遠大健康
CGE HEALTHCARE

遠大醫藥集團有限公司
GRAND PHARMACEUTICAL GROUP LIMITED

(formerly known as China Grand Pharmaceutical and Healthcare Holdings Limited 遠大醫藥健康控股有限公司*)
(Incorporated in Bermuda with limited liability)
(Stock Code: 00512)

2021
ANNUAL REPORT

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Corporate Information

EXECUTIVE DIRECTORS

Dr. Tang Weikun *(Chairman)*
Dr. Shao Yan
Dr. Niu Zhanqi
Dr. Shi Lin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie
Mr. Hu Yebi
Dr. Pei Geng

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Dr. Tang Weikun
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Hu Yebi
Dr. Pei Geng

REMUNERATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Dr. Tang Weikun
Mr. Hu Yebi

NOMINATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Dr. Shao Yan
Mr. Hu Yebi

WEBSITE

www.grandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

As to Bermuda Law:
Conyers Dill & Pearman

As to Hong Kong Law:
Loeb & Loeb LLP

PRINCIPAL SHARE REGISTRAR

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HONG KONG BRANCH SHARE REGISTRAR

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PRINCIPAL BANKERS

HSBC
Bank of China
Bank of Communications

REGISTERED OFFICE

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PRINCIPAL OFFICE

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99 Queen's Road Central, Hong Kong

Corporate Profile

Grand Pharmaceutical Group Limited is an international pharmaceutical company of technological innovation. The core products of the Group cover several major business areas, featured products of which include the anti-tumor, cerebro-cardiovascular emergency pharmaceutical products and cerebro-cardiovascular intervention advanced medical devices, severe disease and anti-infection, respiratory and ENT, bio-health products and specialized pharmaceutical ingredients. The Group has mainly focused on four business scopes, namely "innovative drugs with high entry barriers", "branded drugs", "integration of raw materials" and "health products". There are three major segments of global innovation and technology leadership, namely cerebro-cardiovascular precision interventional diagnosis and treatment, radionuclide-drug conjugate, severe disease and anti-infection, to be carried out with a forward-looking view by the Group.

Since the Group has a strong industrial foundation and a complete industrial chain with outstanding comprehensive advantages in pharmaceutical raw materials and preparations integration, it is listed as an emergency medicines manufacturer for national ready reserve, a national essential drug base and a national centralized production base for minority-variety medicines, etc., laying a solid foundation for the sustained and stable growth of the Group's result. Moreover, the Group has more than 90 products included in the National Essential Drug List (2018 edition), more than 200 products included in the National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2021 edition).

In terms of pharmaceutical preparation, the Group has obvious advantages in traditional fields such as the respiratory and ENT, and cerebro-cardiovascular emergency preparations. While a number of barrier products and exclusive products with leading market share make a stable contribution, the Group has also reserved five innovative products in the late clinical stage or launched overseas, including the treatment of "dry eye disease", "pterygium", "anti-inflammatory and pain relief after ophthalmology surgery", "allergic rhinitis" and "anaphylaxis". The Group will continue to adopt the R&D concept of combining innovator and generic to create a product cluster, and keep consolidating its leadership in this segment in the future. The Group has established a long-term and stable cooperative relationship with many overseas high-quality customers in the fields of bio-health products and specialized pharmaceutical ingredients products, which constitutes an important support for the sustainable and stable development of the Group's operating performance.

Meanwhile, by fully capitalising "accurate and stable domestic and overseas business development capabilities, the ability to import, digest and implement international leading technologies, excellent marketing and sales capabilities", the Group is aiming at the frontier areas of technological innovation. With the strategy of "strengthening fortification, deepening exploration, storing reserves" and the vision of internationalization and technological innovation, the Group continues to expand and reach a new business growth point, implements three innovative strategies of "cerebro-cardiovascular precision interventional diagnosis and treatment", "intervention, nuclear medicine and immunotherapy and anti-tumor" and "severe disease and anti-infection". We intend to build a world leading precision interventional diagnosis and treatment platform and strive to develop into a world-class tumor diagnosis and treatment platform and a technology leader in the field of severe disease and anti-infection.

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In the field of "cerebro-cardiovascular precision interventional diagnosis and treatment", the Group adheres to the treatment concept of "intervention without implantation", which covers six directions: coronary artery vascular intervention, peripheral vascular intervention, neurointervention, structural cardiac disease, electrophysiology and heart failure. For the purpose of a comprehensive deployment, a product cluster of technologically innovative high-end medical device is in place and continuously promote the comprehensive establishment of "active + passive" innovative device platform. Currently, there are ten products for the segment, among which, two products of vascular intervention have been approved for commercialization in China, and the clinical registration of the other products in China are also being actively advanced, striving to realize the commercialization of innovative products in phases, and driving the business in this field to achieve leap-forward growth. At the same time, regarding "introduction and landing" and "synchronously independent and localized R&D" as its development direction, the Group will realize the construction of a dual system of local + global R&D and production, as well as accelerate product launches and improve its own R&D capability. The Group targets to build this segment into a leading "cerebro-cardiovascular precision interventional diagnosis and treatment platform" in China and even the world.

In the field of anti-tumor, "tumor intervention", "radionuclide-drug conjugate" ("RDC") and "immunotherapy"," are the three key layouts worldwide, in which the field of radionuclide it has established an all-round layout covering R&D, production, sales and supervision qualification and built a complete industrial chain in 3 years. In terms of product pipelines, the Group has 16 global innovative products covering 13 cancer types including liver cancer, prostate cancer and colorectal cancer. Among them, the radionuclide drug diagnosis and treatment platform is a high-end technology platform established by the Group in the field of anti-tumor. Currently, there are ten innovative products, covering six nuclides including ^{68}Ga, ^{177}Lu, ^{131}I, ^{90}Y, ^{89}Zr, ^{99m}Tc. SIR-Spheres® Y-90 microsphere injections is the radionuclide-drug conjugates, being the Group's global innovative blockbuster products, and has been approved by the National Medical Products Administration of the PRC ("NMPA") for commercialization for the treatment of patients with unresectable colorectal liver metastases who have failed to respond to the standard therapy. In terms of R&D, the Group relied on Telix Pharmaceuticals Limited ("Telix"), ITM Isotope Technologies Munich SE ("ITM"), Sirtex Medical Pty Ltd ("Sirtex") and OncoSec Medical Incorporated ("OncoSec") to establish their international first-class R&D platforms for RDC, tumor intervention and DNA immunization, and greatly enhanced the Group's R&D strength in the field of tumor treatment. In the next 1-2 years, the Group will continue to strengthen the R&D and investment in this field, establish at least one Grade A production platform, complete the pipeline layout of more than 25 radionuclide diagnosis and treatment products, and form a radiopharmaceutical product group with SIR-Spheres® 90Y microsphere injection as the core. Currently, the radiopharmaceutical diagnosis and treatment platform of the Group and its associates have more than 400 employees worldwide, employees with masters and doctorates accounting for approximately 40%; three radiopharmaceutical R&D bases and five radiopharmaceutical production bases are set in the world and the radiopharmaceutical diagnosis and treatment platform is currently one of the most globalized segments of the Group. The Group will continue to increase investment in and development of global innovative products in the field of radiopharmaceuticals and tumor immunity to address the unmet clinical needs and enrich product pipeline and improve industrial layout, dedicating itself into building a world-leading radiopharmaceutical diagnosis and treatment platform and tumor interventional treatment platform.

Corporate Profile

The global first-in-class drug against unmet clinical needs is the focus in the field of severe disease and anti-infection. In terms of product pipelines, there are four global innovative drugs, namely two global innovative drugs STC3141 and APAD, for the treatment of hospitalised sepsis and acute respiratory distress syndrome (the "ARDS"), one global innovative drug for the treatment of parainfluenza, and a pre-filled adrenaline automatic injection pen for the treatment of severe anaphylaxis. The clinical progress of STC3141 was rapid. Currently, six clinical research approvals for four indications of sepsis, ARDS, severe COVID-19 infection and ARDS caused by COVID-19 infection have been obtained on three continents and in five countries namely China, Australia, Belgium, UK and Poland.

In the field of mRNA therapy, Nanjing AuroRNA Biotech Co., Ltd. ("AuroRNA Biotech"), mRNA vaccine research and development centre, jointly established by the Group and Belgium based eTheRNA Immunotherapies NV ("eTheRNA"), has been officially put into operation. AuroRNA Biotech has independent R&D capability, equipped with an early-stage project research and preparation development laboratory, with production capacity meeting the requirements of clinical research at all stages of therapeutic and preventive mRNA vaccines, accompanying with the ability to compete with international leading mRNA companies.

