor's degree in Science from Sichuan University (四川大學) in China in December 1986, and a master's degree in Business Administration from the University of Electronic Science and Technology of China (電子科技大學) in March 2004.

Mr. Tak Young So (蘇德揚), aged 51, was appointed as an independent non-executive director of the Company on 2 September 2019. Mr. So has more than 20 years of experience in finance, accounting, investment and private equity businesses with global financial institutions and asset management companies. He started his career as an auditor with Ernst & Young, Hong Kong from February 1993 to December 1994. Mr. So has been the founding and managing partner of FastLane Group since July 2012 and has been a partner of Prospere Capital Limited since January 2018.

Mr. So has previously served various positions, including group audit and project manager of strategic and performance improvement group in the Sydney office of Commonwealth Bank of Australia from January 1995 to January 1998; vice president of global capital market/Asia treasury and vice president of financial controls of Bank of America, Hong Kong from January 1998 to March 2002; head of finance and operations of consumer banking in Hong Kong, head of asset and liability management of Greater China/Asia Pacific and chief financial officer of consumer, commercial and private bank in Hong Kong of ABN AMRO Bank N.V., Hong Kong from March 2002 to January 2005; chief financial officer of Hamon Investment Group, an affiliate of Bank of New York Mellon from February 2005 to August 2007; chief financial officer of Asia Pacific of asset management division for Deutsche Bank, Hong Kong from August 2007 to November 2011, and chief financial officer of PAG Capital from November 2011 to April 2012. Mr. So received his bachelor of business degree in accounting and finance and his master of business administration degree in banking from the University of Technology in Sydney, Australia in April 1994 and September 1998, respectively. He has been a fellow member of the Australian Society of Certified Practising Accounting Australia (FCPA) since August 2011.

Dr. Lik Yuen Chan (陳力元), aged 53, was appointed as an independent non-executive director of the Company on 2 September 2019. Dr. Chan is a world famous academic in liver diseases with extensive achievement and recognition in clinical practice and research teaching. Dr. Chan has served various positions in the Chinese University of Hong Kong from 2002 to 2021, including a director of the centre of liver health, associate dean of external affairs of the faculty of medicine and a professor of the Internal Medicine Department and the Department of Medicine and Therapeutics. Dr. Chan Joined Union Hospital of Hong Kong in November 2020 and served as the vice president and manager of Internal Medicine Department.

Dr. Chan received a bachelor's degree of medicine and surgery from the Chinese University of Hong Kong in December 1992, a doctor's degree of medicine from the Chinese University of Hong Kong in November 2001 and a master's degree in business administration from the University of Hong Kong in November 2014. He is a member of Royal College of Physicians of the United Kingdom since November 1995, a fellow of Hong Kong College of Physicians since May 2000, a fellow of Hong Kong Academy of Medicine since June 2000, a fellow of Royal College of Physicians of Edinburgh since July 2003, a fellow of Royal College of Physicians of London since May 2006 and a fellow of the American Association for the Study Liver Diseases since October 2016.

Dr. Guoping Zhao (趙國屏), aged 73, was appointed as an independent non-executive director of the Company on 2 September 2019. Dr. Zhao is a molecular microbiologist. Currently, he has been the chairman of the Advisory Committee of Key Laboratory of Synthetic Biology of the Center for Excellence in Molecular Plant Science of the Chinese Academy of Sciences (CAS) (中國科學院分子植物科學卓越創新中心合成生物學重點實驗室), the director of Department of Microbiology and Immunology at the School of Life Sciences of Fudan University (復旦大學生命科學學院微生物學與免疫學系) and the chief scientist of Biomedical Big Data Center at the Shanghai Institute of Nutrition and Health of CAS (中國科學院上海營養與健康研究所生物醫學大數據中心).

Previously, Dr. Zhao served various positions related to life science research at the CAS since 1990s, such as the researcher, assistant to director and successively as the deputy director of the Microorganism Secondary Metabolism Regulation Laboratory of IPPE, SIBS, CAS (中國科學院上海生命科學研究院植物生理生態研究所次生代謝分子調控研究開放實驗室) from December 1994 to January 1997, the researcher and successively as the deputy director of Shanghai Research Center of Biotechnology, Chinese Academy of Sciences (中國科學院上海生物工程研究中心) from January 1997 to July 1999, and the researcher and successively as the director of SIBS, CAS from July 1999 to December 2001. Dr. Zhao was elected as a member of the Chinese Academy of Sciences (中國科學院院士) in 2005 and fellow of the Third World Academy of Sciences (第三世界科學院院士) in 2011. Dr. Zhao obtained a bachelor of science degree in micro-biology from Fudan University in Shanghai (復旦大學) in the PRC in July 1982 and a Ph.D degree in biochemistry from the Purdue University in the United States in December 1990.

Dr. Ruilin Song (宋瑞霖), aged 59, was appointed as an independent non-executive director of the Company on 2 September 2019. Dr. Song has been the independent director of Jiangxi Boya Bio-pharmaceutical Co., Ltd.* (江西博雅生物製藥股份有限公司) (Shenzhen Stock Exchange stock code:300294) from March 2017 to March 2021; the independent director of Shanxi Zhendong Pharmaceutical Co., Ltd.* (山西振東製藥股份有限公司) (Shenzhen Stock Exchange stock code: 300158) from June 2015 to June 2021; the independent director of Tibet Aim Pharm. Inc.* (西藏易明西雅醫藥科技股份有限公司) (Shenzhen Stock Exchange stock code: 002826) from August 2015 to August 2021; the non-executive director of Luye Pharma Group Ltd.* (綠葉製藥集團有限公司) (Stock Exchange stock code: 02186) since March 2017; the independent director of Shenzhen Chipscreen Biosciences Co., Ltd.* (深圳微芯生物有限公司) (Star Market of the Shanghai Stock Exchange stock code: 688321) since August 2018; the independent director of Simcere Pharmaceutical Group Limited* (先聲藥業集團有限公司) (Stock Exchange stock code: 02096) since December 2020; the independent director of Jacobio Pharmaceuticals Group Co., Ltd.* (加科思藥業集團有限公司) (Stock Exchange stock code: 01167) since December 2020; and the independent director of Mediwelcome Healthcare Management & Technology Inc.* (麥迪衛康健康醫療服務科技有限公司) (Stock Exchange stock code: 02159) since December 2020.

During the time he worked in the Legislative Affairs Office of the State Council of China, Dr. Song was mainly engaged in the legislative review and research of health and medicine for over 20 years. He participated in China's health and drug legislation activities from 1987 to 2006, in charge of the drafting and review of laws and regulations of the current Drug Administration Law of the PRC, Law of the PRC on the Prevention and Treatment of Communicable Diseases, Law of the PRC on Medical Practitioners, Regulations on Medical Institutions, and Regulations for the Supervision and Administration of Medical Devices, etc. Since 2007, Dr. Song has been dedicated to the research of China's pharmaceutical policies, especially the policies for pharmaceutical innovation. Under his leadership, Research Center for Medicinal Policy of Chinese Pharmaceutical Association and PhIRDA (中國醫藥創新促進會) had finalised dozens of pharmaceutical policy projects in China. Dr. Song has been working as executive president of PhIRDA (formerly known as China Pharmaceutical Industry Research and Development Association (中國醫藥工業科研開發促進會) from November 2009 to September 2019, the president of PhIRDA from September 2019 to September 2020, and executive president of PhIRDA since September 2020. Dr. Song also works as specially-invited expert of Talent Pool Participating in and Discussing State Affairs of the CPPCC, consultant expert of Participating in and Discussing State Affairs of the Chinese Peasants and Workers Democratic Party, executive deputy director of National Drug Policy and Industrial Development Research Center of China Pharmaceutical University, expert of the Price and Cost Investigation Center of the National Development and Reform Commission, vice chairman of China Alliance of Rare Diseases(CARD), director of Chinese Pharmaceutical Association (CPA), director of Chinese Pharmacist Association and a member of the Biotech Advisory Panel of the Stock Exchange among other important social positions. Dr. Song obtained a bachelor of laws degree from China University of Political Science and Law (中國政法大學) in June 1985, a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in November 2004 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University (中國藥科大學) in December 2018.

BOARD OF SUPERVISORS

Ms. Rongli Feng (馮蓉麗), aged 46, was appointed as a supervisor of the Company and the chairman of the board of supervisors on 23 May 2020. Ms. Feng joined Fosun Pharma Group in April 2020 and served as the vice president of Fosun Pharma since April 2020 to March 2021, she has been the senior vice president of Fosun Pharma since March 2021, a non-executive director of Sinopharm since June 2020 and a non-executive director of Sisram Medical Ltd* (復銳醫療科技有限公司) (Stock Exchange stock code: 01696) since August 2020. From July 2018 to April 2020, Ms. Feng served as the deputy chief human resources officer of Fosun High Tech and the managing director of the human resources department of Shanghai Fosun Venture Capital Investment Management Co., Ltd.* (上海復星創業投資管理有限公司). Prior to joining Fosun Pharma Group, Ms. Feng served as a human resources supervisor of Sealed Air Packaging (Shanghai) Co., Ltd.* (希悦爾包裝(上海)有限公司), a human resources manager of Grundfos Pumps (Shanghai) Co., Ltd.* (格蘭富水泵(上海)有限公司), the Asia-Pacific human resources manager of Emerson Electric (China) Investment Co., Ltd.* (艾默生電氣(中國)投資有限公司), the China human resources planning manager of Dow Chemical (China) Co., Ltd.* (陶氏化學(中國)有限公司), the director of human resources of Shanghai Roche Pharmaceutical Co., Ltd.* (上海羅氏製藥有限公司), and the senior director of human resources at F. Hoffmann-La Roche AG from 1996 to 2020. Ms. Feng graduated from Shanghai University (上海大學) in China with a major in microcomputer application in July 1996. In February 2002, she obtained a master's degree in business administration from Columbia Southern University in the United States through distance learning.

Mr. Deli Kong (孔德力), aged 47, was appointed as a supervisor of the Company on 30 August 2016. Mr. Kong worked at Fosun Pharma from June 2005 to December 2012, with his last position as a patent affairs senior officer. Mr. Kong has been working with Fosun Pharma Industrial since January 2013 and successively served as the senior researcher, deputy director, assistant to head of research institute, minister of policy and information research centre and deputy head of the research institute and minister of policy and information research centre and the vice president and the executive vice president of the global R&D centre. Prior to joining the Fosun Pharma Group, Mr. Kong also previously served as an assistant researcher at the Shanghai Institute of Biochemistry and Cell Biology of the Chinese Academy of Sciences* (中國科學院上海生物化學與細胞生物研究所). Mr. Kong obtained a master's degree in biochemical engineering from the School of Engineering of East China University of Science and Technology (華東理工大學) in China in July 1999.

Ms. Junhong Liu (劉俊宏), aged 38, was appointed as a supervisor of the Company on 31 December 2020. Ms. Liu serves as the auditing director of the Company since April 2020. She was appointed as the supervisor of Henlius Biopharmaceutical and Henlius Biologics since December 2020 and the supervisor of Jollin Tech since December 2021. Before joining the Company, Ms. Liu served as the auditing manager at Shanghai Zhonghua Huyin Account Office Co., Ltd.* (上海眾華滬銀會計師事務所) from June 2006 to July 2010, the auditing manager at Zhongqin Wanxin Accountants Office Co., Ltd.* (中勤萬信會計師事務所) from August 2010 to October 2011, the project manager, director and salaried partner at Shanghai Lixin Ruisi Information Management Co., Ltd.* (上海立信銳思信息管理有限公司) from October 2011 to December 2014, and the deputy audit director, director and general manager assistant at Fosun Pharma from December 2014 to April 2020. Ms. Liu graduated from Shanghai University of International Business and Economies (上海對外貿易學院) in China in July 2006 with a bachelor's degree in accounting and has an Auditor (Intermediate Level) qualification.

SENIOR MANAGEMENT OF THE GROUP

The chief executive officer, the president and other members of the senior management of the Group are responsible for the day-to-day management of the business of the Company. Certain information relating to the chief executive officer and the president are set out in " Board of Directors" above.

Mr. Jun Zhu (朱俊), aged 44, has served as the senior vice president and chief medical officer of Henlius Biopharmaceutical from December 2020 to July 2021, the senior vice president and chief medical officer of the Company from July 2021 to November 2021, and the president of the Company since November 2021. Mr. Zhu has served as the director of Aton Ruilin since March 2022.

Mr. Zhu has approximately 20 years' experience in biotechnology and pharmaceutical industry. Before joining the Group, Mr. Zhu served as the internal medicine physician in Huashan Hospital affiliated to Fudan University in Shanghai from July 2001 to October 2003, the project manager of IQVIA Holdings Inc. from August 2003 to June 2005, the general manager (Greater China) of Omnicare Clinical Research Inc. from March 2008 to July 2012 and the global vice-president of IQVIA Holding Inc. from August 2012 to January 2017. He was also the founder and chief executive officer of Shanghai PPC Biopharmaceutical Technology Co., Ltd.* (上海百利佳生醫藥科技有限公司) from February 2018 to August 2020.

Mr. Zhu obtained a bachelor's degree in clinical medicine from Fudan University (復旦大學) in China in July 2001 and an EMBA degree from Cheung Kong Graduate School of Business (長江商學院) in China in September 2018.

Ms. Wei Huang, aged 54, served as the senior vice president of Henlius Biopharmaceutical from December 2019 to October 2020, the senior vice president and chief operating officer of the Company since October 2020 and the chairman of the board and general manager of Aton Guangzhou since November 2021.

Ms. Huang has over 25 years of senior management and leadership experience in the pharmaceutical and biotechnology industries, including process development, technology transfer, manufacturing, process and facility design, capital project execution and quality system implementation. Prior to joining the Group, Ms. Huang served as a research assistant of Center of Marine Biotechnology from September 1991 to May 1993, the process development engineer of Baxter (AMVAX) Inc. from June 1993 to April 1995, the project manager of New Brunswick Scientific Inc. from May 1995 to July 1996, the process engineer of Fluor Corp. from August 1996 to July 1998, the senior/chief process engineer of Bechtel Corp. from August 1998 to July 2000, the director of process engineer of Fluor Corp. from August 2000 to May 2008, the vice president of process development and engineering of REG Life Science Inc. from June 2008 to March 2013, the chief consultant of Newa Technology Inc. from April 2013 to December 2019. Ms. Huang obtained a bachelor's degree in Biochemical Engineering from the East China Institute of Chemical Technology (華東化工學院) in July 1990 and a master's degree in Chemical and Biochemical Engineering from the University of Maryland in the United States in August 1993.