The Group is accelerating the pace of globalization. Since 2015, the Group has not only held a high proportion of shares in two important associates, Sirtex in Australia and OncoSec in United States, but also established equity and product strategic cooperation with Germany-based Cardionovum GmbH ("Cardionovum") and ITM, Canada-based Conavi Medical Inc ("Conavi"), Australia-based Telix, Belgium-based eTheRNA, Italy-based InnovHeart S.r.l. ("InnovHeart"), US-based FastWave Medical Inc ("FastWave"), BRIM Biotechnology, Inc. and Formosa Pharmaceuticals, Inc. ("Formosa") in Taiwan, etc. Its presence has reached North America, Europe, Oceania, Asia and other regions around the world. Together with its major associates, the Group has deployed five technology R&D platforms and five R&D centers around the world; it has established production bases in the United States, Canada, Germany and Singapore, and has a world-wide sales network in more than 60 countries and regions.

"Maintain stable growth, strive in innovation and decide the layout", upon the principles of meeting the needs of patients, adapting to market development and insisting on technological innovation as well as the development concept of "comprehensive strengths, innovation barriers and global expansion" and the strategy of "dual-wheel driving development of independent R&D, global expansion and dual-cycle operation", the Group has formed a new pattern of domestic and international cycles that synergize with each other, and is committed to becoming an international pharmaceutical company of technological innovation, delivering on its promises for doctors and patients, and making significant contribution to the society.

Corporate Profile

As of the date of this report, the core products of the Group are as follows:

Pharmaceutical Preparation

Ophthalmic products:

Rui Zhu® (polyvinyl alcohol eye drop)

He Xue Ming Mu tablets

Cerebro-cardiovascular emergency pharmaceutical products:

Li Shu An® (norepinephrine bitartrate injection, adrenaline hydrochloride injection)

Xin Wei Ning (tirofiban hydrochloride and sodium chloride injection)

Nuo Fu Kang® (methoxamine hydrochloride injection)

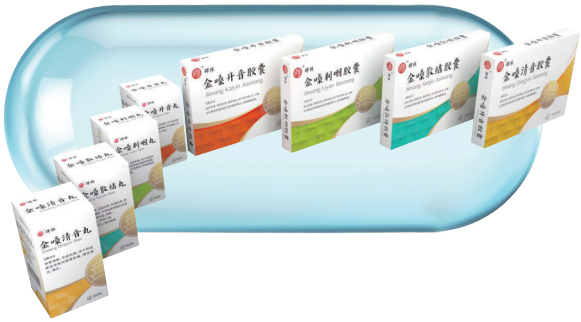
Rui An Ji (fructose sodium diphosphate oral solution)

Corporate Profile

Respiratory and ENT pharmaceutical products:

Qie Nuo (Eucalyptol, Limonene and Pinene Enteric Soft Capsules)

Jinsang Series (Jinsang Kaiyin, Jinsang Qingyin, Jinsang Liyan, Jinsang Sanjie)



Nuclear Medicine

SIR-Spheres® Y-90 microsphere injection

Medical Devices

Vascular interventional medical devices:

Paclitaxel Releasing Coronary Balloon Dilatation Catheter (RESTORE DEB®) and Paclitaxel Releasing Hemodialysis Shunt Balloon Dilatation Catheter (APERTO® OTW)

Bio-Technology Products And Healthcare Products

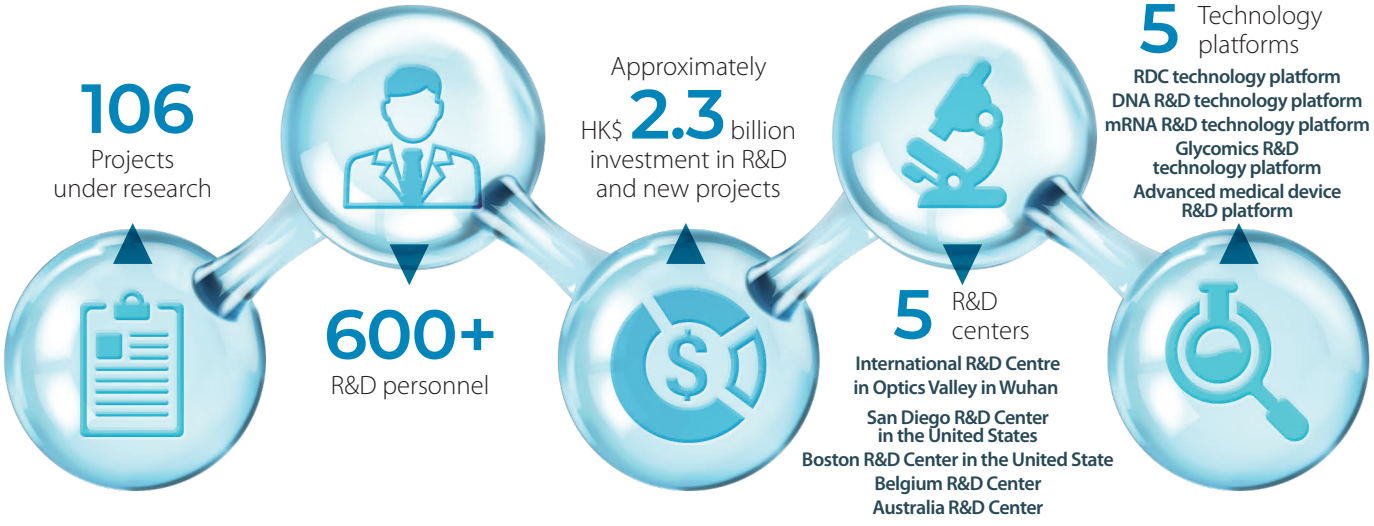
Taurine, cysteine, steroids, bio-pesticides and agricultural antibiotics

Specialized Pharmaceutical Ingredients And Other Products

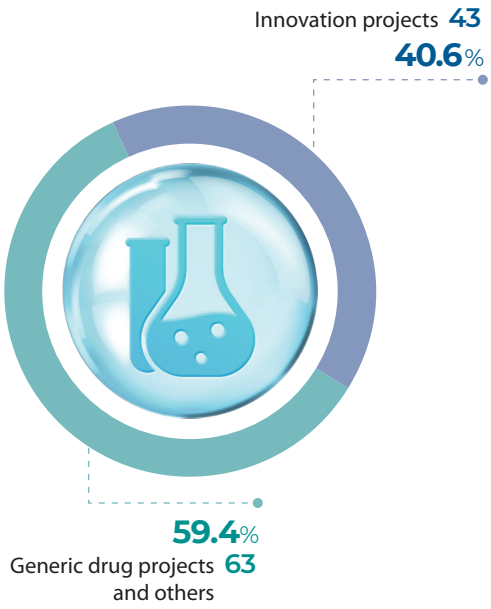
Metronidazole, chloramphenicol, dimethyl sulfate, nitromethane

Corporate Profile

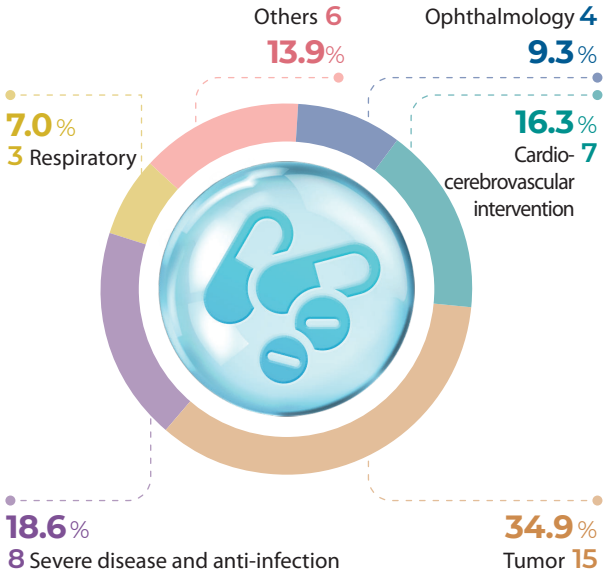
RESEARCH AND DEVELOPMENT



Overview of 106 R&D projects



Overview of 43 innovative projects by therapeutic areas



Corporate Profile

INNOVATION PIPELINE SCHEDULE

Table 1.1

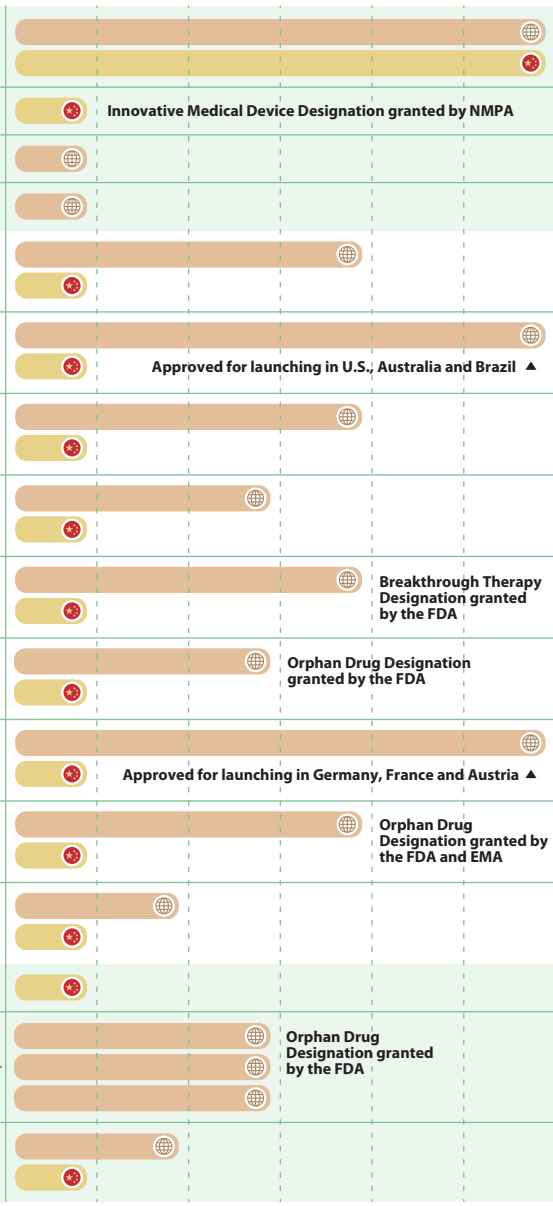
Precise intervention product pipeline

Sector	Product	Indications	Category	R&D / Model Inspection / Under Clinical Trial / Registration for Launching / Launch	Launching Schedule (Estimated)
Coronary artery vascular intervention	RESTORE DEB®	De novo coronary artery lesions and in-stent restenosis	Treatment		2011 2019
	NOVASIGHT	Coronary artery imaging and intracavity interventional surgery	Device for diagnosis	Special review approval process of innovative medical device	2018 2022
Peripheral vascular intervention	Intravascular shock wave calcification treatment system	Moderate or severe arterial calcication	Treatment		
	APERTO®OTW	Arteriovenous stula treatment of hemodialysis	Treatment		2013 2020
	LEGFLOW®OTW	Peripheral vascular disease	Treatment		2011 2024
Structural cardiac disease	Saturn	Mitral regurgitation	Treatment		2027 2027
Neurointer-vention	LONG	Ischemic stroke	Treatment		2025
Electrophy-siology	HeartLight X3	Atrial brillation	Treatment		2020 2024
Heart failure	CoRISMA	Heart failure	Treatment		

Corporate Profile

Oncology product pipeline

Category	Product under research	Indications	Launching Schedule (Estimated)
Precise Intervention	SIR-Spheres® Y-90 microsphere injections	Malignant liver tumor	2002 2022
	Thermosensitive embolic agent product	Hypervascular parenchymal organs tumor	2024
	Lava	Cerebral aneurysm	
	AuroLase	Prostate cancer	
Radionuclide-drug Conjugate (RDC)	TLX591 (^{177}Lu-rosapatumab)	Prostate cancer	2025 2026
	TLX591-CDx (^{68}Ga-PSMA-11)	Prostate cancer — diagnosis	2021 2025
	TLX599-CDx (^{99m}Tc-EDDA/HYNIC-iPSMA)	Prostate cancer — diagnosis	2026–2028
	TLX250 (^{177}Lu-girentuximab)	Clear cell renal cell carcinoma	2026–2028
	TLX250-CDx (^{89}Zr-girentuximab)	Clear cell renal cell carcinoma — diagnosis	2026–2028
	TLX101(^{131}I-IPA)	Glioblastoma	2026–2028
	TOCscan®	Gastroenteropancreatic neuroendocrine tumor — diagnosis	2018
	ITM-11	Gastroenteropancreatic neuroendocrine tumor	
	ITM-41	Malignant tumor bone metastases	
Immuno-therapy	REV-001	Colorectal cancer	2027
	TAVO	Metastatic melanoma Triple-negative breast cancer Squamous cell carcinoma	2023–2025
	A002	HPV-positive head and neck cancer	

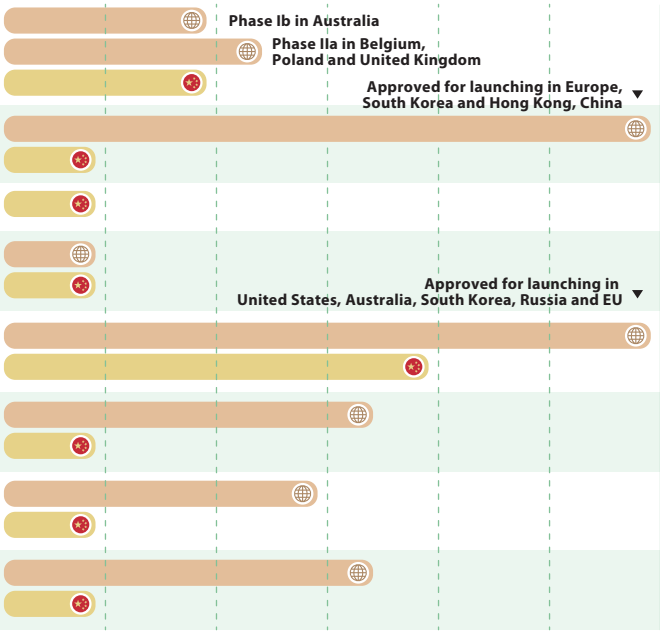


* AuroLase: The Group owns the right of first negotiation for that product

Corporate Profile

Severe disease, anti-infection, respiratory and ENT

Sector	Product	Indications	Launching Schedule (Estimated)
Severe disease and anti-infection	STC3141	Sepsis COVID-19 ARDS	2026
	GPN00816	Anaphylaxis	2011 2026
	APAD	Sepsis	2028
	GPN00085	Parainfluenza	2030
Respiratory and ENT	Ryaltris (GSP301)	Allergic rhinitis	2019 2025
	BRM421	Dry eye disease	2025
	CBT-001	Pterygium	2024
	GPN00833	Ocular inflammation	2026



Corporate Profile

As of the date of this report, the Group's major product development and corporate development are as follows:

DECEMBER

- The Group formed strategic partnership with ITM at not more than EUR520 million licensing fees and a milestone payment to obtain the exclusive development, manufacturing and commercialization rights of 3 global innovative RDC products developed by ITM in Greater China Region.
- TLX591-CDx, the global innovative RDC for the imaging of prostate cancer, received marketing approval from the U.S. FDA.
- STC3141, a global innovative product for severe infections, successfully enrolled for the phase IIa clinical trial in Europe for the treatment of severe COVID-19 patients.

NOVEMBER

- The Group acquired approximately 17.8% equity interests of InnovHeart and obtained the exclusive development, manufacturing and commercialization rights of Saturn, a global innovative medical device for mitral valve replacement, in Mainland China, Hong Kong, Macau and Taiwan at a consideration of approximately EUR43.8 million.
- The English name of the Company was changed from "China Grand Pharmaceutical and Healthcare Holdings Limited" to "Grand Pharmaceutical Group Limited", and the Chinese name of the Company was changed from " 遠大醫藥健康控股有限公司 " to " 遠大醫藥集團有限公司 ".
- STC3141, the Group's global innovative drug for the treatment of ARDS, completed the dosing of the first patient in Phase Ib clinical study in China.

OCTOBER

- The Group's global innovative drug Ryaltris (GSP301) compound nasal spray received the "Notice of Approval for Clinical Trial of Drugs" issued by the NMPA, approving the product to conduct Phase III clinical trials for the treatment of allergic rhinitis and rhinoconjunctivitis symptoms in patients aged 12 years and above.
- The Group's Hubei Grand Life Science & Technology Co., Ltd. acquired 80% equity interests of Cangzhou Huachen BioTech Co., Ltd.* for RMB107.2 million.

SEPTEMBER

- The adoption of the Share Award Scheme was approved by the Company.

AUGUST

- The Group acquired approximately 17.02% equity interests in CoRISMA by phases at a consideration of US$12 million and obtained the exclusive development, manufacturing and commercialization rights of a series of CoRISMA's products, the innovative medical device for the treatment of heart failure, in Greater China Region and various countries and regions in Southeast Asia, and facilitate the launch of relevant products in Authorized Regions.
- The Group obtained the exclusive long-term commercialization rights in Mainland China, Macau and Taiwan for Jext® pre-filled epinephrine auto-injector developed by ALK for the treatment of anaphylaxis with down-payment and milestone payment of EUR12 million.
- The Group will acquire 100% equity interests in FastWave by phases at a consideration of up to a total of US$72 million by phases, and invested up to US$8 million for supporting and jointly developing an innovative medical device, intravascular shockwave calcification treatment system, for the treatment of moderate to severe arterial calcification.