Mr. Xinjun Guo (郭新軍), aged 51, served as the vice president and secretary to the Board of the Company from February 2010 to March 2019, the senior vice president and secretary to the Board of the Company since March 2019, and ceased to be the secretary to the Board while continuing to act as the senior vice president of the Company since November 2021. Mr. Guo was appointed as the director of Henlius Pharmaceutical and Henlius Biopharmaceutical since November 2020, the director of Henlius Industrial since February 2021, and the chairman of the board of Jollin Tech Since December 2021. Prior to joining the Group, Mr. Guo previously served as a researcher, project manager, research manager and chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd.* (杭州九源基因工程有限公司) from October 1993 to March 2000, the director and the deputy general manager of Hangzhou Taishi Biotechnology Co., Ltd.* (杭州泰士生物科技有限公司) from April 2000 to December 2003, the secretary to the board of directors and deputy general manager of Zhejiang Cifu Pharmaceutical Co., Ltd.* (浙江賜富醫藥有限公司) from January 2004 to May 2009, and the chief engineer of Shanghai Clone High Technology Co., Ltd.* (上海克隆高技術有限公司) (now known as Shanghai Kaimao Bio-Pharmaceutical Co., Ltd.* (上海凱茂生物醫藥有限公司)) from May 2009 to December 2009.

Mr. Guo has many years of experience in biopharmaceutical R&D and industrialization, and is familiar with different domestic laws and regulations. He has been involved in the development of the recombinant human granulocyte colony-stimulating factor (rhG-CSF) injection, the first listed Category II new drug in China. He was awarded Outstanding Technology Development Talent of Hangzhou, Second Prize for Zhejiang Province's Science and Technology Progress Award, First Prize for Hangzhou's Science and Technology Progress Award and Shanghai May 1st Labour Medal. Mr. Guo is the vice-chairman of Shanghai Biopharmaceutics Industry Association and the vice director of the Monoclonal Antibody Drug Professional Committee. Mr. Guo received his bachelor's degree from Genetics and Genetic Engineering Department of Fudan University (復旦大學) in China in July 1993, and a master's degree of business administration from Zhejiang University (浙江大學) in China in March 2005.

Mr. Xinlei Li (李鑫磊), aged 40, has been served as the chief financial officer of the Company, Henlius Biopharmaceutical and Henlius Pharmaceutical since December 2020, and was appointed as a director of Henlius Industrial since Febuary 2021. Prior to joining the Group, Mr. Li consecutively served as the business development manager and senior business development manager of Fosun Pharma Industrial Development from October 2008 to December 2011, and he successively served as the senior manager, deputy director, director, assistant to general manager and deputy general manager of investor relations department, and the deputy general manager and general manager of investor relations and capital development department, assistant to the president and general manager of investor relations and capital development department, the vice president and general manager of investor relations and capital development department of Fosun Pharma from January 2012 to December 2020. Mr. Li obtained a bachelor of science degree in Pharmacy from Sichuan University (四川大學) in China in July 2004, a master of science degree from the University of Huddersfield in the United Kingdom in October 2006, and a master's degree from the IMBA Programme of Fudan University – Hong Kong University (復旦大學 – 香港大學) in November 2016.

Mr. Cheng Yu (余誠), aged 45, served as the general manager of the marketing department of the Company from August 2019 to February 2020 and the vice president of Henlius Biopharmaceutical from February 2020 to November 2021. He has been the vice president and chief business officer of the Company since November 2021. Mr. Yu has extensive experience in product portfolio management, product strategy development and launching of new products. He served as the sales representative of Glaxo Wellcome Pharmaceutical Co., Ltd.* (葛蘭素威康製藥有限公司) from June 1999 to June 2000. He successively served as senior pharmaceutical representative, district sales manager, regional sales manager, product manager, marketing manager and marketing director of Shanghai Roche Pharmaceutical Co., Ltd.* (上海羅氏製藥有限公司) from July 2000 to December 2016, and the head of the marketing department of Amgen Inc. from January 2017 to July 2019. Mr. Yu obtained a bachelor's degree in medicinal chemistry from Shanghai Medical College of Fudan University (復旦大學上海醫學院) (formerly known as 上海醫科大學) in July 1999 and an EMBA degree from Fudan University (復旦大學) in China in June 2016.

Ms. Ping Cao, aged 50, served as the vice president of Hengenix Biotech Inc., a wholly-owned subsidiary of the Company from July 2018 to October 2020 and has been the vice president of the Company since October 2020. Prior to joining the Group, Ms. Cao served as the associate director of contract manufacturing operation (CMO) and global manufacturing and supply (GMS) at Bristol-Myers Squibb Company, and the head of Technology Platform Trading project of Business Development Department from May 2009 to December 2016, and the senior director of Business Development Department of Abzena PLC from March 2017 to July 2018. Ms. Cao also serves as a member of the Advisory Council of Meneldor B.V since February 2021. Ms. Cao obtained a bachelor's degree in materials science and technology from Tianjin University (天津大學) in China in July 1994, a master's degree in chemical engineering from Tianjin University (天津大學) in China in March 1999, and a master's degree in organic chemistry from Michigan State University in the United States in April 2004.

Ms. Yan Wang(王燕), aged 35, joined the Company since July 2013 and has successively acted as science & technology administrative commissioner, supervisor of the marketing department, securities affairs representative and manager of public affairs department, director of the office of board secretary and executive director of public relationship of the Company, and was appointed as the secretary to the Board and a joint company secretary of the Company since November 2021. Ms. Wang obtained her bachelor's degree in bio-pharmacy from Nanjing Forestry University (南京林業大學) in China in June 2010 and a master's degree in biochemistry in July 2013 from Nanjing Forestry University (南京林業大學) in China.

JOINT COMPANY SECRETARIES

Ms. Yan Wang(王燕) was appointed as a joint company secretary of the Company on 5 November 2021. See "Senior Management of the Group" above for further details.

Ms. Ching Ching Leung (梁晶晶), aged 41, was appointed as a joint company secretary of the Company on 27 September 2018. Ms. Leung is a senior manager of Corporate Services Department of Tricor Services Limited, an Asia's leading business expansion specialist focusing on integrated business, corporate and investor services. Ms. Leung has over 18 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Leung is also currently the company secretary /the joint company secretary of other five companies listed in the Stock Exchange.

Ms. Leung is a chartered secretary and a fellow of The Hong Kong Chartered Governance Institute. Ms. Leung received a bachelor's degree in social science from The Chinese University of Hong Kong in December 2003 and a master of arts degree in professional accounting and information system from City University of Hong Kong in November 2006.

INDEPENDENT AUDITOR'S REPORT

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

安永會計師事務所
香港鰂魚涌英皇道979 號
太古坊一座27 樓

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

To the shareholders of Shanghai Henlius Biotech, Inc.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Shanghai Henlius Biotech, Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 80 to 156, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development expenditure During the year ended 31 December 2021, the expenditure incurred on projects to develop new biopharmaceutical products of RMB772,897,000 was capitalised in intangible assets – deferred development costs in the consolidated financial statements. The expenditure on development activities was capitalised and deferred when all the criteria mentioned in note 2.4 Summary of Significant Accounting Policies was satisfied. This matter was significant to our audit because significant management estimation and judgements were required in determining whether the development expenditure met the capitalisation criteria.	Our audit procedures included, among others, assessing whether the capitalisation policy adopted was in line with IFRSs, obtaining an understanding of the Group's internal approval procedures regarding the capitalisation of development expenditure by conducting interview with key management in charge of research, development and industrialisation of various projects, and obtaining certifications related to different stages of development activities and commercial and technical feasibility reports prepared by the management.
The disclosures about the capitalisation of development expenditure are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 15 Intangible Assets to the consolidated financial statements.	We also focused on the adequacy of the disclosures in the consolidated financial statements.
Impairment of intangible assets The carrying values of indefinite-life intangible assets (non-patent technologies) and deferred development costs in the consolidated financial statements amounted to RMB48,921,000 and RMB1,715,588,000, respectively, as at 31 December 2021. In accordance with IFRSs, the Group is required to perform impairment test for indefinite-life intangible assets and deferred development costs at least on an annual basis. The impairment test is based on the recoverable amount of each individual asset. This matter was significant to our audit because the impairment test process was complex and involved significant management judgements and estimates.	Our audit procedures included, among others, involving internal valuation specialists to assist us in evaluating the assumptions and methodologies used by the management, in particular, discount rates, royalty rate, contributory asset charges and growth rate beyond budget period used in the valuation method based on cash flow forecast of each individual asset. We paid attention to the forecasts with respect to future revenues, operating results and development costs to be incurred to complete the development process by comparing the forecasts with the business development plan of each individual asset.
The disclosures about the impairment of indefinite-life and deferred development assets are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 15 Intangible Assets to the consolidated financial statements.	We also focused on the adequacy of the disclosures in the consolidated financial statements.

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of exclusive license contracts The Group entered into several exclusive license contracts (the "Contracts") for the development and commercialisation of candidate drugs. The consideration of the Contracts included upfront fee, milestone payments based on completion of certain milestone events and royalties based on future sales. For the year ended 31 December 2021, the Group recognised revenue of license and research and development services from the Contracts amounting to RMB74,222,000 and RMB112,873,000, respectively. As part of accounting for revenue recognition under the Contracts, significant management's judgements and estimations are involved to identify the performance obligations, determine whether each performance obligation is satisfied overtime or at a point in time, estimate the variable considerations and allocate the consideration based on the standalone selling price of each performance obligation. The Group's disclosures about revenue recognition under the Contracts are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 5 Revenue to the consolidated financial statements.	Our audit procedures included, among others, evaluating the management's accounting policies and assessing the management's processes and controls relating to revenue recognition under the Contracts. We inspected the Contracts, discussed with management about the nature, business rationale and the progress of the Contracts. We evaluated management judgements in identifying performance obligations by assessing whether the license and research and development services within the Contracts are distinct, and in determining whether each performance obligation is satisfied overtime or at a point in time by examining the related terms in the Contracts and the related supporting evidences. We checked the conditions and the current status of the payments made by the customers and the achievement of the milestone events to assess management's judgement and estimation in the variable considerations and the satisfaction of each performance obligations. We involved internal specialists to assist us in the assessment of the methodologies and the assumptions used by the management, in particular, the discount rates, royalty rates and the cost mark-up rate, in determination of the standalone selling price of each performance obligation. We performed recalculation to check the mathematical accuracy based on the management's model to determine the revenue recognised for each performance obligation. We also focused on the adequacy of the disclosures in the consolidated financial statements.

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.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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

- 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.

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 Lawrence K. W. Lau.

Ernst & Young
Certified Public Accountants
Hong Kong
16 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	**1,682,472**	587,586
Cost of sales		**(522,748)**	(182,119)
Gross profit		**1,159,724**	405,467
Other income and gains	6	**45,091**	43,737
Selling and distribution expenses		**(520,261)**	(243,648)
Administrative expenses		**(280,606)**	(192,640)
Impairment losses on financial assets, net		**(174)**	14
Research and development expenses		**(1,023,930)**	(894,144)
Other expenses		**(251,763)**	(68,622)
Finance costs	8	**(84,820)**	(43,705)
LOSS BEFORE TAX	7	**(956,739)**	(993,541)
Income tax expense	11	**(27,313)**	–
LOSS FOR THE YEAR		**(984,052)**	(993,541)
Attributable to:			
Owners of the parent		**(984,052)**	(993,541)
Non-controlling interests		**–**	–
		(984,052)	(993,541)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	13	**(1.83)**	(1.88)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
LOSS FOR THE YEAR	**(984,052)**	(993,541)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(448)**	(1,770)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(448)**	(1,770)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(984,500)**	(995,311)
ATTRIBUTABLE TO:		
Owners of the parent	**(984,500)**	(995,311)
Non-controlling interests	**–**	–
	(984,500)	(995,311)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,228,885**	984,909
Intangible assets	15	**3,634,931**	2,942,454
Right-of-use assets	16	**438,201**	452,279
Other non-current assets	17	**223,668**	149,540
Total non-current assets		**5,525,685**	4,529,182
CURRENT ASSETS			
Inventories	18	**420,112**	305,224
Trade receivables	19	**295,741**	196,213
Prepayments, deposits and other receivables	20	**223,973**	294,248
Cash and bank balances	21	**707,333**	1,114,309
Total current assets		**1,647,159**	1,909,994
CURRENT LIABILITIES			
Trade payables	22	**383,470**	298,952
Other payables and accruals	23	**867,278**	439,845
Contract liabilities	24	**138,303**	52,225
Interest-bearing bank and other borrowings	25	**1,570,674**	1,188,486
Total current liabilities		**2,959,725**	1,979,508
NET CURRENT LIABILITIES		**(1,312,566)**	(69,514)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,213,119**	4,459,668
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**1,052,263**	645,131
Other long-term payables	26	**54,425**	–
Contract liabilities	24	**653,934**	520,870
Deferred income	28	**155,741**	94,895
Total non-current liabilities		**1,916,363**	1,260,896
Net assets		**2,296,756**	3,198,772
EQUITY			
Share capital	29	**543,495**	543,495
Reserves	30	**1,753,261**	2,655,277
Equity attributable to owners of the parent and total equity		**2,296,756**	3,198,772

Zhang Wenjie
Chairman of the Board of Directors
Chief Executive Officer
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the parent					
	Share capital RMB'000	Share premium* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000
At 1 January 2020	543,495	5,737,861	(482,501)	(803)	(1,797,637)	4,000,415
Loss for the year	–	–	–	–	(993,541)	(993,541)
Other comprehensive loss for the year:						
Exchange differences related to foreign operations	–	–	–	(1,770)	–	(1,770)
Total comprehensive loss for the year	–	–	–	(1,770)	(993,541)	(995,311)
The vesting of restricted shares (note 31)	–	216,375	(68,758)	–	–	147,617
Equity-settled share-based payments (note 31)	–	–	46,051	–	–	46,051
At 31 December 2020	543,495	5,954,236	(505,208)	(2,573)	(2,791,178)	3,198,772

	Attributable to owners of the parent					
	Share capital RMB'000	**Share premium* RMB'000**	**Other reserve* RMB'000**	**Exchange fluctuation reserve* RMB'000**	**Accumulated losses* RMB'000**	**Total RMB'000**
At 1 January 2021	**543,495**	**5,954,236**	**(505,208)**	**(2,573)**	**(2,791,178)**	**3,198,772**
Loss for the year	**–**	**–**	**–**	**–**	**(984,052)**	**(984,052)**
Other comprehensive loss for the year:						
Exchange differences related to foreign operations	**–**	**–**	**–**	**(448)**	**–**	**(448)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(448)**	**(984,052)**	**(984,500)**
The vesting of restricted shares (note 31)	**–**	**55,356**	**(26,362)**	**–**	**–**	**28,994**
Equity-settled share-based payments (note 31)	**–**	**–**	**53,490**	**–**	**–**	**53,490**
At 31 December 2021	**543,495**	**6,009,592**	**(478,080)**	**(3,021)**	**(3,775,230)**	**2,296,756**

* These reserve accounts comprise the consolidated other reserves of RMB1,753,261,000 (2020: RMB2,655,277,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Loss before tax		**(956,739)**	(993,541)
Adjustments for:			
Finance costs	8	**84,820**	43,705
Depreciation of property, plant and equipment	7	**83,976**	62,172
Depreciation of right-of-use assets	7	**49,607**	39,949
Amortisation of intangible assets	7	**66,593**	33,655
Amortisation of deferred income	28	**(34,636)**	(10,414)
Foreign exchange loss, net	7	**16,662**	59,773
Impairment of financial assets, net	7	**174**	(14)
Listing expenses	7	**159**	3,444
Write-down of inventories to net realisable value	7	**7,566**	1,188
Impairment of deferred development costs, net	7	**28,848**	–
Loss on disposal of items of property, plant and equipment	7	**932**	96
Gain on disposal of items of right-of-use assets		**–**	(907)
Provision for the contract loss	7	**191,271**	–
Gain on the forgiveness of a bank borrowing	7	**(8,389)**	–
Gain on rent concession	16	**–**	(81)
Share-based payment expense	7	**48,417**	35,731
Cash outflows before working capital changes		**(420,739)**	(725,244)
Increase in inventories		**(91,708)**	(53,727)
Increase in trade receivables		**(99,702)**	(340,940)
Decrease/(increase) in prepayments, other receivables and other assets		**117,994**	(18,891)
(Increase)/decrease in pledged deposits		**(1,741)**	3,559
Increase in trade payables		**20,041**	145,760
Increase in other payables and accruals		**262,422**	162,303
Increase in contract liabilities		**208,343**	148,393
Increase in deferred income		**95,482**	69,207
Cash from/(used) in operations		**90,392**	(609,580)
Tax paid		**–**	–
Net cash flows from/(used in) operating activities		**90,392**	(609,580)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(460,431)**	(557,002)
Additions to intangible assets		**(670,762)**	(955,520)
Increase in restricted cash for investments		**(550,610)**	–
Proceeds from disposal of items of property, plant and equipment		**549**	273
Net cash flows used in investing activities		**(1,681,254)**	(1,512,249)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**2,095,706**	1,442,991
Repayment of bank and other borrowings		**(1,295,651)**	(335,284)
Principal portion of lease payments	16(b)	**(68,390)**	(57,258)
Payment of listing expenses		**(159)**	(26,320)
Interest paid		**(83,204)**	(28,338)
Net cash flows from financing activities		**648,302**	995,791
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(942,560)**	(1,126,038)
Cash and cash equivalents at beginning of year		**1,114,309**	2,301,092
Effect of foreign exchange rate changes, net		**(16,767)**	(60,745)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**154,982**	1,114,309
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**707,333**	1,114,309
Less: Pledged deposits and restricted cash	21	**552,351**	–
Cash and cash equivalents as stated in the statement of cash flows	21	**154,982**	1,114,309

1. CORPORATE AND GROUP INFORMATION

Shanghai Henlius Biotech, Inc. (the "Company") is a joint stock company with limited liability established in the People's Republic of China ("PRC"). The registered office of the Company is located at Room 330, Complex Building, No.222 Kangnan Road, China (Shanghai) Pilot Free Trade Zone, the PRC.

The Company and its subsidiaries are involved in the following principal activities:

- biopharmaceutical research and development ("biopharmaceutical R&D")
- biopharmaceutical service
- biopharmaceutical production and sales

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Fosun International Holdings Limited which is a company registered in Hong Kong, and the ultimate controlling shareholder of the Company is Mr. Guo Guangchang.

The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 September 2019.

INFORMATION ABOUT SUBSIDIARIES

The particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation, place of operations, and kind of legal entity	Issued ordinary/ registered share capital	Percentage of ownership interest Direct	Indirect	Principal activities
Shanghai Henlius Biopharmaceutical Co., Ltd. (上海復宏漢霖生物製藥有限公司)*	Shanghai, PRC 26 June 2014, limited liability company	Registered share capital of Renminbi ("RMB") 740,000,000	100%	–	Biopharmaceutical production; biopharmaceutical service; and biopharmaceutical R&D
Henlix Biotech Co., Ltd. (漢霖生技股份有限公司) ("Taiwan Henlius")	Taiwan 1 October 2010, limited company	Registered share capital of New Taiwan dollar ("NTD") 780,511,490/1,500,000,000	100%	–	Biopharmaceutical R&D and biopharmaceutical service
Hengenix Biotech, Inc. ("Hengenix")	CA, United States of America 18 August 2015, limited company	Registered share capital of United States dollar ("USD") 24,750,000/88,905,000	100%	–	Biopharmaceutical R&D and biopharmaceutical service
Shanghai Henlius Biologics Co., Ltd. (上海復宏漢霖生物醫藥有限公司)*	Shanghai, PRC 26 December 2017, limited liability company	Registered share capital of Renminbi ("RMB") 518,000,000/1,000,000,000	100%	–	Biopharmaceutical production
Henlius Europe GmbH	Frankfurt, Germany 6 March 2019, limited liability company	Registered share capital of Euro ("EUR") 200,000/400,000	100%	–	Biopharmaceutical service

1. CORPORATE AND GROUP INFORMATION *(CONTINUED)*

INFORMATION ABOUT SUBSIDIARIES*(CONTINUED)*

Name	Place and date of incorporation, place of operations, and kind of legal entity	Issued ordinary/ registered share capital	Percentage of ownership interest Direct	Indirect	Principal activities
Henlius Industrial Co., Limited. (復宏漢霖實業有限公司)	Hong Kong, 19 February 2021, limited liability company	Registered share capital of Hong Kong Dollar ("HKD") 10,000,000	100%	–	Biopharmaceutical R&D and biopharmaceutical service
Aton (Guangzhou) Biotech Co., Ltd.* (安騰(廣州)生物技術有限公司)*	Guangdong, PRC 22 November 2021, limited liability company	Registered share capital of Renminbi ("RMB") nil/200,000,000	100%	–	Biopharmaceutical R&D and biopharmaceutical service
Shanghai Jollin Tech Co., Ltd., (上海佐臨生物科技有限公司)*	Shanghai, PRC 22 December 2021, limited liability company	Registered share capital of Renminbi ("RMB") nil/20,000,000	100%	–	Biopharmaceutical R&D and biopharmaceutical service

* The English names of these subsidiaries represented the best efforts made by the management of Company to translate the Chinese names as they do not have official English names registered in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand except when otherwise indicated.

The Group had net current liabilities of RMB1,312,566,000 as at 31 December 2021. Having taken into account the unused banking facilities and the expected cash flows from operating and financing activities, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

BASIS OF CONSOLIDATION

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

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

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

(b) rights arising from other contractual arrangements; and

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

2.1 BASIS OF PREPARATION *(CONTINUED)*

BASIS OF CONSOLIDATION *(CONTINUED)*

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 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 following revised IFRSs for the first time for the current year's financial statements.

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

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

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

The Group had certain interest-bearing bank borrowings denominated in RMB based on the Loan Prime Rate ("LPR") as at 31 December 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 17	*Insurance Contracts*[2,4]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS9 – Comparative Information*[2]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to IFRSs 2018-2020	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*[1]

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

3 No mandatory effective date yet determined but available for adoption

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

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

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

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(CONTINUED)*

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

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

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

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fair value measurement *(continued)*

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

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

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

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 to 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 principal annual rates used for this purpose are as follows:

Plant and machinery	9.5%-19%
Motor vehicles	19%
Office and other equipment	9.5%-19%
Electronic equipment	9.5%-19%
Leasehold improvements	10%-20%

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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 a building 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.

Intangible assets (other than goodwill)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

INTANGIBLE ASSETS (OTHER THAN GOODWILL) *(CONTINUED)*

NON-PATENT TECHNOLOGIES

Non-patent technologies have been classified as assets with an indefinite useful life. They have indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows, the extension cost is low and assets can be used indefinitely. They are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of such intangible assets are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

MEDICINE LICENCES

Medicine licences with finite useful lives are measured initially at cost, which transfer from the deferred development costs after such medicine getting the medicine licences from the related authorities. Medicine licenses are amortised on the expected pattern of consumption of the future economic benefits, the expected pattern of consumption of the future economic benefits embodied in the medicine licences are assessed by the Group after considering the similar medicine and the market condition.

OFFICE SOFTWARE

Purchased office software is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful life of 5 to 10 years. The useful lives of the software are assessed by the Group after considering the contractual term, the current functionality equipped by the software, using plan and operation needs of the software. The software served as basement IT system or technological platform is amortised over a long period as 10 years. Other software served as fast updating applications and single application software is amortised over a shorter period, such as 5 years.

RESEARCH AND DEVELOPMENT COSTS

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

The expenditure on an internal research and development project is classified into expenditure in the research phase and expenditure in the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure in the development phase 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.

The specific criteria for the classification of expenditures on the research phase and expenditures on the development phase are as follows:

As for biosimilar products, expenditures on the research phase are all the expenditures incurred before the commencement of Phase I clinical trial for the medicines. Expenditures on the development phase are all the expenditures incurred after the commencement of Phase I clinical trial for the medicines. Commencement of Phase I clinical trial is determined based on the approval by authorities.

As for bio-innovative products, expenditures on the research phase are all the expenditures incurred before the commencement of Phase III clinical trial for the medicines. Expenditures on the development phase are all the expenditures incurred after the commencement of Phase III clinical trial for the medicines.

Deferred development costs are stated at cost less any impairment losses and will be transferred to medicine licences when the products are put into commercial production.

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

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

Land	50 years
Plant and machinery	5 to 10 years

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

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating 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 expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. 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 in-substance fixed lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in the assessment to purchase the underlying asset.

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

(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 leases of low-value assets to leases of office equipment that is considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

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, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

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

The Group's business model for managing financial assets refers to how it manages its financial assets 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 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 profit or loss when the asset is derecognised, modified, or impaired.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

DERECOGNITION OF FINANCIAL ASSETS *(CONTINUED)*

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

GENERAL APPROACH

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

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

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.

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 and contract assets 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, 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 payables, financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

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 the derecognition of the original liability and the 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 consolidated 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, to realise the assets 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 on weighted moving average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain biopharmaceutical products during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of returns, discounted to their present values as appropriate.

Income tax

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

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

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

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

(a) 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

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

INCOME TAX *(CONTINUED)*

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

(a) 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

(b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, 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 or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

GOVERNMENT GRANTS

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

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

REVENUE RECOGNITION

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

REVENUE RECOGNITION *(CONTINUED)*

REVENUE FROM CONTRACTS WITH CUSTOMERS *(CONTINUED)*

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

SALE OF BIOPHARMACEUTICAL PRODUCTS

Revenue from the sale of biopharmaceutical products is recognised at the point in time when control of the asset is transferred to the customer, generally on receipt of the biopharmaceutical products. Some contracts for the sale of biopharmaceutical products provide customers with sales rebates. Sales rebates give rise to variable consideration.

LICENSE

The Group grant commercialisation licenses or intellectual property licenses (collectively, the “License”) of certain products. The License are either sold separately or bundled together with research and development service to one customer.

Contracts for bundled License and research and development service are comprised of two performance obligations because the promises to transfer the License and provide research and development service are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the License and research and development services.

For the commercialization licenses, the Group would undertake activities, such as being the exclusive supplier of the certain biopharmaceutical products related to the License, which significantly affect the License. Thus, the customers get a right to access the License and the revenue of License is recognised overtime during the expected commercialisation period after obtaining the commercialisation authorisation from the local authorities. And for the intellectual property licenses which the customer get a right to use the License, the revenue of the License is recognized at a point of time, when the control of the license is transferred to the customer and the customer is able to consume and benefit from the License. The consideration for License comprises fixed element and variable elements. The variable elements are included in the transaction price when the Group can conclude that it is highly probable there will not be a significant reversal of revenue.

RESEARCH AND DEVELOPMENT SERVICE

The Group provides research and development services that are either rendered separately or bundled together with the License to a customer.

Contracts for bundled research and development service and License are comprised of two performance obligations because the promises to provide research and development service and transfer the License are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the research and development services and License.

For the research and development service which the customers can’t control the service or consume the benefit or have no enforceable obligation to pay for the service provided to date, the Group concluded that the research and development service can be identified as a performance obligation satisfied at a point in time. The stand-alone selling prices is recognised as revenue when the customers accept and can benefit from this service.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

REVENUE RECOGNITION *(CONTINUED)*

RESEARCH AND DEVELOPMENT SERVICE *(CONTINUED)*

For research and development service which the customer simultaneously receives and consumes the benefits provided by the Group, the revenue from research and development services is recognised over time, using an input method to measure progress towards complete satisfaction of the service. The progress is determined on the basis of the cost expended relative to the total expected cost to complete the service.

REVENUE FROM OTHER SOURCES

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

OTHER INCOME

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

CONTRACT ASSETS

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

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).

CONTRACT COSTS

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

SHARE-BASED PAYMENTS

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by reference to the lasted market price of share transaction or determined by an external valuer, further details of which are given in note 31 to the financial statements.

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

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms have 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 has 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 are 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Other employee benefits

Pension scheme

The employees are required to participate in a defined central pension scheme managed by the local municipal government of the areas in the PRC. The PRC companies are required to contribute a certain percentage of the relevant part of the payroll of these employees to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Accommodation benefits

According to the relevant PRC rules and regulations, the PRC companies now comprising the Group and their employees are each required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the government agencies in the PRC. There is no further obligation on the part of the Group except for such contributions to the accommodation fund. Contributions to an accommodation fund administrated by government agencies are charged to the consolidated statement of profit or loss as and when they are incurred.

Borrowing costs

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

Foreign currencies

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

FOREIGN CURRENCIES *(CONTINUED)*

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.

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.

JUDGEMENTS

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(a) Identifying performance obligation under contracts which have bundled sales of the License and research and development services

The Group have certain contracts which provide the License together with research and development service to a customer. The Group determined that both the License and research and development services are capable of being distinct. The Group also determined that the promises to transfer the License and provide research and development services are distinct within the context of the contract. The Group is not providing a significant integration service because the presence of the License and research and development services together in the contract does not result in any additional or combined functionality and neither the License nor the research and development modifies or customises the other. In addition, the License and research and development services are not highly interdependent or highly interrelated, because the Group would be able to transfer the License even if the customer declined research and development service and would be able to provide research and development service if other distributors have such request. Consequently, the Group has allocated a portion of the transaction price to the License and the research and development services based on relative standalone selling prices.

(b) Determining the timing of satisfaction of the License

The Group concluded that for the License which would be significantly affected by the activities undertaken by the Group, such as being the exclusive supplier of certain biopharmaceutical products related to the License, the customers get a right to access the License, the revenue is recognised overtime during the expected commercialisation period of the related biopharmaceutical products. The Group determined that the output method is the best method in measuring the progress of the License because there is a relationship between the Group's output and the transfer of the License to the customers. The Group recognises revenue on the basis of the output happened relative to the total expected output during the expected commercialisation period.

For the License which the customer gets a right to use the License, revenue for the License is recognised at the point of time when the control of the License is transferred to the customer and the customer is able to consume and benefit from the License.

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

JUDGEMENTS *(CONTINUED)*

REVENUE FROM CONTRACTS WITH CUSTOMERS *(CONTINUED)*

(c) Determining the timing of satisfaction of research and development services

The Group concluded that in some contracts, revenue for research and development services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the research and development services that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring the progress of the research and development services because there is a direct relationship between the Group's effort (i.e., actual cost incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the cost expended relative to the total expected cost to complete the services.

The Group also concluded that in some other contracts, revenue for research and development services is to be recognised at a point of time, because the customers cannot control the service or consume the benefit and have no enforceable obligation to pay for the service provided to date.