Corporate Profile

JULY

- Grand Pharma (China) (99.8% owned by the Group) acquired 10% equity interest in Grand Hoyo, which was held by Wuhan Sanzhen Industry Holding Co., Ltd (武漢三鎮實業控股股份有限公司), at a consideration of RMB51,980,000, pursuant to which the Group beneficially owned 97.67% equity interest in Grand Hoyo.
- The OncoSec entered into a collaboration agreement with Merck for a pivotal global phase III study of TAVO™ (Interleukin-12 plasmid DNA drug) and anti-PD-1 drug KEYTRUDA® (pembrolizumab) for late-stage metastatic melanoma.
- The Group's self-developed generic drug "Tadalafil Tablet" has been granted a drug registration certificate by NMPA.
- Telix, the Group's partner in the field of RDC, has successfully dosed the first patient in Phase I clinical study of TLX250-CDx, a global innovative RDC medicine for the treatment of clear cell renal cell carcinoma, on its expanding indication, urothelial carcinoma or bladder cancer, in Australia.
- Grand Decade, a wholly-owned subsidiary of the Group, entered into a share subscription agreement with Natixis and Sirtex HoldCo, pursuant to which Grand Decade subscribed for 84,704,650 shares allocated by Sirtex HoldCo at a consideration of USD100 million. Natixis has also entered into a second equity subscription agreement with Sirtex HoldCo. Upon the completion of the two transactions, Grand Decade owned 49.15% shares of Sirtex HoldCo.

JUNE

- The Group obtained the exclusive development and commercialization rights of APP13007 for anti-inflammatory and pain relief after ophthalmology surgery developed by Formosa in Mainland China, Hong Kong and Macau, with a milestone payment of not more than USD9.5 million and a certain percentage of sales commissions.
- TLX591-CDx, the world's innovative RDC for the imaging of prostate cancer of Telix, the Group's partner in the RDC field, has been successfully dosed the first patient for clinical trials in Japan; and TLX591, a RDC for the treatment of prostate cancer, has been approved in Australia for Phase III clinical trials and has received ethical approval from Human Research Ethics Committee.

MAY

- The Group introduced the new generation HeartLight X3 laser ablation platform of HeartLight® Endoscopic Ablation System, an innovative medical device for the treatment of atrial fibrillation from Cardio Focus with a milestone payment of not more than USD20 million and a certain percentage of sales commission to obtain the exclusive commercialization rights and conditional transfer of the core technology in Mainland China, Hong Kong and Macau, and the priority cooperation rights of other products of Cardio Focus in the licensed region.
- The Group acquired 100% equity interest of Shenming Medical at RMB8.6 million, and thereby obtained all the development and commercialization rights of the thermosensitive embolic agents for the treatment of liver cancer and the subsequent development of gel products developed by Shenming Medical.
- The Group's global innovative drug STC3141 for the field of severe infections successfully completed the enrollment of the first four patients for the Phase IIa clinical trial in Belgium for the treatment of severe COVID-19 patients, and successfully achieved continuous dosing.
- The core product SIR-Spheres® Y-90 resin microspheres of Sirtex Medical Pty Ltd, an associate of the Group, successfully dosed the first patient for a clinical trial of hepatocellular carcinoma after approved by the FDA for clinical trials of primary liver cancer.

Corporate Profile

APRIL

- The Group's global innovative drug STC3141 for the field of severe infection was approved to conduct a Phase IIa clinical trial in Belgium for the treatment of severe COVID-19.
- GenPulse™, a new generation of gene electrotransfer device developed by the Group in the field of tumor immunity and DNA technology research and development platform OncoSec, has obtained EU CE certification.

MARCH

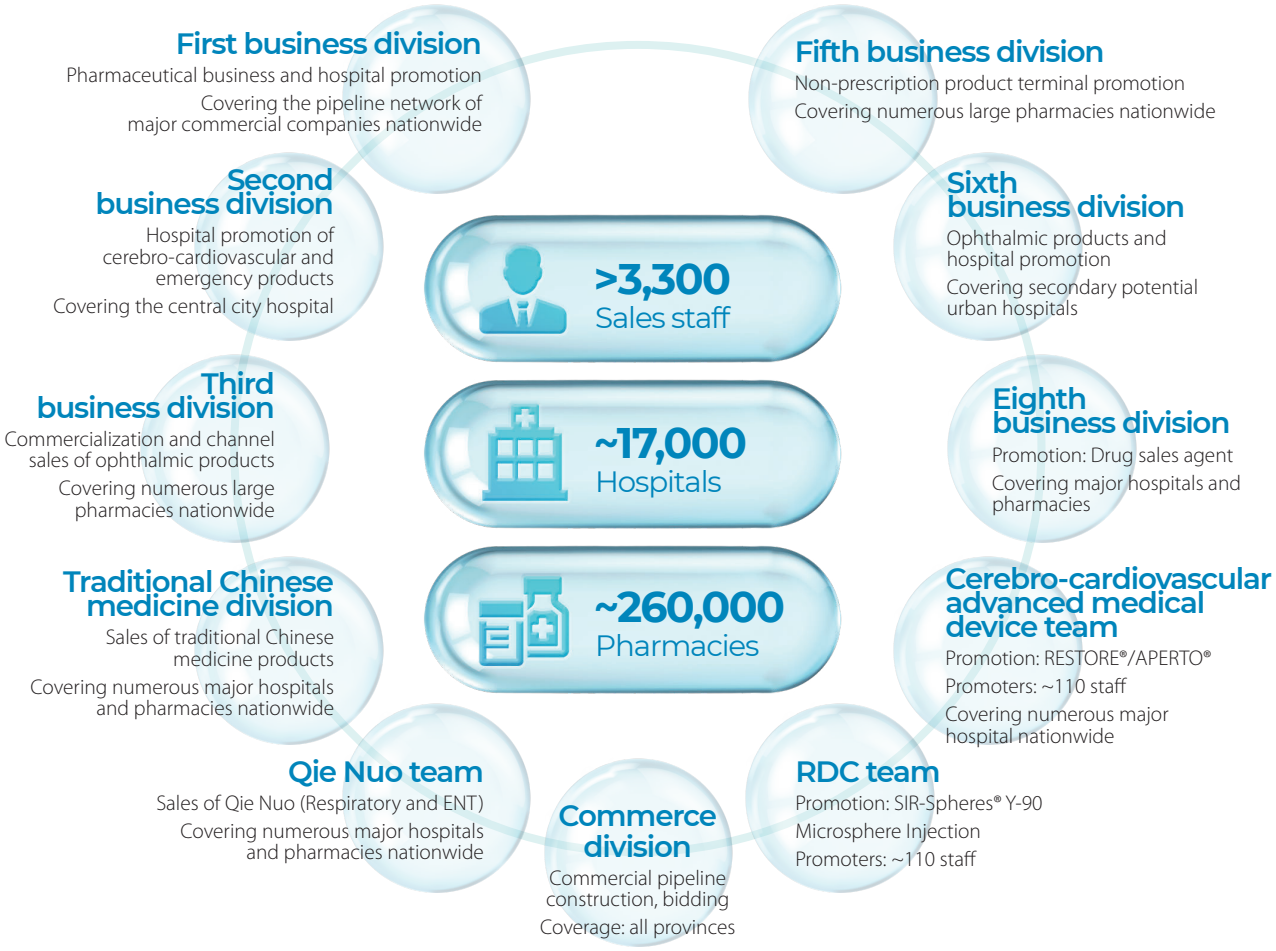
- SIR-Spheres® Y-90 resin microspheres, Core products of Sirtex Medical Pty Ltd, an associate company of the Group, were recommended by NICE and approved by the FDA for clinical trials of primary liver cancer.
- STC3141, a global innovative drug for the treatment of sepsis, received the "Notice of Approval for Clinical Trial of Drugs" issued by the NMPA, and obtained approval to carry out Phase Ib clinical study in another indication ARDS.
- "Bimatoprost Eye Drops", an innovative ophthalmic solution independently developed by the Group, has been issued a drug registration certificate by NMPA, which is the first approved generic drug in China for this variety.

FEBRUARY

- The Group acquired 752 shares in East Ocean Medical at US$12 million. East Ocean Medical became a wholly owned subsidiary of the Group.

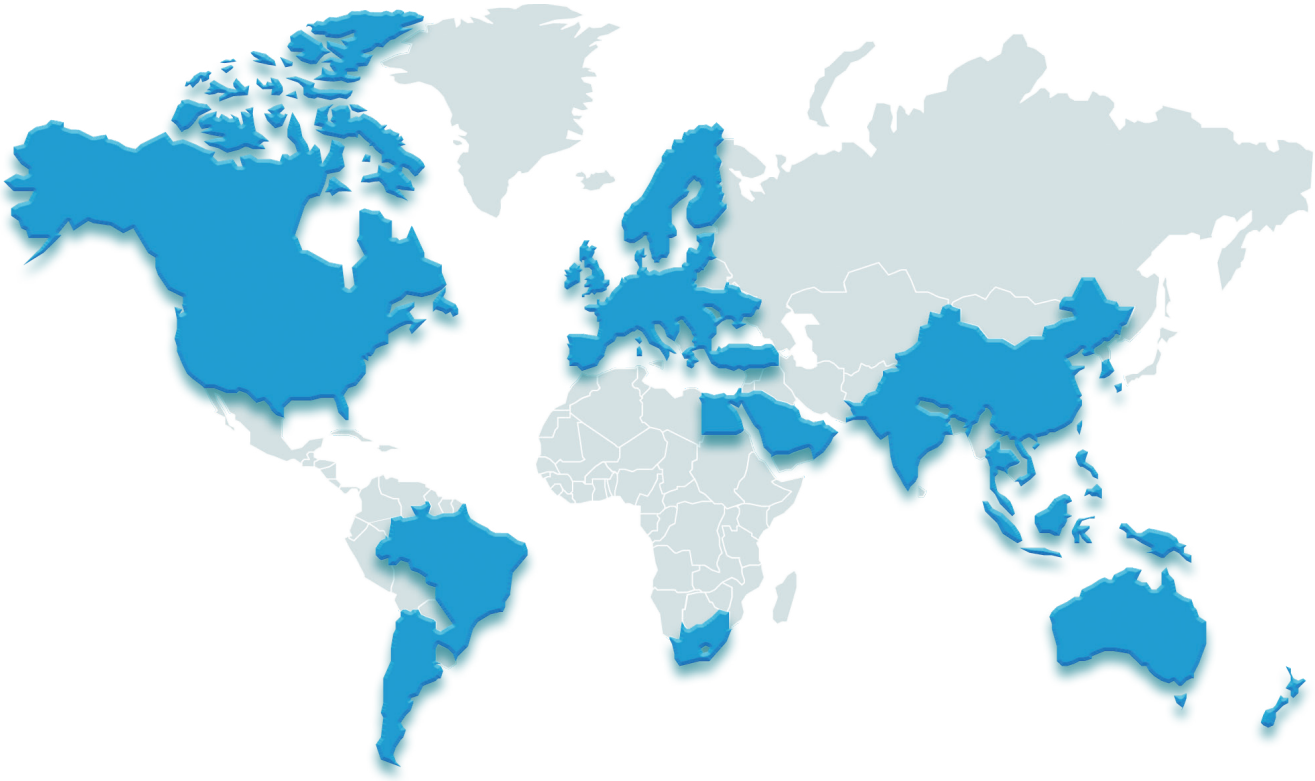
Corporate Profile

DOMESTIC SALES NETWORK



Corporate Profile

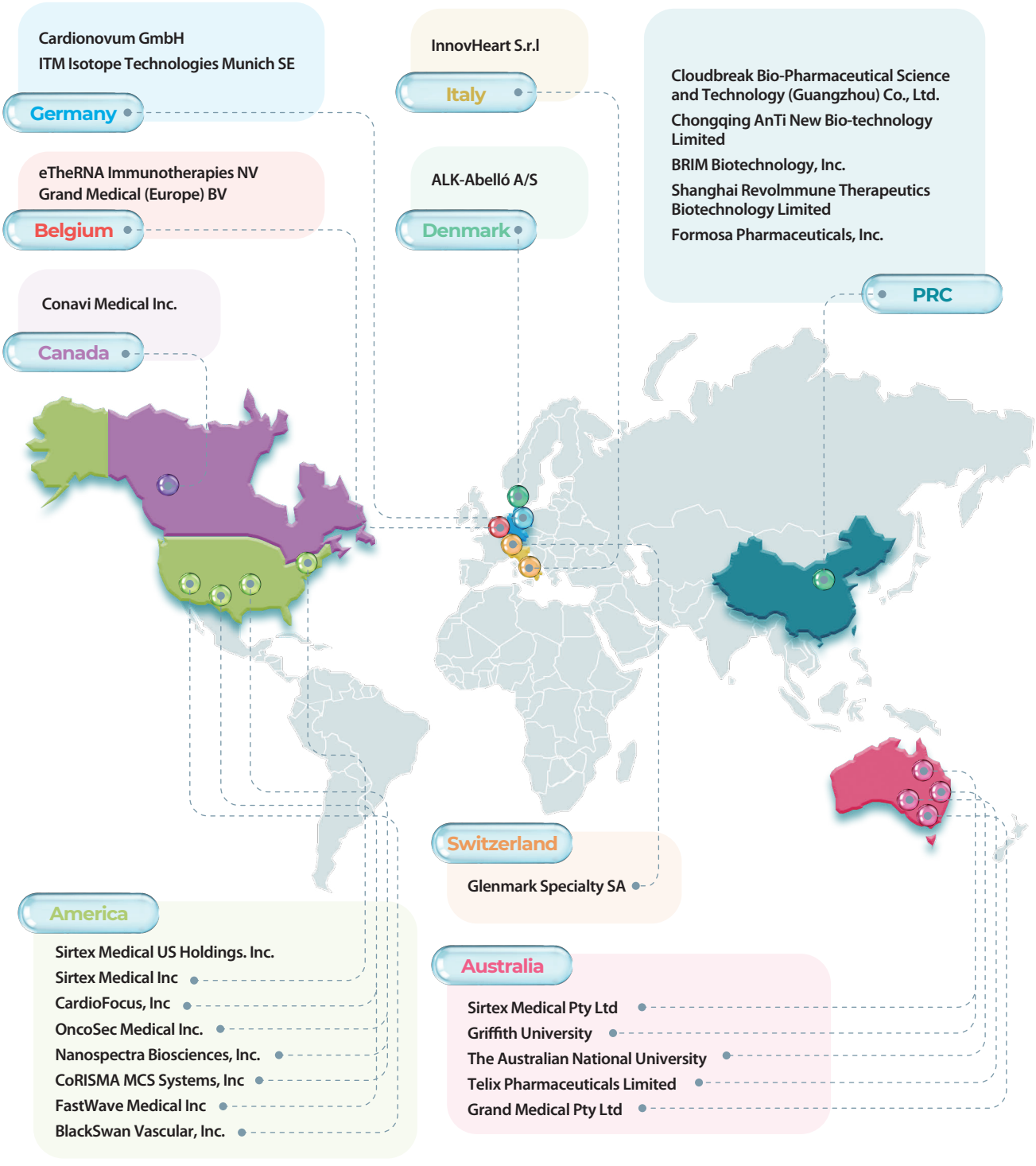
GLOBAL SALES NETWORK OF SIRTEX



The production bases of SIR-Spheres® Y-90 Microsphere Injection, a product of the Group's associate, Sirtex, are located in Frankfurt, Germany, Boston, USA and Singapore. The global sales network mainly covers the Americas, Europe, Oceania and the Asia-Pacific region, tapping into more than 50 countries and regions.

Corporate Profile

THE GLOBAL LAYOUT OF THE GROUP



Corporate Profile

Particulars of the Group's principal subsidiaries are as follows:

Company name and percentage of equity interest	Positioning and functions
Grand Pharma (China) Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Pharmaceutical Co., Ltd. 99.18%	Manufacture of pharmaceutical raw materials
Wuhan Grand Hoyo Co., Ltd. 97.67%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Life Science & Technology Co., Ltd. 97.43%	Research and development, manufacture and sales of taurine products
Hubei Grand Biotechnology Co., Ltd. 49.69%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Fuchi Pharmaceutical & Chemicals Co., Ltd. 89.60%	Research and development, manufacture and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Pharmaceutical Company Limited 99.84%	Manufacture and sales of ophthalmic pharmaceutical products
Zhejiang Xianju Xianle Pharmaceutical Co., Ltd. 67.00%	Research and development, manufacture and sales of steroid hormones active pharmaceutical ingredients and related intermediates
Wuhan Kernel Bio-tech Co., Ltd. 91.56%	Research and development, manufacture and sales of bio-technology products series
Hubei Wellness Pharmaceutical Co., Ltd. 99.84%	Manufacture and sales of pharmaceutical products
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. 59.90%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Grandpharma Group Sales Co., Ltd. 99.84%	Sales of pharmaceutical products
Beijing Huajin Pharmaceutical Co., Ltd. 71.88%	Research and development, manufacture and sales of pharmaceutical products
Huangshi Fuchi Water Affairs Company Limited 99.84%	Treatment of sewage
Beijing Grand Jiuhe Pharmaceutical Co., Ltd. 96.84%	Research and development, manufacture and sales of pharmaceutical products
Tianjin Jingming New Technology Development Co., Ltd. 73.18%	Research and development, manufacture and sales of pharmaceutical products
Zhu Hai Cardionovum Medical Device Co. Ltd. 77.89%	Sales of medical devices
Xi'an Beilin Pharmaceutical Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Technology Co., Ltd. 99.84%	Research and development
Grand Medical Pty Limited 100%	Research and development

The principal associates of the Group are as follows:

Company name and percentage of equity interest	Positioning and functions
Sirtex Medical Pty Ltd 49.15% (Note)	Research and development, manufacture and sales of pharmaceutical products
OncoSec Medical Incorporated 42.71%	Research and development, manufacture and sales of pharmaceutical products
Shanghai Xudong Haipu Pharmaceutical Co., Ltd. 55.00%	Research and development, manufacture and sales of pharmaceutical products
Cardionovum GmbH 33.33%	Research and development, manufacture and sales of devices

Note: The Group has entered into total return swap transactions with Natixis (a multinational financial services firm incorporated in France), pursuant to which, among other things, Natixis shall transfer all the economic benefits and exposure of the approximately 7.7% equity interests in Grand Pharma Sphere Pte Ltd. (which wholly owned Sirtex Medical Pty Ltd.) currently held by Natixis to the Company. For details, please refer to the circular of the Company dated 13 September 2021 and the announcements of the Company dated 30 September 2021, 11 August 2021 and 2 July 2021.