(d) Determining the method to estimate variable consideration

Certain contracts include variable consideration based on the future events. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

Given that the payments of certain variable consideration are not within the control of the Group, such as regulatory approvals, relevant consideration is not considered until relevant approvals are obtained. The Group determines that the most likely amount method is the appropriate method to estimate the variable consideration. When it is highly probable that the income corresponding to the relevant consideration will not be significantly reversed, the uncertainty of the variable consideration is eliminated and the variable consideration will be included in the transaction price. At the end of each reporting period, the Group will re-evaluate the probability of the payment of the variable consideration, and if necessary, adjust the estimation of the overall transaction price.

SIGNIFICANT JUDGEMENT IN DETERMINING THE LEASE TERM OF CONTRACTS

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by a highly possible renewal action which is reasonably certain to be exercised.

The Group has a high possibility to renew the periods under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to renew. That is, it considers all relevant factors that create an economic incentive for it to renew. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to renew (or not to renew) the periods of existing leases (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of plant and laboratories due to the significance of these assets to its operations. These leases have a short and non-cancellable period and there will be a significant negative effect on operation or production if a replacement is not readily available.

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

Estimation uncertainty

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

Provision for expected credit losses on 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 products) are expected to deteriorate over the next year, 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 19 to the financial statements.

Leases – Estimating the incremental borrowing rate

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

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and sale. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customers' needs and prices change when the products' expiration date is approaching. Management reassesses these estimates at the end of the reporting period.

Standalone selling prices of the License and the research and development services

The Group has certain contracts which provide the License together with research and development services to customers. As part of the accounting for these arrangements, the Group will develop assumptions that require estimation 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 the fair value of each performance obligation, and the fair value is determined using the valuation techniques (expected cost plus a margin approach or income approach) that are appropriate in the circumstances and for which sufficient data are available to measure fair value, the key assumptions include the discount rates, royalty rates and the cost mark-up rates. The consideration allocated to each performance obligation is limited to the consideration that is not constrained.

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

ESTIMATION UNCERTAINTY *(CONTINUED)*

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

USEFUL LIVES OF INTANGIBLE ASSETS

The Group reviews the useful life of intangible assets at least at the end of each year. If there is evidence that the useful life of intangible assets is different from the previous estimate, the amortisation period of intangible assets with limited useful lives will be changed. For intangible assets with uncertain service life, if there is evidence that its service life is limited, it shall be amortised according to a reasonable method. The difference between the actual result and the original estimate will affect the book value of intangible assets and the provision for impairment of intangible assets in the current and subsequent periods when the estimate is changed.

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets and deferred development costs are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. For the year ended 31 December 2021, impairment losses on deferred development costs in the amount of RMB28,848,000 have been recognised in profit or loss as set out in note 7 to the financial statements.

DEFERRED TAX ASSETS

Deferred tax assets are recognised for deductible temporary differences, and the carryforward of unused tax credits and unused tax losses 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. 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. Further details are contained in note 27 to the financial statements.

DEFERRED DEVELOPMENT COSTS

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. In determining the amounts to be capitalised, management makes assumptions with regard to future economic benefits generated from the assets, discount rates to be applied and the expected period of benefits. Further details are contained in note 15 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is engaged in biopharmaceutical R&D, biopharmaceutical services and biopharmaceutical production, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Therefore, no analysis by operating segment is presented.

GEOGRAPHICAL INFORMATION

(A) REVENUE FROM EXTERNAL CUSTOMERS

	2021 RMB'000	2020 RMB'000
Mainland China	**1,515,645**	455,470
Europe	**109,541**	112,196
Asia Pacific (excluding Mainland China)	**57,286**	19,908
Other regions	**–**	12
	1,682,472	587,586

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

(B) NON-CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
Mainland China	**5,430,594**	4,412,807
Overseas	**95,091**	116,375
	5,525,685	4,529,182

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

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers amounting to over 10% to the total revenue of the Group in the reporting period is as follows:

	2021 RMB'000
Customer A	534,538
Customer B	458,237
	992,775

	2020 RMB'000
Customer A	273,079
Customer B	112,196
Customer C	61,397
	446,672

5. REVENUE

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	1,682,472	587,574
Revenue from other sources		
Gross rental income from operating leases	–	12
	1,682,472	587,586

5. REVENUE *(CONTINUED)*

REVENUE FROM CONTRACTS WITH CUSTOMERS

(A) REVENUE INFORMATION

	2021 RMB'000	2020 RMB'000
Sales of biopharmaceutical products	**1,494,639**	425,451
Research and development services	**112,873**	118,388
The License	**74,222**	42,294
Others	**738**	1,441
Total revenue from contracts with customers	**1,682,472**	587,574
Timing of revenue recognition		
Transferred at a point in time	**1,495,377**	456,749
Transferred over time	**187,095**	130,825
Total revenue from contracts with customers	**1,682,472**	587,574

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Research and development services	**107,387**	78,915
License	**14,545**	11,951
	121,932	90,866

There is no revenue recognised from performance obligations satisfied in previous periods.

5. REVENUE *(CONTINUED)*

REVENUE FROM CONTRACTS WITH CUSTOMERS *(CONTINUED)*

(B) PERFORMANCE OBLIGATIONS

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

Sale of biopharmaceutical products

The performance obligation is satisfied upon receipt of the products and payment is generally due within 90 days from the received date.

The License

The performance obligation of commercialisation licenses is satisfied overtime during the expected commercialisation period after the Group obtains the commercialisation authorisation from the local authorities and payment in advance is normally required. The performance obligation of intellectual property licenses is satisfied at a point in time and payment is billed based on the milestone achieved.

Research and development services

Based on the terms of the contracts, the performance obligation is satisfied over time as services are rendered or at the point in time as the services are completed and accepted and payment is billed based on the milestone achieved.

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

	2021 RMB'000	2020 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**232,700**	147,161
After one year	**804,982**	685,267
	1,037,682	832,428

The remaining performance obligations expected to be recognised after one year mainly relate to the transaction prices allocated to the License and research and development services. The revenue from the License is expected to be recognised during the future estimated commercialisation period. The revenue from research and development services is expected to be recognised during the period in which the services are being rendered. The amounts disclosed above do not include variable consideration.

6. OTHER INCOME AND GAINS

	2021 RMB'000	2020 RMB'000
Interest income	**2,686**	7,404
Government grants	**41,896**	35,393
Others	**509**	940
	45,091	43,737

7. LOSS BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		**396,900**	168,526
Cost of services provided		**125,848**	13,593
Depreciation of property, plant and equipment*		**83,976**	62,172
Depreciation of right-of-use assets*		**49,607**	39,949
Amortisation of intangible assets*		**66,593**	33,655
Research and development expenses:			
Current year expenditure		**1,023,930**	894,144
Lease payments not included in the measurement of lease liabilities	16(c)	**5,093**	3,774
Listing expenses		**159**	3,444
Auditor's remuneration		**2,800**	2,350
Employee benefit expense (including directors' and chief executive's remuneration (note 9)):			
Wages and salaries		**709,686**	346,273
Staff welfare expenses		**144,419**	49,598
Share-based payment expense*	31	**48,417**	35,731
Foreign exchange loss		**16,662**	59,773
Impairment of financial assets, net:			
Impairment of trade receivables, net	19	**174**	(14)
Impairment of deferred development costs, net	15	**28,848**	–
Write-down of inventories to net realisable value	18	**7,566**	1,188
Provision for the contract loss		**191,271**	–
Bank interest income	6	**(2,686)**	(7,404)
Loss on disposal of items of property, plant and equipment		**932**	96
Gain on disposal of items of right-of-use assets	16	**–**	(907)

* The depreciation of property, plant and equipment, the depreciation of right-of-use assets, the amortisation of intangible assets and the share-based payment expense for the year are included in "Cost of sales", "Research and development expenses", "Selling and distribution expenses" and "Administrative expenses" in the consolidated statement of profit or loss.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest expense on bank and other borrowings	**78,505**	30,119
Interest expense on lease liabilities (note 16(b))	**16,649**	16,230
Less: Interest capitalised (note 14)	**(10,334)**	(2,644)
	84,820	43,705

9. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' REMUNERATION

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

	2021 RMB'000	2020 RMB'000
Fees	**996**	1,060
Other emoluments:		
Salaries, allowances and benefits in kind	**6,967**	3,231
Performance-related bonuses	**1,154**	4,223
Pension scheme contributions	**–**	–
Share award scheme	**20,962**	4,091
	30,079	12,605

During the year and in prior years, certain directors and supervisors were granted to restricted shares in respect of their services to the Group, further details of which are set out in note 31 to the financial statements. The fair value of these restricted shares, which has been recognised in the statement of profit or loss over the lock-up period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the directors', supervisors' and chief executives' remuneration disclosures below.

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2021 RMB'000	2020 RMB'000
Dr. Lik Yuen Chan	**249**	265
Mr. Tak Young So	**249**	265
Dr. Ruilin Song	**249**	265
Dr. Guoping Zhao	**249**	265
	996	1,060

9. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' REMUNERATION *(CONTINUED)*

(B) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVES

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions RMB'000	Share award scheme RMB'000	Total remuneration RMB'000
2021						
Executive director						
Mr. Wenjie Zhang[1]	–	–	–	–	–	–
	–	–	–	–	–	–
Non-executive directors						
Mr. Qiyu Chen[2]	–	–	–	–	–	–
Mr. Yifang Wu	–	–	–	–	–	–
Dr. Aimin Hui	–	–	–	–	–	–
Ms. Xiaohui Guan	–	–	–	–	–	–
Mr. Zihou Yan	–	–	–	–	–	–
	–	–	–	–	–	–
Supervisors						
Ms. Rongli Feng	–	–	–	–	–	–
Mr. Deli Kong	–	–	–	–	–	–
Ms. Junhong Liu	–	847	194	–	–	1,041
	–	847	194	–	–	1,041
Chief executive						
Mr. Wenjie Zhang[1]	–	6,120	960	–	20,962	28,042
	–	6,120	960	–	20,962	28,042
	–	6,967	1,154	–	20,962	29,083

(1) Mr. Wenjie Zhang ("Mr. Zhang"), the executive director and Chief Executive Officer of the Company, has been elected as the Chairman of the Board, a member and the chairman of the Nomination Committee and chairman of the Strategy Committee with effect from 30 November 2021; Mr. Zhang resigned as the President of the Company with effect from 30 November 2021.

(2) Mr. Qiyu Chen ("Mr. Chen") resigned as the Chairman of the Board, a member and the chairman of the Nomination Committee and the chairman of the Strategy Committee with effect from 30 November 2021. Mr. Chen will continue to act as a non-executive director and a member of the Strategy Committee of the Company.

There was no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the year (2020:Nil).

9. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' REMUNERATION *(CONTINUED)*

(B) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVES *(CONTINUED)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions RMB'000	Share award scheme RMB'000	Total remuneration RMB'000
2020						
Executive directors						
Dr. Scott Shi-Kau Liu[1]	–	–	–	–	–	–
Mr. Wenjie Zhang[2]	–	–	–	–	–	–
	–	–	–	–	–	–
Non-executive directors						
Mr. Qiyu Chen[2]	–	–	–	–	–	–
Mr. Yifang Wu	–	–	–	–	–	–
Dr. Aimin Hui	–	–	–	–	–	–
Ms. Xiaohui Guan	–	–	–	–	–	–
Mr. Zihou Yan[3]	–	–	–	–	–	–
Mr. Jiemin Fu[4]	–	–	–	–	–	–
	–	–	–	–	–	–
Supervisors						
Ms. Rongli Feng[5]	–	–	–	–	–	–
Mr. Yong Zhou[6]	–	–	–	–	–	–
Ms. Kun Dai[7]	–	–	–	–	–	–
Mr. Deli Kong	–	–	–	–	–	–
Ms. Jingyi Wang[8]	–	–	–	–	1,650	1,650
Ms. Junhong Liu[9]	–	–	–	–	–	–
	–	–	–	–	1,650	1,650
Chief executives						
Dr. Scott Shi-Kau Liu[1]	–	1,989	4,223	–	–	6,212
Mr. Wenjie Zhang[2]	–	1,242	–	–	2,441	3,683
	–	3,231	4,223	–	2,441	9,895
	–	3,231	4,223	–	4,091	11,545

9. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' REMUNERATION *(CONTINUED)*

(B) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVES *(CONTINUED)*

(1) Dr. Scott Shi-Kau Liu resigned as an executive director and the chief executive officer of the Company in September 2020.

(2) Mr. Wenjie Zhang was appointed as the chief executive officer of the Company in September 2020 and was appointed as an executive director of the Company in November 2020.

(3) Mr. Zihou Yan was appointed as a non-executive director of the Company in February 2020.

(4) Mr. Jiemin Fu resigned as a non-executive director of the Company in February 2020.

(5) Ms. Rongli Feng was appointed as a supervisor of the Company in May 2020.

(6) Mr. Yong Zhou resigned as a supervisor and the chairman of the Board of Supervisors of the Company in February 2020.

(7) Ms. Kun Dai was appointed as a supervisor and the chairman of the board of supervisors on 19 February 2020. She resigned as a supervisor and the chairman of the board of supervisors with effect from 23 May 2020.

(8) Ms. Jingyi Wang resigned as the employee representative supervisor of the Board of Supervisors of the Company in December 2020.

(9) Ms. Junhong Liu was appointed as the employee representative supervisor of the Board of Supervisors of the Company in December 2020.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director who is also the chief executive (2020: two), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining four (2020: three) highest paid employees who are neither a director, supervisor nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	**11,277**	6,694
Performance-related bonuses	**3,767**	790
Pension scheme contributions	**–**	–
Share award scheme	**14,020**	5,175
	29,064	12,659

10. FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

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

	Number of employees	
	2021	2020
	RMB'000	RMB'000
Nil to RMB1,000,000	**–**	–
RMB3,000,001 to RMB3,500,000	**–**	2
RMB5,000,001 to RMB5,500,000	**1**	1
RMB6,000,001 to RMB6,500,000	**1**	–
RMB8,000,001 to RMB8,500,000	**1**	–
RMB9,000,001 to RMB9,500,000	**1**	–
	4	3

During the year and in prior years, restricted shares were granted to certain non-director, non-supervisor and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such restricted shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, non-supervisor and non-chief executive highest paid employees' remuneration disclosures.

11. INCOME TAX

The provision for Chinese Mainland current income tax is based on the statutory rate of 25% (2020: 25%) of the assessable profits 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 group entities in Chinese Mainland, which are taxed at a preferential rate of 15%.

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. The provision for current income tax of Taiwan Henlius and Hengenix, is based on the statutory rates of 20% and 29.84%, respectively (2020: 20%, 29.84%, respectively), for the year ended 31 December 2021. The provision for current income tax of Henlius Industrial is based on the statutory rates of 8.25% for the year ended 31 December 2021.

	2021	2020
	RMB'000	RMB'000
Current – Mainland China	**27,313**	–
Total tax charged for the year	**27,313**	–

11. INCOME TAX *(CONTINUED)*

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Year ended 31 December 2021

	Chinese Mainland RMB'000	Other countries and regions RMB'000	Total RMB'000
Loss before tax	(846,780)	(109,959)	(956,739)
Tax at the statutory tax rate	(211,695)	(31,553)	(243,248)
Lower tax rate for a specific entity	74,359	–	74,359
Withholding income tax paid	27,313	–	27,313
Expenses not deductible for tax	5,118	4	5,122
Additional deductible allowance for R&D expenses	(75,548)	–	(75,548)
Utilisation of the unrecognised tax losses	(69,523)	–	(69,523)
Deductible temporary differences and tax losses not recognised	277,289	31,549	308,838
Tax charge at the effective rate	27,313	–	27,313

Year ended 31 December 2020

	Chinese Mainland RMB'000	Other countries and regions RMB'000	Total RMB'000
Loss before tax	(955,581)	(37,960)	(993,541)
Tax at the statutory tax rate	(238,895)	(11,728)	(250,623)
Lower tax rate for a specific entity	90,690	–	90,690
Expenses not deductible for tax	6,328	10	6,338
Deductible temporary differences and tax losses not recognised	141,877	11,718	153,595
Tax charge at the effective rate	–	–	–

12. DIVIDENDS

No dividends have been paid or declared by the Company during the reporting period.

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 538,836,373 (2020: 529,574,066) in issue during the year.

The calculation of the diluted loss per share amounts is based on the loss 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 loss per share calculation, and the weighted average number of conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2021 RMB'000	2020 RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	**(984,052)**	(993,541)

	Number of shares 2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**538,836,373**	529,574,066
Effect of dilution – weighted average number of ordinary shares: Restricted shares under share award scheme	**–**	–
Weighted average number of ordinary shares in issue during the year in the diluted loss per share calculation	**538,836,373**	529,574,066

Because the diluted loss per share amount is decreased when taking restricted shares issued under the share award scheme into account, which had been disclosed in note 31 to the financial statements, the restricted shares had an anti-dilutive effect on the basic loss per share amount for the year and were ignored in the calculation of diluted loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Electronic equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021:							
Cost	622,761	4,029	909	58,601	245,700	283,609	1,215,609
Accumulated depreciation	(147,330)	(2,552)	(574)	(19,036)	(61,208)	–	(230,700)
Net carrying amount	475,431	1,477	335	39,565	184,492	283,609	984,909
At 1 January 2021, net of accumulated depreciation	475,431	1,477	335	39,565	184,492	283,609	984,909
Additions	55,745	378	–	14,096	45,706	250,773	366,698
Disposals	(7,260)	(1,077)	(1)	(109)	(3,603)	–	(12,050)
Depreciation provided during the year	(68,580)	(187)	(100)	(10,948)	(29,837)	–	(109,652)
Transfers	124,000	–	–	2,438	8,259	(134,697)	–
Exchange rate fluctuation	(47)	(7)	–	(473)	(493)	–	(1,020)
At 31 December 2021, net of accumulated depreciation	579,289	584	234	44,569	204,524	399,685	1,228,885
At 31 December 2021:							
Cost	784,364	954	902	73,207	295,254	399,685	1,554,366
Accumulated depreciation	(205,075)	(370)	(668)	(28,638)	(90,730)	–	(325,481)
Net carrying amount	579,289	584	234	44,569	204,524	399,685	1,228,885

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Electronic equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020:							
Cost	425,803	1,324	958	46,910	141,571	37,937	654,503
Accumulated depreciation	(99,436)	(816)	(625)	(13,172)	(39,741)	–	(153,790)
Net carrying amount	326,367	508	333	33,738	101,830	37,937	500,713
At 1 January 2020, net of accumulated depreciation	326,367	508	333	33,738	101,830	37,937	500,713
Additions	170,240	346	127	15,822	106,058	274,769	567,362
Disposals	(286)	(66)	–	(1)	(378)	–	(731)
Depreciation provided during the year	(49,977)	(198)	(103)	(8,009)	(21,705)	–	(79,992)
Transfers	29,097	–	–	–	–	(29,097)	–
Exchange rate fluctuation	(10)	887	(22)	(1,985)	(1,313)	–	(2,443)
At 31 December 2020, net of accumulated depreciation	475,431	1,477	335	39,565	184,492	283,609	984,909
At 31 December 2020:							
Cost	622,761	4,029	909	58,601	245,700	283,609	1,215,609
Accumulated depreciation	(147,330)	(2,552)	(574)	(19,036)	(61,208)	–	(230,700)
Net carrying amount	475,431	1,477	335	39,565	184,492	283,609	984,909

As at 31 December 2021, the carrying amounts of construction in progress of the Group included capitalised interest of approximately RMB12,978,000 (31 December 2020: RMB2,644,000).

As at 31 December 2021, the Group's construction in progress with a carrying amount of RMB364,084,000 (2020: nil) was – pledged as security for the Group's interest-bearing bank and other borrowings, as further detailed in note 25 to financial statements.

15. INTANGIBLE ASSETS

	Non-patent technologies RMB'000	Office software RMB'000	Deferred development costs RMB'000	Medicine license RMB'000	Total RMB'000
31 December 2021					
Cost at 1 January 2021, net of accumulated amortisation	**48,921**	**22,448**	**1,468,760**	**1,402,325**	**2,942,454**
Additions	**–**	**10,134**	**772,897**	**11,312**	**794,343**
Disposals	**–**	**–**	**(4,256)**	**–**	**(4,256)**
Impairments	**–**	**–**	**(28,848)**	**–**	**(28,848)**
Transfers	**–**	**–**	**(492,965)**	**492,965**	**–**
Amortisation during the year	**–**	**(3,617)**	**–**	**(65,141)**	**(68,758)**
Exchange rate fluctuation	**–**	**(4)**	**–**	**–**	**(4)**
At 31 December 2021:	**48,921**	**28,961**	**1,715,588**	**1,841,461**	**3,634,931**
At 31 December 2021					
Cost	**48,921**	**37,844**	**1,744,436**	**1,955,950**	**3,787,151**
Accumulated amortisation	**–**	**(8,883)**	**–**	**(114,489)**	**(123,372)**
Accumulated impairment	**–**	**–**	**(28,848)**	**–**	**(28,848)**
Net carrying amount	**48,921**	**28,961**	**1,715,588**	**1,841,461**	**3,634,931**
31 December 2020					
Cost at 1 January 2020, net of accumulated amortisation	48,921	14,242	1,775,660	336,326	2,175,149
Additions	–	10,522	859,303	–	869,825
Disposals	–	–	(65,388)	–	(65,388)
Transfers	–	–	(1,100,815)	1,100,815	–
Amortisation during the year	–	(2,342)	–	(34,816)	(37,158)
Exchange rate fluctuation	–	26	–	–	26
At 31 December 2020:	48,921	22,448	1,468,760	1,402,325	2,942,454
At 31 December 2020					
Cost	48,921	27,714	1,468,760	1,451,673	2,997,068
Accumulated amortisation	–	(5,266)	–	(49,348)	(54,614)
Net carrying amount	48,921	22,448	1,468,760	1,402,325	2,942,454

The intangible assets of the Group with indefinite life are non-patent technologies, which have indefinite life as the extension cost is low and these assets can be used indefinitely. In addition, the intangible assets of the Group also include the deferred development costs which are the expenditure incurred in the development phase of each project. Management tests the non-patent technologies with indefinite useful life and the deferred development costs which were not yet available for use for impairment annually by comparing their carrying amounts with their recoverable amounts.

15. INTANGIBLE ASSETS *(CONTINUED)*

NON-PATENT TECHNOLOGIES

The recoverable amounts of the non-patent technologies were determined based on the fair value less costs of disposal, and the fair values of non-patent technologies were determined using the relief from the royalty method taking into account the nature of the asset, using cash flow projections based on financial budget approved by the management, and the growth rate used to extrapolate the cash flows beyond the financial budget period is 3% (2020: 3%), which is close to the long-term inflation rate. The fair value measurement hierarchy of the non-patent technologies was level 3. Other key assumptions to the valuation model used are listed as follows:

	31 December 2021	31 December 2020
Discount rates	**16.00%**	16.00%
Royalty rates	**5.00%**	5.00%

Discount rates – The discount rates used reflect specific risks relating to non-patent technologies.

Royalty rates – The basis used to determine the value assigned to royalty rates is the royalty rate of the market where non-patent technologies are located, taking into account the profitability of the Group and other qualitative factors.

DEFERRED DEVELOPMENT COSTS

The recoverable amounts of the deferred development costs were determined based on the fair value less costs of disposal, and the fair value of the deferred development costs was determined using the multi-period excess earnings method taking into account the nature of the assets, using cash flow projections based on financial budget approved by the management, covering the economic life of corresponding biopharmaceutical products.

Impairment provision of RMB28,848,000 was provided for the deferred development costs based on specific review of fair values less costs of disposal of the assets as at 31 December 2021.

The fair value measurement hierarchy of the remaining deferred development costs was level 3. Other key assumptions to the valuation model used are listed as follows:

	31 December 2021	31 December 2020
Discount rates	**16.00%-17.00%**	16.00%-17.00%
Contributory asset charges	**2.09%-3.73%**	1.10%-1.51%

Discount rates – The discount rates used reflect specific risks relating to deferred development costs.

Contributory asset charges – The basis used to determine the value assigned to contributory asset charges is the return of revenue ("ROR") of the contributory assets, the ROR was determined according to the borrowing rate and cost of equity, and the contributory assets mainly included working capital, tangible assets and assembled workforce.

With regard to the assessment of fair value, management believes that no reasonably possible changes in any of the key assumptions would cause the recoverable amounts of non-patent technologies and deferred development costs to be materially lower than their carrying amounts.

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery and other equipment used in its operations. 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 plant and machinery generally have lease terms between 2 and 10 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

31 December 2021

	Land RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2021	205,303	246,976	452,279
Additions	–	53,121	53,121
Depreciation charge	(4,233)	(61,531)	(65,764)
Exchange rate fluctuation	–	(1,435)	(1,435)
As at 31 December 2021	201,070	237,131	438,201

31 December 2020

	Land RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2020	209,536	147,142	356,678
Additions	–	166,035	166,035
Disposals	–	(9,066)	(9,066)
Depreciation charge	(4,233)	(57,288)	(61,521)
Exchange rate fluctuation	–	153	153
As at 31 December 2020	205,303	246,976	452,279

At 31 December 2021, the Group's right-of-use assets with a carrying amount of RMB201,070,000 (2020: RMB205,303,000) were pledged as security for the Group's interest-bearing bank and other borrowings, as further detailed in note 25 to the financial statements.

16. LEASES *(CONTINUED)*

THE GROUP AS A LESSEE *(CONTINUED)*

(B) LEASE LIABILITIES

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

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	**292,975**	178,262
New leases	**53,121**	166,035
Accretion of interest recognised during the year	**16,649**	16,230
Disposals	**–**	(9,973)
COVID-19-related rent concessions from lessors	**–**	(81)
Payments	**(68,390)**	(57,258)
Exchange rate fluctuation	**(1,605)**	(240)
Carrying amount at 31 December	**292,750**	292,975
Analysed into:		
Current portion	**74,187**	72,041
Non-current portion	**218,563**	220,934

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

(C) THE AMOUNTS RECOGNISED IN PROFIT OR LOSS IN RELATION TO LEASES ARE AS FOLLOWS:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	**16,649**	16,230
Depreciation charge of right-of-use assets	**49,607**	39,949
Expense relating to short-term leases and leases of low-value assets	**5,093**	3,774
COVID-19-related rent concessions from lessors	**–**	(81)
Gain on disposal of items of right-of-use assets	**–**	(907)
Total amount recognised in profit or loss	**71,349**	58,965

(D) THE TOTAL CASH OUTFLOW FOR LEASES AND FUTURE CASH OUTFLOWS RELATING TO LEASES THAT HAVE NOT YET COMMENCED ARE DISCLOSED IN NOTES 32(C) AND 34(B), RESPECTIVELY, TO THE FINANCIAL STATEMENTS.

17. OTHER NON-CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
Prepayment for non-current assets	**223,668**	149,540

18. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**229,984**	144,891
Work in progress	**126,196**	136,114
Finished goods	**72,686**	25,407
Provision	**(8,754)**	(1,188)
	420,112	305,224

19. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**301,201**	201,499
Impairment	**(5,460)**	(5,286)
	295,741	196,213

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. 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. Trade receivables are non-interest-bearing.

At 31 December 2021, the Group's trade receivables with the amount of RMB69,444,000 (2020: RMB4,300,000) were pledged as security for the Group's interest-bearing bank and other borrowings, as further detailed in note 25 to the financial statements.

19. TRADE RECEIVABLES *(CONTINUED)*

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

	2021 RMB'000	2020 RMB'000
Within 3 months	**295,741**	196,213

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

	2021 RMB'000	2020 RMB'000
At the beginning of year	**5,286**	5,300
Impairment losses, net	**174**	(14)
At the end of year	**5,460**	5,286

For the trade receivables generated from the sales of pharmaceutical products, to which the customers have similar loss patterns, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due, and the calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions, and forecasts of future economic conditions.

The expected loss rate for the trade receivables generated from the sales of pharmaceutical products that are not past due is assessed to be 0.5%, while the expected loss rate for those that are past due is assessed to be 10% to 100% based on the time of past due. As at 31 December 2021, the Group's overdue trade receivable generated from the sales of pharmaceutical products was immaterial, and the Directors are of the opinion that the ECL in respect of these balances is sufficient.

For the trade receivables which are not generated from the sales of pharmaceutical products, to which the customers do not have similar loss patterns (i.e., by geographical region, sales type, customer type), an impairment analysis is performed at each reporting date separately for each customer. As at 31 December 2021, the Group's loss allowance was RMB4,300,000 (2020: RMB4,300,000).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Prepayments	**55,537**	56,722
Value added tax to be deducted and certified	**133,452**	205,863
Income tax prepaid	**–**	7,667
Deposits and other receivables	**34,985**	23,996
	223,974	294,248

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

As at 31 December 2021, the Group's other receivables with a carrying amount of RMB8,296,000 (2020: RMB5,305,000) were pledged as security for the Group's interest-bearing bank and other borrowings, as further detailed in note 25 to financial statements.

21. CASH AND BANK BALANCES

	2021 RMB'000	2020 RMB'000
Cash on hand	1	1
Bank balances	707,332	1,114,308
Cash and bank balances	707,333	1,114,309
Less: Pledged for letter of credit	(1,741)	–
Restricted cash for investments	(550,610)	–
	(552,351)	–
Cash and cash equivalents	154,982	1,114,309

The Group's cash and bank balances as at the end of each reporting period are denominated in the following currencies:

	2021 RMB'000	2020 RMB'000
Denominated in RMB	116,978	251,058
Denominated in USD	580,571	857,336
Denominated in EUR	217	1,507
Denominated in HKD	7,297	1,254
Denominated in NTD	2,270	3,154
	707,333	1,114,309

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 of between one day and 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 and restricted cash for investment are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	**383,470**	298,952

Trade payables are non-interest-bearing and are normally settled on terms of three to six months.