Corporate Profile

DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"ALK"	ALK-Abelló A/S
"APERTO®OTW"	Paclitaxel Releasing Hemodialysis Shunt Balloon Dilatation Catheter
"APP13007"	Hormone nano-suspension eye drops
"ARDS"	Acute Respiratory Distress Syndrome
"AuroRNA Biotech"	Nanjing AuroRNA Biotech Co., Ltd.
"Cardionovum"	Cardionovum GmbH
"Cardio Focus"	Cardio Focus, Inc.
"Conavi"	Conavi Medical Inc.
"CoRISMA"	CoRISMA MCS Systems, Inc
"COVID-19"	2019 novel coronavirus disease
"East Ocean Medical"	East Ocean Medical (Hong Kong) Company Limited
"eTheRNA"	eTheRNA Immunotherapies NV
"FastWave"	FastWave Medical Inc
"FDA"	United States Food and Drug Administration
"Formosa"	Formosa Pharmaceuticals, Inc.
"Grand Decade"	Grand Decade Developments Limited
"Grand Hoyo"	Wuhan Grand Hoyo Company Limited
"Grand Life Technology"	Hubei Grand Life Science & Technology Co., Ltd.
"Grand Pharma (China)"	Grand Pharmaceutical (China) Company Limited*
"Greater China Region"	Mainland China, Hong Kong, Macau and Taiwan region
"Huachen BioTech"	Cangzhou Huachen BioTech Co., Ltd
"InnovHeart"	InnovHeart S.r.l.

Corporate Profile

"ITM"	ITM Isotope Technologies Munich SE
"LEGFLOW® OTW"	Paclitaxel Releasing Peripheral Balloon Dilatation Catheter
"mRNA"	messenger RNA
"Natixis"	Natixis, incorporated in France and the liability of its members is limited
"NMPA"	National Medical Products Administration
"OncoSec"	OncoSec Medical Incorporated
"RESTORE DEB®"	Paclitaxel Releasing Coronary Balloon Dilatation Catheter
"RDC"	Radionuclide-drug conjugate
"Shenming Medical"	Jiangsu Shenming Medical Technology Co., Ltd.
"Sirtex"	Sirtex Medical Pty Ltd
"Sirtex HoldCo"	Grand Pharma Sphere Pte Ltd., a company established under the laws of Singapore with limited liability
"VSV-GPM"	Vesicular stomatitis oncolytic virus
"TAVO™"	Tavokinogene Telseplasmid
"Telix"	Telix Pharmaceuticals Limited
"The 14th Five-Year Plan"	The 14th Five-Year Plan for the Development of Pharmaceutical Industry
"Tianjin Jingming"	Tianjin Jingming New Technology Development Co., Ltd.

Financial Summary

RESULTS

	Year ended 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**8,597,975**	6,352,919	6,590,635	5,958,355	4,770,850
Profit before tax	**2,785,832**	2,073,583	1,355,973	883,899	558,939
Income tax	**(380,800)**	(292,374)	(230,485)	(147,460)	(73,181)
Profit for the year	**2,405,032**	1,781,209	1,125,488	736,439	485,758

ASSETS AND LIABILITIES

	As at 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**21,057,030**	16,984,345	13,813,307	13,496,659	8,062,791
Total liabilities	**(7,614,168)**	(5,640,136)	(5,302,300)	(6,062,032)	(5,603,190)
Net assets	**13,442,862**	11,344,209	8,511,007	7,434,627	2,459,601

THE COMPANY'S STOCK PRICE TREND CHART IN 2021

Revenue in 2021:
HK$**8.6** billion

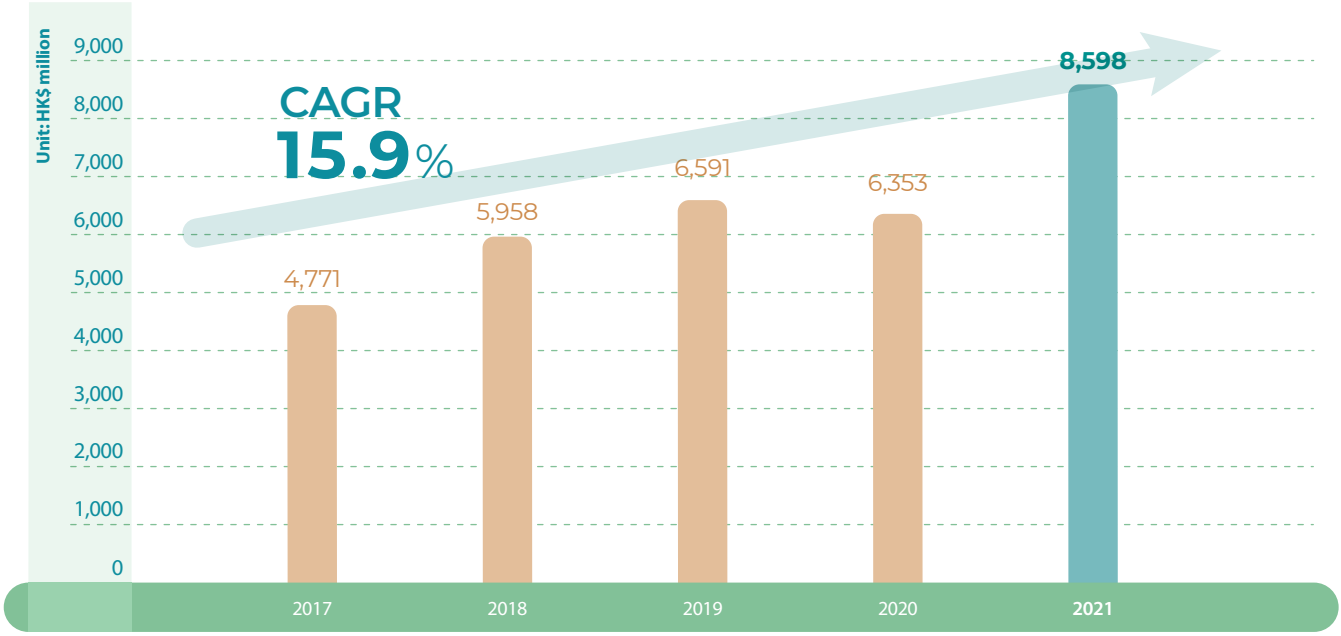
Net profit attributable to the owners of the Company in 2021:
HK$**2.4** billion