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

	2021 RMB'000	2020 RMB'000
Within 1 year	**383,470**	298,148
1 to 2 years	**–**	804
	383,470	298,952

23. OTHER PAYABLES AND ACCRUALS

	Notes	2021 RMB'000	2020 RMB'000
Repurchase obligation of restricted shares under share award scheme (note 31)		**32,917**	61,911
Other payables	(i)	**185,262**	105,177
Payroll and welfare payables		**271,379**	155,833
Accruals		**146,401**	103,365
Provision for the contract loss		**191,271**	–
Other current liabilities		**18,410**	7,403
Other taxes payables		**21,638**	6,156
		867,278	439,845

Note:

(i) Other payables mainly represent the payables related to the purchase of property, plant and equipment and the deposits received.

24. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2021 and 31 December 2020 are as follows:

	2021 RMB'000	2020 RMB'000
Short-term advances received from customers		
Sales of biopharmaceutical products	–	13
License and research and development services	138,303	52,212
	138,303	52,225
License and research and development services	653,934	520,870
	653,934	520,870
	792,237	573,095

Contract liabilities include long-term and short-term advances received to grant customers the License of the Group's certain biopharmaceutical products and provide research and development services.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2021			31 December 2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 16)	4.50-6.28	2022	74,187	4.65-6.28	2021	72,041
Bank borrowings – unsecured	0.64-4.35	2022	1,350,845	1.00-4.35	2021	923,292
Current portion of long term bank borrowings – secured (Note (a))	4.50	2022	36,165	4.50	2021	34,002
Current portion of long term bank borrowings – unsecured	3.95-4.65	2022	107,635	4.65-6.20	2021	153,116
Current portion of long term other borrowings – unsecured	0.88	2022	1,842	0.88	2021	6,035
			1,570,674			1,188,486
Non-current						
Lease liabilities (note 16)	4.50-6.28	2023-2029	218,563	4.65-6.28	2022-2029	220,934
Bank borrowings – secured (Note (a))	3.98-4.50	2023-2030	529,018	3.98-4.50	2022-2026	326,896
Bank borrowings – unsecured	4.05-4.65	2023-2024	304,682	4.65	2022-2023	95,444
Other borrowings – unsecured	–	–	–	0.88	2022	1,857
			1,052,263			645,131
			2,622,937			1,833,617

25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank borrowings and other borrowings repayable:		
Within one year	**1,496,487**	1,116,445
In the second year	**254,416**	37,627
In the third to fifth years, inclusive	**70,266**	209,319
Beyond five years	**509,018**	177,251
	2,330,187	1,540,642
Lease liabilities:		
Within one year	**74,187**	72,041
In the second year	**64,374**	44,462
In the third to fifth years, inclusive	**107,690**	111,473
Beyond five years	**46,499**	64,999
	292,750	292,975

Notes:

(a) Certain of the Group's bank borrowings are secured by:

(i) the pledge of certain of the Group's trade receivables amounting to RMB69,444,000 (2020: RMB4,300,000);

(ii) the pledge of certain of the Group's other receivables amounting to RMB8,296,000 (2020: RMB5,305,000);

(iii) mortgages over the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of RMB201,070,000 (2020: RMB205,303,000); and

(iv) mortgages over the Group's property, plant and equipment that had a net carrying value at the end of the reporting period of RMB364,084,000 (2020: Nil).

(b) Except for certain of the Group's bank borrowings bear interest at rates ranging from 0.64% to 1.34% amounting to USD16,100,000 and the 0.88% unsecured other borrowings amounting to NTD8,000,000, respectively, all borrowings are in RMB.

26. OTHER LONG-TERM PAYABLES

	2021 RMB'000	2020 RMB'000
Payroll and welfare payables	**54,425**	–

27. DEFERRED TAX

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for years and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2021 RMB'000	2020 RMB'000
Tax losses	**2,827,883**	2,260,418
Deductible temporary difference	**2,420,577**	1,104,143
	5,248,460	3,364,561

The unused tax losses expire as follows:

	2021 RMB'000	2020 RMB'000
Less than five years	**313,419**	230,868
Beyond five years	**2,292,632**	1,902,639
Without limitation	**221,832**	126,911
	2,827,883	2,260,418

28. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
Government grants	**155,741**	94,895

Various government grants have been received from local government authorities for setting up research and development activities. Some government grants received that did not meet the fulfilled conditions were included in deferred income. These grants are recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate. The movements in government grants of the Group during the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
At the beginning of the year	**94,895**	36,102
Received during the year	**95,482**	69,207
Recognised as income during the year	**(34,636)**	(10,414)
At the end of the year	**155,741**	94,895

29. SHARE CAPITAL

SHARES

	2021 RMB'000	2020 RMB'000
Issue and fully paid:		
543,494,853 (2020: 543,494,853) ordinary shares	**543,495**	543,495

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2020, 31 December 2020 and 31 December 2021	**543,494,853**	543,495

30. RESERVES

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

31. SHARE AWARD SCHEME

2018 Share Award Scheme and Amendments to the 2018 Share Award Scheme

The Group adopted a share award scheme (the "2018 Share Award Scheme") for the purpose of motivating the directors and key personnel of the Group to promote success of the business. The 2018 Share Award Scheme was approved by the Directors and became effective on 14 April 2018.

On 14 April 2018 (the "Date of Grant of the 2018 Share Award Scheme"), pursuant to the 2018 Share Award Scheme, 22,750,000 ordinary shares of the Company were granted to 55 eligible participants of the 2018 Share Award Scheme at an exercise price of RMB9.21 per share. All the 22,750,000 ordinary shares held by the eligible participants shall be unlocked (or repurchased and cancelled by the Company) in three tranches upon the expiry of each lock-up period. On 30 September 2018, the Company received the payment of the subscription price of RMB209,528,000 from the eligible participants, and the Company's share capital and share premium were then increased by RMB22,750,000 and RMB186,778,000, respectively. Meanwhile, the Company has recognised RMB209,528,000 as other payables and accruals and other reserve due to the restricted share repurchase obligation of the Company till the end of the unlocking period. The eligible participants include the members of the senior management of the Company and the core technical personnel of the Company and its subsidiaries. Details of the unlocking date are summarised as follows:

Type of eligible participants	% of conditional shares	Unlocking date	% of unlocked conditional shares
1	100%	30 April 2020	60%
		30 April 2021	20%
		30 April 2022	20%
2	100%	30 April 2020	35%
		30 April 2021	30%
		30 April 2022	35%
3	100%	30 April 2020	20%
		30 April 2021	25%
		30 April 2022	55%

As for the restricted shares, the conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of shares in respect of which the conditions may be released depends on the achievement of those conditions. In relation to the shares in respect of which the restrictions have been released, such shares cannot be transferred within one year after releasing the restrictions.

All of the eligible participants have accepted the granted shares by signing off the offer letters. The 2018 Share Award Scheme shall be valid from the Date of Grant of the shares to the date on which all the restricted shares granted have been unlocked or otherwise repurchased and cancelled.

31. SHARE AWARD SCHEME *(CONTINUED)*

2018 Share Award Scheme and Amendments to the 2018 Share Award Scheme *(continued)*

The aggregate fair value of the shares granted amounted to approximately RMB307,125,000 (RMB13.50 per share), and the fair value is determined by an external valuer using the discounted cash flow model taking into account the terms and conditions upon which the restricted shares were granted.

The following table lists the inputs to the valuation model used:

	14 April 2018
Discount rates (%)	16.14%
Long-term growth rate (%)	3.00%

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Long-term growth rate – The basis used to determine the value assigned to the long-term growth rate is the forecast price indices during the budget year from where the biopharmaceuticals are located.

During the year of 2020, in view of the business development of the Group and to provide an effective and sound incentive mechanism with reference to market practices, the Directors proposed to amend the terms of the 2018 Share Award Scheme ("Amendments to the 2018 Share Award Scheme") which was approved by the Directors on 17 November 2020.

Pursuant to the Amendments to the 2018 Share Award Scheme, upon the resignation of the participants, the transfer restrictions of a certain percentage of the shares awarded under the 2018 Share Award Scheme will be released, if the participants have fulfilled the service period conditions and certain performance conditions.

The following restricted shares were outstanding under the 2018 Share Award Scheme and Amendments to the 2018 Share Award Scheme during the year:

	Number of shares
At 1 January 2020	22,750,000
Forfeited during the year	(2,780,700)
Unlocked during the year	(16,027,813)
At 31 December 2020 and 1 January 2021	3,941,487
Forfeited during the year	(156,050)
Unlocked during the year	(1,624,737)
At 31 December 2021	**2,160,700**

31. SHARE AWARD SCHEME *(CONTINUED)*

2020 Share Award Scheme

The Group adopted a share award scheme (the "2020 Share Award Scheme") for the purpose of motivating the directors and key personnel of the Group to promote success of the business. The 2020 Share Award Scheme was approved by the Directors and became effective on 10 December 2020.

On 10 December 2020 (the "Date of Grant of the 2020 Share Award Scheme"), pursuant to the 2020 Share Award Scheme, 2,780,700 ordinary shares of the Company were granted to 12 eligible participants of the 2020 Share Award Scheme at an exercise price of RMB9.21 per share. All the 2,780,700 ordinary shares are derived from the unlocked restricted shares at the time of the resignation of the participants in the 2018 Share Award Scheme. All the 2,780,700 ordinary shares held by the eligible participants shall be unlocked (or repurchased and cancelled by the Company) in two tranches upon the expiry of each lock-up period. The eligible participants include the members of the senior management of the Company and the core technical personnel of the Company and its subsidiaries. Details of the unlocking date are summarised as follows:

Type of eligible participants	% of conditional shares	Unlocking date	% of unlocked conditional shares
1	100%	30 April 2021	60%
		30 April 2022	20%
		30 April 2023	20%
2	100%	30 April 2021	20%
		30 April 2022	25%
		30 April 2023	55%

As for restricted shares, the conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of shares in respect of which the restrictions may be released depends on the achievement of those conditions.

All of the eligible participants have accepted the granted shares by signing off the offer letters. The 2020 Share Award Scheme shall be valid from the Date of Grant of the shares to the date on which all the restricted shares granted have been unlocked or otherwise repurchased and cancelled.

The following restricted shares were outstanding under the 2020 Share Award Scheme during the year:

	Number of shares
At 1 January 2020	–
Granted during the year	2,780,700
At 31 December 2020 and 1 January 2021	2,780,700
Forfeited during the year	(375,000)
Unlocked during the year	(1,257,420)
At 31 December 2021	**1,148,280**

The aggregate fair value of the 2020 shares granted amounted to approximately RMB63,636,000 (RMB22.88 per share), and the fair value is determined by the stock price on the Date of Grant on the 2020 Share Award Scheme.

31. SHARE AWARD SCHEME *(CONTINUED)*

2021 Share Award Scheme

The Group adopted a share award scheme (the "2021 Share Award Scheme") for the purpose of motivating the directors and key personnel of the Group to promote success of the business. The 2021 Share Award Scheme was approved by the Directors and became effective on 7 April 2021, 13 July 2021, 30 November 2021, respectively.

On 7 April 2021, 13 July 2021, 30 November 2021 (the "Date of Grant of the 2021 Share Award Scheme"), pursuant to the 2021 Share Award Scheme, 531,050 ordinary shares of the Company were granted to 5 eligible participants of the 2021 Share Award Scheme at an exercise price of RMB9.21 per share. All the 531,050 ordinary shares are derived from the forfeited shares at the time of the resignation of the participants in the 2018 and 2020 Share Award Schemes. All the 531,050 ordinary shares held by the eligible participants shall be unlocked (or repurchased and cancelled by the Company) in two tranches upon the expiry of each lock-up period. The eligible participants include the members of the senior management of the Company and the core technical personnel of the Company and its subsidiaries. Details of the unlocking date are summarised as follows:

Type of eligible participants	% of conditional shares	Unlocking date	% of unlocked conditional shares
1	100%	30 April 2021	60%
		30 April 2022	20%
		30 April 2023	20%
2	100%	30 April 2021	20%
		30 April 2022	25%
		30 April 2023	55%

As for restricted shares, the conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of shares in respect of which the restrictions may be released depends on the achievement of those conditions.

All of the eligible participants have accepted the granted shares by signing off the offer letters. The 2021 Share Award Scheme shall be valid from the Date of Grant of the shares to the date on which all the restricted shares granted have been unlocked or otherwise repurchased and cancelled.

The following restricted shares were outstanding under the 2021 Share Award Scheme during the year:

	Number of shares
At 1 January 2021	–
Granted during the year	**531,050**
Unlocked during the year	**(266,010)**
At 31 December 2021	**265,040**

The aggregate fair value of the 2021 shares granted amounted to approximately RMB9,952,000 (131,550 shares with RMB25.18 per share, 89,500 shares with RMB20.39 per share, and 310,000 shares with RMB15.53 per share), and the fair value is determined by the stock price on the Date of Grant on the 2021 Share Award Scheme.

31. SHARE AWARD SCHEME *(CONTINUED)*

2021 Share Award Scheme *(continued)*

The Group has recognised expenses of RMB47,705,000, deferred development costs of RMB4,806,000, cost of sales of RMB712,000 and inventories of RMB267,000 for the year ended 31 December 2021 in respect of the 2018 Share Award Scheme, the 2020 Share Award Scheme and the 2021 Share Award Scheme (2020: The Group has recognised expenses of RMB33,070,000, deferred development costs of RMB9,591,000, cost of sales of RMB2,661,000, inventories of RMB529,000, property, plant and equipment – construction in progress of RMB200,000).

As at the end of the year, 3,574,020 ordinary shares were still locked, and the related other payables and accruals due from the repurchase obligation were RMB32,917,000 (note 23).

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB53,121,000 (2020: RMB166,035,000) and RMB53,121,000 (2020: RMB166,035,000), respectively, and no non-cash disposals to right-of-use assets (2020: RMB9,973,000) in respect of lease arrangements for plant and machinery.

(b) Changes in liabilities arising from financing activities:

	Bank and other borrowings RMB'000	Lease liabilities RMB'000	Interest payable included in other payables and accruals RMB'000
2021			
At 1 January 2021	**1,540,642**	**292,975**	**672**
New leases	**–**	**53,121**	**–**
Changes from financing cash flows	**800,055**	**(68,390)**	**(83,204)**
Government grants	**(8,393)**	**–**	**–**
Foreign exchange movement	**(2,648)**	**(1,605)**	**–**
Interest capitalised	**–**	**–**	**15,467**
Interest expense	**531**	**16,649**	**67,640**
At 31 December 2021	**2,330,187**	**292,750**	**575**
2020			
At 1 January 2020	431,127	178,262	3,920
New leases	–	166,035	–
Changes from financing cash flows	1,107,707	(57,258)	(28,338)
Disposals	–	(9,973)	–
COVID-19-related rent concessions from lessors	–	(81)	–
Foreign exchange movement	(577)	(240)	–
Interest expense	2,385	16,230	25,090
At 31 December 2020	1,540,642	292,975	672

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

(c) TOTAL CASH OUTFLOW FOR LEASES

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

	2021 RMB'000	2020 RMB'000
Within operating activities	**5,093**	3,774
Within investing activities	**842**	–
Within financing activities	**68,390**	57,258
	74,325	61,032

33. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's letter of credit and for the bank and other borrowings are included in notes 21 and 25, respectively, to the financial statements.

34. COMMITMENTS

(a) THE GROUP HAD THE FOLLOWING CAPITAL COMMITMENTS AT THE END OF THE REPORTING PERIOD:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
plant and machinery	**463,067**	697,843

(b) The Group did not have any lease contracts that have not yet commenced as at 31 December 2021. The Group has various lease contracts that have not yet commenced as at 31 December 2020. The future lease payments for non-cancellable lease contracts are RMB3,180,000 due within one year, and RMB16,124,000 due in the second to fifth years, inclusive and nil due after five years.

(c) OTHER BUSINESS AGREEMENTS

The Company enters into collaboration agreements with 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. Payment under these agreements generally become due and payable upon achievement of such milestones or sales. These commitments are not recorded in the consolidated financial statements because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales has been reached, the corresponding amounts are recognised in the consolidated financial statements.

35. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any contingent liabilities.

36. RELATED PARTY TRANSACTIONS

The Directors are of the view that the following companies are related parties that have material transactions or balances with the Group during the year.

(a) NAME AND RELATIONSHIPS OF THE RELATED PARTIES

Name	Relationship with the Group
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (“上海復星醫藥(集團)股份有限公司”) (“Fosun Pharma”)	Ultimate parent company
Scott Shi-Kau Liu	Shareholder of the Company
Shanghai Clone High Technology Co., Ltd.* (“上海克隆生物高技術有限公司”) (“Clone High Tech”)	Fellow subsidiary
Shanghai Kaimao Bio-Pharmaceutical Co., Ltd.* (“上海凱茂生物醫藥有限公司”) (“Kai Mao Bio-pharma”)	Fellow subsidiary
Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd.* (“上海復星醫藥產業發展有限公司”) (“Fosun Pharma Industrial Development”)	Fellow subsidiary
Jiangsu Wanbang Pharmaceutical Limited Company* (“江蘇萬邦生化醫藥集團有限責任公司”) (“Jiangsu Wanbang”)	Fellow subsidiary
Fosun Pharmaceutical Distribution (Jiangsu) Co., Ltd.* (“江蘇復星醫藥銷售有限公司”) (“Jiangsu Fosun”)	Fellow subsidiary
Fosun Pharma USA Inc (“Fosun USA”)	Fellow subsidiary
Gland Pharma Limited (“Gland Pharma”)	Fellow subsidiary
Shanghai Xin Shihua Investment Management Co., Ltd.* (“上海新施華投資管理有限公司”) (“Xin Shihua”)	Fellow subsidiary
Shanghai Fudehui Trading Co., Ltd.* (“上海復得惠貿易有限公司”) (“Shanghai Fudehui”)	Fellow subsidiary
Shanghai Bohao Laboratory Co., Ltd.* (“上海伯豪醫學檢驗所有限公司”) (“Shanghai Bohao”)	Fellow subsidiary
Shanghai Old Temple Gold Co., Ltd.* (“上海老廟黃金有限公司”) (“Old Temple Gold”)	Fellow subsidiary
Shanghai Yilian Enterprise Management Co., Ltd.* (“上海一鏈企業管理有限公司”) (“Shanghai Yilian”)	Fellow subsidiary
Shanghai Old Town God’s Temple Food Sales Co., Ltd.* (“上海老城隍廟食品銷售有限公司”) (“Old Town God’s Temple”)	Fellow subsidiary
Shanghai Zhiqia Information Technology Service Co., Ltd.* (“上海智洽信息科技服務有限公司”) (“Shanghai Zhiqia”)	Fellow subsidiary
Beijing Highland Property Management Co., Ltd.* (“北京高地物業管理有限公司”) (“Beijing Highland”)	Fellow subsidiary
Shanghai Xingfu Enterprise Management Consulting Co., Ltd.* (“上海星服企業管理諮詢有限公司”) (“Shanghai Xingfu”)	Fellow subsidiary
Kuyi International Travel Service (Shanghai) Co., Ltd.* (“酷怡國際旅行社(上海)有限公司”) (“Kuyi Travel”)	Fellow subsidiary
Hainan Fosun Trade Co., Ltd.* (“海南復星商社貿易有限公司”) (“Fosun Trade”)	Fellow subsidiary
Hangzhou Dongjia Trade Co., Ltd.* (“杭州東加商貿有限公司”) (“Dongjia Trade”)	Fellow subsidiary
Zhejiang Fuyi cosmetics Co., Ltd.* (“浙江復逸化妝品有限公司”) (“Zhejiang Fuyi”)	Fellow subsidiary
Shanghai Yunji Information Technology Co., Ltd.* (“上海雲濟信息科技有限公司”) (“Shanghai Yunji”)	Fellow subsidiary

36. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) NAME AND RELATIONSHIPS OF THE RELATED PARTIES *(CONTINUED)*

Name	Relationship with the Group
Shanghai Xingjing Enterprise Management Consulting Co., Ltd.* ("上海星競企業管理諮詢有限公司") ("Shanghai Xingjing")	Fellow subsidiary
Sinopharm Group Co., Ltd. and its subsidiaries ("國藥控股股份有限公司"及其子公司) ("Sinopharm")	Associate of the ultimate parent company
Chongqing Pharmaceutical (Group) Co., Ltd. and its subsidiaries ("重慶醫藥(集團)股份有限公司"及其子公司) ("Chongqing Pharma")	Associate of the ultimate parent company
Yong'an Property Insurance Co., Ltd.* ("永安財產保險股份有限公司") ("Yong'an Property")	Associate of the ultimate holding company
Fosun United Health Insurance Co., Ltd.* ("復星聯合健康保險股份有限公司") ("Fosun United")	Associate of the ultimate holding company

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

(b) TRANSACTIONS WITH RELATED PARTIES

	Notes	2021 RMB'000	2020 RMB'000
Licensing revenue provided to related parties			
Fosun Pharma Industrial Development	(i)	**10,398**	10,398
Jiangsu Wanbang	(i)	**981**	359
		11,379	10,757
Services provided to related parties			
Fosun Pharma Industrial Development	(ii)	**–**	154
Kai Mao Bio-pharma	(ii)	**–**	37
		–	191
Sales of goods to related parties			
Jiangsu Fosun	(iii),(v)	**534,538**	273,079
Sinopharm	(iii),(v)	**458,237**	61,397
Chongqing Pharma	(iii)	**32,946**	7,933
		1,025,721	342,409
Sales of materials to related parties			
Fosun Pharma Industrial Development	(iii)	**–**	65

36. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) TRANSACTIONS WITH RELATED PARTIES *(CONTINUED)*

	Notes	2021 RMB'000	2020 RMB'000
Services purchased from related parties			
Jiangsu Fosun	(iv),(v)	**9,739**	56
Clone High Tech	(iv)	**391**	153
Old Temple Gold	(iv),(v)	**633**	185
Fosun Trade	(iv)	**501**	–
Kai Mao Bio-pharma	(iv)	**424**	253
Fosun USA	(iv)	**339**	664
Dongjia Trade	(iv)	**246**	–
Shanghai Xingfu	(iv)	**213**	581
Zhejiang Fuyi	(iv)	**162**	–
Shanghai Fudehui	(iv),(v)	**123**	235
Jiangsu Wanbang	(iv)	–	1,026
Scott Shi-Kau Liu	(iv)	–	969
Fosun Pharma	(iv),(v)	–	237
Gland Pharma	(iv)	–	163
Fosun United	(iv)	–	124
Others	(iv),(v)	**206**	207
		12,977	4,853
Purchase of materials from Sinopharm	(iv),(v)	**3,097**	2,292
Purchase of SAP software from Fosun Pharma	(iv)	–	3,326
Purchase of right-of-use assets from Clone High Tech	(iv),(v)	**31,233**	41,996
Rental services provided by			
Kai Mao Bio-pharma	(iv)	–	57
Xin Shihua	(iv)	–	35
		–	92

Notes:

(i) The Group granted exclusive licences of the Group's certain biopharmaceutical products in the PRC to related parties after the Group obtains the market distribution authorisation of such products from government authorities. The Group received advance payments from the customers accordingly. The licensing revenue is recognised over the commercialisation period. The transactions were carried out in accordance with the terms and conditions similar to those offered to unrelated customers in the ordinary course of business.

(ii) The research and development services provided to related parties were carried out in accordance with the terms and conditions similar to those offered to unrelated customers in the ordinary course of business.

(iii) The sales of biopharmaceutical products and materials to related parties were carried out in accordance with the terms and conditions similar to those offered to unrelated customers in the ordinary course of business.

36. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(B) TRANSACTIONS WITH RELATED PARTIES *(CONTINUED)*

Notes: *(Continued)*

(iv) The purchases and rental services from related parties were charged in accordance with the terms and conditions offered by the related parties to their unrelated customers.

(v) The related party transactions in respect of the sale of goods to Jiangsu Fosun and Sinopharm, services purchased from Shanghai Fosun High Technology (Group) Co., Ltd. and Sinopharm, purchase of materials from Sinopharm and purchase of right-of-use assets from Clone High Tech above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Group confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of these transactions.

(C) OUTSTANDING BALANCES WITH RELATED PARTIES

	Notes	2021 RMB'000	2020 RMB'000
Amounts due from related parties			
Trade receivables			
Sinopharm	(i)	**88,720**	50,121
Jiangsu Fosun	(i)	**52,281**	81,583
Chongqing Pharma	(i)	**10,189**	5,649
		151,190	137,353
Prepayments, other receivables and other assets			
Sinopharm	(ii)	**13**	13
Kuyi Travel	(ii)	**–**	14
Others	(ii)	**4**	9
		17	36
Amounts due to related parties			
Trade payables			
Sinopharm	(iii)	**1,297**	301
Shanghai Xingfu	(iii)	**–**	78
Shanghai Fudehui	(iii)	**–**	32
		1,297	411
Other payables and accruals			
Jiangsu Fosun	(iv)	**9,935**	56
Fosun Pharma	(iv)	**3,526**	3,676
Clone High Tech	(iv)	**2,572**	–
Fosun Trade	(iv)	**500**	–
Dongjia Trade	(iv)	**246**	–
Old Temple Gold	(iv)	**241**	–
Kai Mao Bio-pharma	(iv)	**199**	–
Others	(iv)	**133**	7
		17,352	3,739

36. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) OUTSTANDING BALANCES WITH RELATED PARTIES *(CONTINUED)*

	Notes	2021 RMB'000	2020 RMB'000
Amounts due to related parties (continued)			
Lease liabilities			
Clone High Tech	(v)	**151,729**	141,726
Contract liabilities			
Fosun Pharma Industrial Development	(vi)	**357,775**	330,958
Jiangsu Wanbang	(vi)	**84,892**	85,872
		442,667	416,830

Notes:

(i) The amounts due from related parties in the trade receivables were trade in nature, unsecured, interest-free and repayable within 90 days.

(ii) The amounts due from related parties in the prepayments, deposits and other receivables were trade in nature, unsecured, interest-free and have no fixed terms of repayment.

(iii) The amounts due to related parties in trade payables were trade in nature, unsecured, interest-free and repayable. The outstanding balances were repayable within 30 days.

(iv) The amounts due to related parties in other payables and accruals were non-trade in nature, unsecured, interest-free and have no fixed terms of repayment.

(v) The Company rented plant and machinery from Clone High Tech and recognised the corresponding lease liabilities. The maturity profile of the lease liabilities due to Clone High Tech as at 31 December 2021 is as follows:

	2021 RMB'000	2020 RMB'000
Within one year	**45,690**	28,382
In the second year	**37,906**	29,641
In the third to fifth years, inclusive	**67,444**	79,249
Beyond five years	**689**	4,454
	151,729	141,726

(vi) The amounts due to related parties in contract liabilities were the advance payments of the License for certain biopharmaceutical products. These amounts are trade in nature, unsecured and with interest recognised which represented the significant financing component in the revenue contract.

36. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Compensation of key management personnel of the Group

	2021 RMB'000	2020 RMB'000
Fees	**996**	1,060
Other emoluments:		
Salaries, allowances and benefits in kind	**28,567**	19,038
Performance related bonuses	**7,549**	8,399
Staff welfare expenses	**–**	–
Share award scheme	**35,834**	12,266
Total compensation paid to key management personnel	**72,946**	40,763

Further details of Directors', supervisors' and chief executives' remuneration are included in note 9 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets at amortised cost

	2021 RMB'000	2020 RMB'000
Trade receivables	**295,741**	196,213
Financial assets included in prepayments, deposits and other receivables	**34,985**	23,996
Cash and bank balances	**707,333**	1,114,309
	1,038,059	1,334,518

Financial liabilities at amortised cost

	2021 RMB'000	2020 RMB'000
Trade payables	**383,470**	298,952
Financial liabilities included in other payables and accruals	**217,389**	162,401
Interest-bearing bank and other borrowings	**2,622,937**	1,833,617
	3,223,796	2,294,970

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings (non-current portion) (other than lease liabilities)	**833,700**	424,197	**812,958**	419,423

Management has assessed that the fair values of cash and bank balances, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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 following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings 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 Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of the reporting period was assessed to be insignificant.

38. 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:

Liabilities for which fair values are disclosed:

As at 31 December 2021

	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
Interest-bearing bank and other borrowings (non-current portion) (other than lease liabilities)	–	812,958	–	812,958

As at 31 December 2020

	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
Interest-bearing bank and other borrowings (non-current portion) (other than lease liabilities)	–	419,423	–	419,423

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and bank balances, and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group does not use derivative financial instruments to hedge its interest rate risk. At 31 December 2021, approximately 70% (2020: 85%) of the Group's interest-bearing bank and other borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in equity RMB'000
Year ended 31 December 2021		
RMB	**25**	**(1,768)**
RMB	**(25)**	**1,768**
Year ended 31 December 2020		
RMB	25	(977)
RMB	(25)	977

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from activities by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and RMB exchange rate and in the USD and NTD exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity due to changes arising on fair values of monetary assets and liabilities.

	Increase/ (decrease) in USD rate %	Increase/ (decrease) in equity RMB'000
Year ended 31 December 2021		
If the RMB weakens against the USD	**5**	**30,677**
If the RMB strengthens against the USD	**(5)**	**(30,677)**
If the NTD weakens against the USD	**5**	**638**
If the NTD strengthens against the USD	**(5)**	**(638)**
Year ended 31 December 2020		
If the RMB weakens against the USD	5	40,999
If the RMB strengthens against the USD	(5)	(40,999)
If the NTD weakens against the USD	5	232
If the NTD strengthens against the USD	(5)	(232)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

MAXIMUM EXPOSURE AND YEAR-END STAGING

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

CREDIT RISK *(CONTINUED)*

MAXIMUM EXPOSURE AND YEAR-END STAGING *(CONTINUED)*

As at 31 December 2021

	12-month ECLs Stage 1 RMB'000	Lifetime ECLs Stage 2 RMB'000	Lifetime ECLs Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	301,201	301,201
Financial assets included in prepayments, deposits and other receivables					
– Normal**	34,985	–	–	–	34,985
Restricted cash for investment					
– Not yet past due	552,351	–	–	–	552,351
Cash and cash equivalents					
– Not yet past due	154,982	–	–	–	154,982

As at 31 December 2020

	12-month ECLs Stage 1 RMB'000	Lifetime ECLs Stage 2 RMB'000	Lifetime ECLs Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	201,499	201,499
Financial assets included in prepayments, deposits and other receivables					
– Normal**	23,996	–	–	–	23,996
Cash and cash equivalents					
– Not yet past due	1,114,309	–	–	–	1,114,309

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

CREDIT RISK *(CONTINUED)*

MAXIMUM EXPOSURE AND YEAR-END STAGING *(CONTINUED)*

At the end of the reporting period, the Group had certain concentrations of credit risk as 20% (2020: 40%) and 50% (2020: 62%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

LIQUIDITY RISK

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations of cash flows.