The final cash dividend for 2021 was approximately
HK$**390** million

Financial Summary

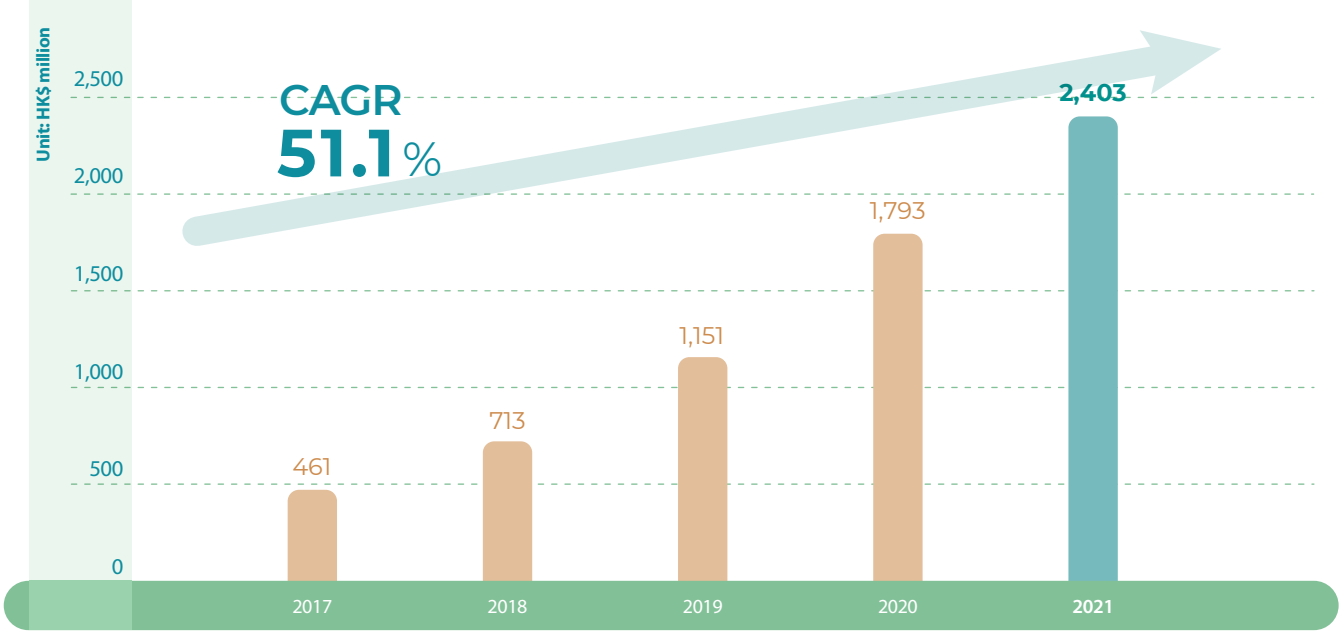
Revenue growth

Table 1.1



Increase rate of net profit attributable to the owners of the Company

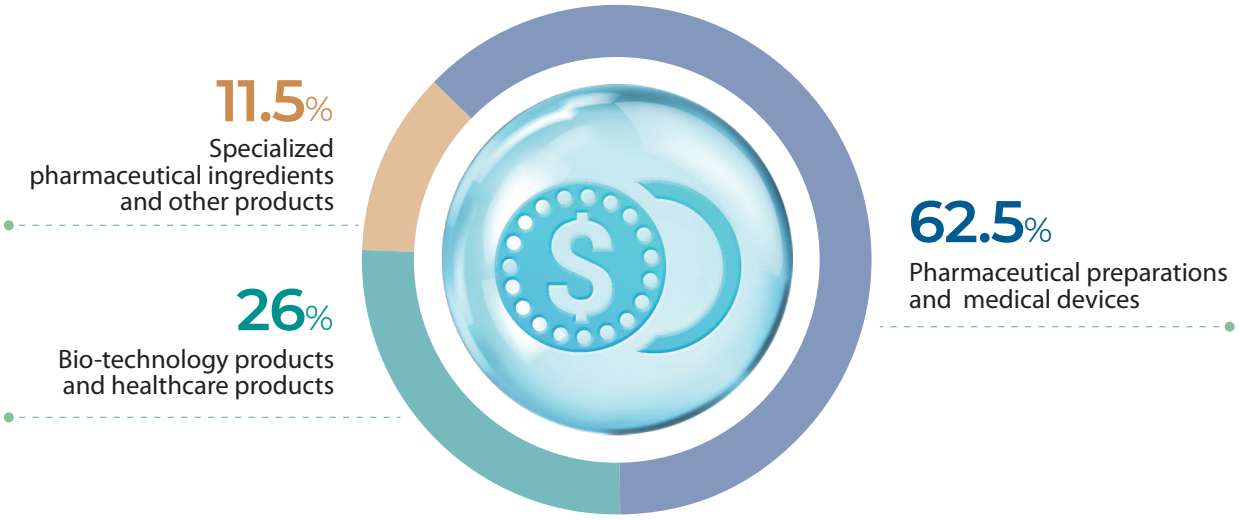
Table 1.2



Financial **Summary**

THE REVENUE ANALYSIS OF THE GROUP BY BUSINESS SEGMENTS IS AS FOLLOWS:

Table 1.3



Management Discussion and Analysis

INDUSTRY REVIEW

2021 marked the commencement of the "14th Five-Year" Plan in China. With the effective prevention and control of the 2019 novel coronavirus disease pandemic ("COVID-19") in China, the economic and social development is gradually back to the normal track. Internationally, Omicron, a variant virus of COVID-19, continues to spread around the world, and new cases continue to be reported in various countries. The situation of COVID-19 pandemic prevention and control remains severe. Despite the slowdown in the pace of global economic recovery, China's economy still maintained a steady growth with a GDP growth of approximately 8.1% as compared to the previous year.

In the domestic pharmaceutical industry, new pharmaceutical policies have been continuously promoted, and the pharmaceutical industry has achieved recovery and high growth in the post-pandemic era. The production and demand of the pharmaceutical industry have shown rapid recovery growth, and the overall development was satisfactory. According to the data from the National Bureau of Statistics of China, in 2021, the revenue growth rate of the pharmaceutical manufacturing industry was approximately 20.1%, and the total profit growth rate was approximately 77.9%, showing huge development potential of the pharmaceutical industry. While further integrating and upgrading the industrial structure of the pharmaceutical industry and strengthening the overall planning during the "14th Five-Year" period, the Group will comprehensively promote the construction of a healthy China, promote the balanced distribution of high-quality medical resources, strengthen the construction of public health system, accelerate the construction of a hierarchical diagnosis and treatment system, and actively develop the orderly introduction of policies such as medical consortiums, which will benefit the healthy development of the pharmaceutical industry in the long run. At the same time, benefiting from factors such as the acceleration of aging population and consumption upgrading, the pharmaceutical sector, as an inelastic demand in domestic demand, coupled with the gradual improvement of the "Three Medical System" of medical care, medical insurance and medicine, ushered in a good development opportunity for the entire industry landscape.

In the face of the deepening reform of China's medical and health system, the Group adapted to the market development and changes in industry policies, seized opportunities, continued to consolidate its technological innovation strength, focused on the needs of patients, took technological innovation as the driving force, increased the layout of global innovative products and advanced technologies in response to the unmet clinical needs. By adhering to the strategy of "global expansion and dual-cycle operation" and focusing on domestic and foreign quality innovative products, the Group will develop our existing segments to provide more advanced and diversified treatment solutions for patients worldwide through the domestic and international cycles, so as to enhance the core competitiveness of the Group and bring greater returns to shareholders and the society.

Management Discussion and Analysis

GROUP POSITIONING

Grand Pharmaceutical Group Limited (the "Company", together with its subsidiaries, the "Group") is an international pharmaceutical company of technological innovation. The core products of the Group cover several major businesses represented by the anti-tumor, cardiovascular emergency pharmaceutical products and advanced cerebro-cardiovascular intervention medical devices, severe disease and anti-infection, respiratory and ENT, bio-health products and specialized pharmaceutical ingredients. The Group has mainly focused on four business scopes, namely "innovative drugs with high entry barriers", "branded drugs", "integration of raw materials", and "nutrition products". There are three major segments of global innovation and technology leadership, namely cerebro-cardiovascular precision interventional diagnosis and treatment, Radionuclide-drug conjugate ("RDC") and severe disease and anti-infection, to be carried out with a forward-looking view by the Group. The Group has invested five technology R&D platforms and five R&D centers around the world. The technology R&D platforms consist of the RDC technology platform, DNA R&D technology platform, mRNA R&D technology platform, Glycomics R&D technology platform and Advanced medical device R&D platform. The R&D centers include the International R&D Center in Optics Valley in Wuhan as well as four overseas R&D centers (namely San Diego R&D Center — Immunotherapy (DNA Technology) Anti-tumor in the United States, Boston R&D Center — Precision Interventional Anti-tumor in the United States, Belgium R&D Center — mRNA, and Australia R&D Center — Severe Disease and Anti-infection). Upon the principles of meeting the needs of patients, adapting to market development and insisting on technological innovation as well as the development concept of "comprehensive strengths, innovation barriers and global expansion" and the strategy of "dual-wheel driving development of independent R&D, global expansion and dual-cycle operation", the Group has formed a new pattern of domestic and international cycles that synergize with each other, and is committed to becoming an international pharmaceutical company of technological innovation, delivering on its promises for doctors and patients, and making significant contribution to the society.

BUSINESS REVIEW

Revenue and Profit

For the year ended 31 December 2021, the Group recorded revenue of approximately HK$8,597.98 million, representing an increase of approximately 35.3% as compared to the corresponding period in 2020. During the Year, the Group's gross profit margin was approximately 61.0%, which was 2.5 per cent points lower than the gross profit margin of 63.5% for the corresponding period in 2020.

The total profit for the Year attributable to owners of the Company for the year ended 31 December 2021 amounted to approximately HK$2,402.56 million, with an increment of approximately 34.0% as compared with the corresponding period in 2020. If excluding the gain from changes in fair value of investment in Telix and the share of results of other overseas associates, the profit attributable to the owners of the Company for the Year amounted to approximately HK$2,059.59 million (2020: HK$1,709.02 million).