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

31 December 2021

	On demand or within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade payables	383,470	–	–	383,470
Financial liabilities included in other payables and accruals	217,389	–	–	217,389
Lease liabilities	78,079	198,825	50,760	327,664
Interest-bearing bank and other borrowings (excluding lease liabilities)	1,521,333	351,773	681,691	2,554,797
	2,200,271	550,598	732,451	3,483,320

31 December 2020

	On demand or within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade payables	298,952	–	–	298,952
Financial liabilities included in other payables and accruals	162,401	–	–	162,401
Lease liabilities	83,738	195,827	75,399	354,964
Interest-bearing bank and other borrowings (excluding lease liabilities)	1,139,042	278,084	218,816	1,635,942
	1,684,133	473,911	294,215	2,452,259

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2021 RMB'000	2020 RMB'000
Interest-bearing bank and other borrowings (note 25)	**2,622,937**	1,833,617
Less: Cash and cash equivalents	**154,982**	1,114,309
Net debt	**2,467,955**	719,308
Equity attributable to owners of the parent	**2,296,756**	3,198,772
Capital and net debt	**4,764,711**	3,918,080
Gearing ratio	**52%**	18%

40. EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of these financial statements, there have been no significant events after the end of the reporting period.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**199,440**	177,791
Intangible assets	**2,878,981**	2,513,534
Investments in subsidiaries	**1,524,838**	2,175,230
Right-of-use assets	**56,670**	70,669
Other non-current assets	**3,178**	2,414
Total non-current assets	**4,663,107**	4,939,638
CURRENT ASSETS		
Trade receivables	**65,145**	81,733
Prepayments, deposits and other receivables	**901,711**	1,098,362
Cash and cash balances	**593,503**	947,460
Total current assets	**1,560,359**	2,127,555
CURRENT LIABILITIES		
Trade payables	**305,178**	229,978
Other payables and accruals	**479,965**	402,912
Contract liabilities	**77,988**	52,225
Interest-bearing bank and other borrowings	**708,243**	788,052
Total current liabilities	**1,571,374**	1,473,167
NET CURRENT (LIABILITIES)/ASSETS	**(11,015)**	654,388
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,652,092**	5,594,026
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**241,758**	145,639
Other long-term payables	**27,871**	–
Contract liabilities	**487,708**	520,870
Deferred income	**66,031**	56,083
Total non-current liabilities	**823,368**	722,592
Net assets	**3,828,724**	4,871,434
EQUITY		
Share capital	**543,495**	543,495
Reserves (Note)	**3,285,229**	4,327,939
Total equity	**3,828,724**	4,871,434

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Note:

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

	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020	5,737,861	23,912	(987,309)	4,774,464
Loss for the year	–	–	(640,193)	(640,193)
The vesting of restricted shares	216,375	(68,758)	–	147,617
Equity-settled share-based payments	–	46,051	–	46,051
At 31 December 2020 and 1 January 2021	**5,954,236**	**1,205**	**(1,627,502)**	**4,327,939**
Loss for the year	**–**	**–**	**(1,125,194)**	**(1,125,194)**
The vesting of restricted shares (note 31)	**55,356**	**(26,362)**	**–**	**28,994**
Equity-settled share-based payments (note 31)	**–**	**53,490**	**–**	**53,490**
At 31 December 2021	**6,009,592**	**28,333**	**(2,752,696)**	**3,285,229**

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 16 March 2022.

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise.

"2018 Share Award Scheme"	the share award scheme adopted pursuant to the original operating procedure of the employee equity incentive scheme signed in April 2018
"2020 Participants"	employees of the Company or its subsidiaries who will participate in the 2020 Share Award Scheme
"2020 Share Award Scheme"	the share award scheme adopted pursuant to the operating procedure of the 2020 employee equity incentive scheme
"Accord"	Accord Healthcare Limited
"Administrative Framework Agreement"	the framework agreement dated 24 June 2020 entered into between Fosun High Tech and the Company relating to the procurement of services and products for administrative purpose between the Remaining Fosun High Tech Group and the Group, as renewed on 31 December 2020
"Articles of Association"	the articles of association of the Company
"Aton Guangzhou"	Aton (Guangzhou) Biotech Co., Ltd. * (安騰(廣州)生物技術有限公司), a wholly-owned subsidiary of the Company
"Aton Ruilin"	Aton (Shanghai) Biotech Co., Ltd.* (安騰瑞霖(上海)生物科技有限公司), a wholly-owned subsidiary of the Company
"Aton Shanghai"	Aton (Shanghai) Biologics Co., Ltd. * (安騰(上海)生物技術有限公司), a wholly-owned subsidiary of the Company
"Biosidus"	Biosidus S.A.
"Binacea"	Binacea pharma Inc., a limited liability company incorporated in the Cayman Islands in February 2020
"Biopharmaceutical Products"	the self-developed biopharmaceutical products (except for HLX01 and HLX03, the distribution of which is governed by the HLX01 Agreement and the HLX03 Agreement, respectively) of the Group
"Biosimilar Guidelines"	the Guidelines for the R&D and Evaluation of Biosimilars (Trial) (《生物類似藥研發與評價技術指導原則(試行)》)
"Board"	the board of Directors of the Company
"Cayman Henlius"	Henlius Biopharmaceuticals, Inc., a company established in Cayman Islands on 23 February 2009, and a substantial shareholder
"CG Code"	Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
"Clone High Tech"	Shanghai Clone High Technology Co., Ltd.* (上海克隆生物高技術有限公司) a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Fosun Pharma

DEFINITIONS

"Company" or "Henlius"	Shanghai Henlius Biotech, Inc., a joint stock company incorporated under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange
"Company Law"	the Company Law of the PRC, as revised or supplemented from time to time
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	Ordinary Shares issued by the Company in the PRC with a nominal value of RMB1.00 each, which are subscribed for and paid for in RMB
"EMA"	European Medicines Agency
"Essex"	Essex Bio-Technology and Zhuhai Essex
"Essex Bio-Technology"	Essex Bio-Technology Limited.* (億勝生物科技有限公司), a company incorporated in Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
"EU"	European Union
"Farma De Colombia"	Farma De Colombia S.A.S
"FDA"	the United States Food and Drug Administration
"FHL"	Fosun Holdings Limited (復星控股有限公司), a company incorporated in Hong Kong on 18 February 2005 with limited liability, and a controlling shareholder
"FIHL"	Fosun International Holdings Ltd. (復星國際控股有限公司), a company incorporated in the British Virgin Islands on 9 September 2004 with limited liability, and a controlling shareholder
"Fosun High Tech"	Shanghai Fosun High Technology (Group) Co., Ltd.* (上海復星高科技(集團)有限公司), a company incorporated in the PRC on 8 March 2005, and a controlling shareholder
"Fosun Industrial"	Fosun Industrial Co., Limited (復星實業(香港)有限公司), a company incorporated in Hong Kong on 22 September 2004 with limited liability
"Fosun International"	Fosun International Limited (復星國際有限公司), a company incorporated in Hong Kong on 24 December 2004 with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, and a controlling shareholder
"Fosun New Medicine"	Shanghai Fosun New Medicine Research Company Limited (上海復星新藥研究有限公司), a company incorporated in the PRC on 12 September 2008 with limited liability, and a controlling shareholder
"Fosun Pharma"	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (上海復星醫藥(集團)股份有限公司), a joint stock company established in the PRC, the H shares and A shares of which are listed and traded on the Main Board of the Stock Exchange and the Shanghai Stock Exchange, respectively, and a controlling shareholder
"Fosun Pharma Industrial Development"	Shanghai Fosun Pharmaceutical Industrial Development Company Limited (上海復星醫藥產業發展有限公司), a company incorporated in the PRC on 27 November 2001 with limited liability, a wholly-owned subsidiary of Fosun Pharma, and a controlling shareholder

"Framework Property Leasing Agreement"	the framework property leasing agreement dated 31 December 2019 entered into between the Company and Clone High Tech in relation to the leasing of the premises
"GCP"	good clinical practice
"Getz Pharma"	Getz Pharma (Private) Limited and its affiliated company, Getz Pharma International FZ-LLC
"Global Offering"	the global offering comprises the Hong Kong public offering of 6,469,600 H Shares as well as the international offering of 58,225,800 H Shares initially available for subscription and 4,366,400 H Shares pursuant to the partial exercise of the over-allotment option
"GMP"	good manufacturing practice
"Greater China"	includes Mainland China, Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC
"Group", "we", "our" or "us"	the Company and its subsidiaries
"H Shares"	overseas listed foreign share(s) in the Company's ordinary share capital, with a nominal value of RMB1.00 each, which were listed on the Stock Exchange and traded in Hong Kong dollars
"HenLink"	HenLink, Inc., a company incorporated in the Cayman Islands on 15 August 2014 and a Shareholder whose beneficial owners are certain employees of the Group
"Henlius Biopharmaceuticals"	Shanghai Henlius Biopharmaceuticals Co., Ltd.* (上海復宏漢霖生物製藥有限公司), a wholly owned subsidiary of the Company
"Henlius Industrial"	Henlius Industrial Co., Limited, a wholly owned subsidiary of the Company
"Henlius Pharmaceutical"	Shanghai Henlius Biologics Co., Ltd.* (上海復宏漢霖生物醫藥有限公司), a wholly-owned subsidiary of the Company
"HK$ or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HLX01 Agreement"	the cooperation agreement dated 18 September 2015 entered into with Fosun Pharma Industrial Development relating to cooperation arrangements for HLX01
"HLX03 Agreement"	the cooperation agreement dated 18 September 2017 entered into with Jiangsu Wanbang (Group) Biopharmaceutical Co., Ltd., a wholly-owned subsidiary of Fosun Pharma, relating to the cooperation arrangements for HLX03
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or the "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards
"IND"	investigational new drug or investigational new drug application, also known as clinical trial application in China

"Intas"	Intas Pharmaceuticals Limited, founded in 1976 and headquartered in India
"Jiangsu Fosun"	Jiangsu Fosun Pharmaceutical Sales Co., Ltd., a company incorporated in the PRC with limited liability, and a wholly owned subsidiary of Fosun Pharma
"Jiangsu Wanbang"	Jiangsu Wanbang (Group) Biopharmaceutical Co., Ltd., a company incorporated in the PRC with limited liability, and a wholly owned subsidiary of Fosun Pharma
"Jollin Tech"	Shanghai Jollin Tech Co., Ltd., a wholly owned subsidiary of the Company
"KG Bio"	PT Kalbe Genexine Biologics
"Latest Practicable Date"	31 March 2022, being the latest practicable date for ascertaining the contents set out in this report prior to printing
"Listing"	the listing of the H Shares on the Main Board of the Stock Exchange
"Listing Date"	25 September 2019, being the date on which the H Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MAA"	marketing authorisation application
"mAb"	monoclonal antibodies
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"NDA"	new drug application
"NeuPharma"	Suzhou NeuPharma Co., Ltd.* (蘇州潤新生物科技有限公司)
"NMPA"	the National Medical Products Administration of the PRC
"PRC" or "Mainland China"	the People's Republic of China, but for the purposes of this annual report only, except where the context requires, references in this annual report to PRC or Mainland China exclude Hong Kong, Macau and Taiwan Regions
"Promotional Services Agreement"	the agreement entered into by Henlius Biopharmaceuticals and Jiangsu Fosun on 24 August 2020 in relation to the provision of promotional services by Jiangsu Fosun to the Group, as amended by a supplemental agreement on 31 December 2020
"Prospectus"	the prospectus issued by the Company on 12 September 2019 in connection with the Global Offering
"R&D"	research and development
"Remaining Fosun High Tech Group"	Fosun High Tech and its subsidiaries, excluding the Group

"Reporting Period"	the year ended 31 December 2021
"Resigned 2018 Participants"	the participants of the 2018 Share Award Scheme who were no longer employed by the Group as at 17 November 2020
"Restricted Interest"	the interests held by the Resigned 2018 Participants in Shanghai Guoyun or HenLink (as the case may be) that remain subject to the transfer restrictions under the 2018 Share Award Scheme
"RMB"	Renminbi, the lawful currency of the PRC
"Rules of Procedures of the Board of Supervisors"	the rules of procedures of the Board of Supervisors of the Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shanghai Medical Products Administration"	the Shanghai Medical Products Administration
"Shanghai Guoyun"	Shanghai Guoyun Biotech Partnership Enterprise (Limited Partnership)* (上海果運生物技術合夥企業(有限合夥)), a company incorporated in the PRC on 9 August 2017 and a Shareholder whose beneficial owners are certain employees of the Group
"Share(s)"	ordinary shares with nominal value of RMB1.00 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Sinopharm"	Sinopharm Group Co. Ltd.*, (國藥控股股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed and traded on the Stock Exchange
"Sinopharm Distribution Framework Agreement"	the distribution framework agreement dated 24 April 2020 entered into between the Company and Sinopharm relating to the distribution of the Biopharmaceutical Products by the Group to Sinopharm Group
"Sinopharm Group"	Sinopharm and its subsidiaries
"Sinopharm Industrial Investment"	Sinopharm Industrial Investment Co. Ltd.*, (國藥產業投資有限公司), a company incorporated in the PRC on 5 June 2008 and the controlling shareholder of Sinopharm
"Sinopharm Procurement Framework Agreement"	the procurement framework agreement dated 24 April 2020 entered into between the Company and Sinopharm relating to the procurement of (i) warehousing and logistic services and (ii) raw materials by the Group from Sinopharm Group
"Songjiang First Plant"	the Company's manufacturing facility at Guangfu Lin Road of the Songjiang District of Shanghai
"Songjiang Second Plant"	Henlius Biotech Biopharmaceutical Industrialization Base II, the Company's manufacturing facility with total planned area of 200 mu currently under construction in the Songjiang District of Shanghai
"Supervisor(s)"	the supervisors(s) of the Company

DEFINITIONS

"Taiwan Henlius"	Henlix Biotech Co., Ltd. (漢霖生技股份有限公司), a wholly-owned subsidiary of the Company
"U.S." or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"USD"	U.S. Dollars, the lawful currency of the U.S.
"Xuhui Facility"	the Company's manufacturing facility at Yishan Road of the Xuhui District of Shanghai
"Zhuhai Essex"	Zhuhai Essex Bio-Pharmaceutical Company Limited* (珠海億勝生物製藥有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Essex Bio-Technology

In this annual report, if there is any inconsistency between the Chinese names of the entities, authorities, organisations, institutions, or enterprises established in China or the awards or certificate given in China and their English translations, the Chinese version shall prevail.

** For identification purpose only*