Pharmaceutical Preparations and Medical Devices

Pharmaceutical products and medical devices are currently the major sources of profit contribution of the Group. Major products include ophthalmic medicines, respiratory and ENT medicines, cerebro-cardiovascular emergency medicines and medical devices. In recent years, the Group has devoted to building the most comprehensive supply chain of ophthalmic, respiratory and ENT and cerebro-cardiovascular medicines in the PRC, covering the prescription drugs, over-the-counter drugs, medical devices, etc., and providing treatment solutions and care to medical professionals and patients. For the year ended 31 December 2021, the revenue from pharmaceutical products and medical devices was approximately HK$5,377.14 million, representing an increase of approximately 31.7% as compared to revenue of approximately HK$4,081.75 million for the corresponding period in 2020, which was mainly due to a significant increase in the sales of cerebro-cardiovascular emergency medicines and ophthalmic medicines. The following are the major products and sales in each therapeutic area.

- **Ophthalmic products**

  The Group has nearly 30 ophthalmic products for the treatment of dry eye, hemorrhage, glaucoma, cataract, anti-inflammation and myopia-related indications. Major products include Rui Zhu (polyvinyl alcohol eye drop), He Xue Ming Mu tablets, Fuming series, Bai Nei Ting, Jie Qi, Nuo Ming, etc.

  Rui Zhu® (polyvinyl alcohol eye drop) is a single-piece preservative-free artificial tears. Its unique tearing membrane polymerization effect can strengthen the role of mucin, nourish the eye surface, and resist external inflammatory factors, which plays a positive role in the prevention and treatment of dry eye. It is currently a first-line drug for the treatment of dry eye. It is recommended by experts such as the Expert Consensus on Prevention and Control of Cataract Surgery in China (2021) (《中國白內障圍手術期乾眼防治專家共識(2021年)》), the Expert Consensus on Sterily Surgery in China (2020) (《中國乾眼專家共識(2020年)》), the Expert Consensus on Refractive Surgery in Laser Corneal Surgery in China (2019) (《中國鐳射角膜屈光手術圍手術期用專家共識(2019年)》), and the Expert Consensus on Diagnosis and Treatment of Functional Disorder of Bleacne in China (2017) (《我國瞼板腺功能障礙診斷與治療專家共識(2017年)》). Rui Zhu® has a good brand recognition and was awarded the China Well-known Trademark in 2017; 2016-2020 was awarded the C-Flex Gold Award for five consecutive years, namely the "Healthy China Brand List" and the "China Pharmaceutical Brand List" by Menet in 2021. The Group achieved good results in the promotion of prescription drugs and non-prescription drugs. At the same time, the Group strengthened the academic-driven development of e-commerce platforms to empower sales and maintain the steady growth of Rui Zhu®.

  He Xue Ming Mu tablet, which is produced by three classical formulae, namely the Siwutang (四物湯), Erzhiwan (二至丸和) and Shengpuhuangtang (生蒲黃湯), has the functions of cooling blood hemostasis, moisturising dryness and removing blood stasis, and nourishing liver and eye-brightening, and is mainly used for the treatment of retinal hemorrhage caused by the cloudy liver and the heat-burn winding. Being the exclusive product in the PRC, the State Protected Chinese Medicine, the National Reimbursement Drug List (2021 edition) and the National Essential Drug List (2018 edition) for the last 20 years since its launch, the Group has accumulated a large number of clinical research data and application experience in the field of ocular hemorrhage, which has been included in a number of guidelines/consensus such as the Practical Ophthalmic Medicine. In 2021, the Chinese Association of Traditional Chinese Medicine published the Expert Consensus on Clinical Application of He Xue Ming Mu Tablets for the Treatment of Wet Age-related macular degeneration (《和血明目片治療濕性年齡相關性黃斑變性臨床應用專家共識》), which provides valuable reference for clinical use of He Xue Ming Mu tablets, improves the clinical benefits of wet macular degeneration patients, and the sales of products continue to grow steadily.

  For the year ended 31 December 2021, the revenue of the Group's ophthalmic products was approximately HK$1,063.23 million, representing a year-on-year increase of approximately 26.8% as compared to the revenue of approximately HK$838.67 million for the same period in 2020, among which, the revenue of Rui Zhu® increased by approximately 34.7% and the revenue of He Xue Ming Mu tablets increased by approximately 32.6%.

- **Respiratory and ENT products**

  The main products include Qie Nuo (Eucalyptol, Limonene and Pinene Enteric Soft Capsules), Jinsang Series (Jinsang Kaiyin Tablet/Capsule/Pill/Granules, Jinsang Qingyin Tablet/Capsule/Pill/Granules, Jinsang Liyan Tablet/Capsule/Pill/Granules, Jinsang Sanjie Tablet/Capsule/Pill/Granules), Nuo Tong, etc.

  Qie Nuo is a soluble and phlegm-free drug for viscosity. For acute and chronic rhinosinusitis; respiratory diseases such as acute and chronic bronchitis, pneumonia, bronchial dilation, pulmonary abscess, chronic obstructive pulmonary disease, bacterial infection in the lungs, tuberculosis, and silica lungs; It can also be used for bronchoscopic angiography to facilitate the discharge of contrast medium. It is a national exclusive product independently developed by the Group. Adult wear and kidswear are applicable to adults and children respectively. It was included in the National Reimbursement Drug List in 2017 and the National Essential Drug List in 2018. In October 2021, the name of the product was changed from "桉檸蒎腸溶軟膠囊" to "桉檸蒎腸溶膠囊". In December 2021, the product was connected to the National Medical Insurance Pool. Currently, there are 11 guidelines and 12 expert consensus recommending the use of viscosity dissolving promotors for clinical use. Among them, 9 guidelines and 5 expert consensus explicitly recommend eucalyptus lympic enteric-coated capsules or its active ingredients for clinical treatment, such as the Diagnosis and Treatment Guidelines for Cough (2021) (《咳嗽的診斷與治療指南(2021)》), Guidelines for Rational Use of Drugs for Chronic COPD in Primary Care 2020) (《慢性阻塞性肺疾病基層合理用藥指南(2020)》), Chinese Expert Consensus — Chinese Expert Consensus-Chinese (2015) on High-secretion Management of Gastrointestinal Adhesis for Chronic Gastropic Diseases (《慢性氣道炎症性疾病氣道黏液高分泌管理中國專家共識 — 中文版2015)》), etc. The clinical status is prominent, and the level of recognition among doctors and patients is high, continuing to lead the market of oral cough relieving and phlegm relieving drugs. After the COVID-19 pandemic, the wearing of masks and the improvement of hygiene habits have reduced the incidence of respiratory diseases, and the growth of Qie Nuo sales has slowed down.

  Jinsang Series Products are exclusive products nationwide, covering all the diseases of the throat, among which, Jinsang Sanjie Capsule has the effect of clearing heat and detoxification, activating blood stasis, moisturising phlegm, and is used for the formation of slow throat caused by heat and poisoning storage and airtight blood stasis (small knots with sound tapes, meat with sound tapes, thickening of mucous film with sound tapes and other conditions caused thereby. Jinsang Sanjie Capsule has been widely used in clinical application for more than 30 years since its launch, and is known as the "natural medicine surgical knife for the treatment of microtubules and sculptures". Jinsang Liyan Capsule has the effect of humidifying phlegm and relieving liver gas. It is the only Chinese patent medicine for the treatment of throat diseases caused by intraocular obstruction of liver depression and phlegm and humidification. It is also an ideal medicine for the treatment of pharyngeal symptoms in clinical operation, gastroesophageal reflux pharyngitis, and chronic and thick pharyngitis. Jinsang Kaiyin Capsule has the dual throat protection function of relieving wind and heat and throat, and is designed for the rapid effect of throat redness, swelling, heat, pain and hoarning caused by acute pharyngitis and acute pharyngitis. Several products have been included in the Guidelines for the Diagnosis and Treatment of Common Diseases in Otorhinolaryngology of China (《中國耳鼻咽喉科常見病診療指南》) issued by the Chinese Association of Traditional Chinese Medicine, the Clinical Drug Guidelines (《臨床用藥指南》) for the diagnosis and treatment of clinicians, the authoritative monographs of the Manual for Traditional Chinese Medicine of Common Eye, Otorhinolaryngology (《中國耳鼻咽喉科常見病診療指南》) and the Practical Otorhinolaryngology Head and Neck Surgery (《實用耳鼻咽喉頭頸外科學》), etc., and are included in a number of clinical pathways and expert diagnosis and treatment guidelines. In January 2022, the "Expert Consensus on the Clinical Application of Jinsang Sanjie Capsules for the Treatment of Small-knots and Wholesales" (《金嗓散結膠囊治療聲帶小結、聲帶息肉臨床應用專家共識》) issued by the Chinese Association of Traditional Chinese Medicine has also provided new support for the evidence-based development of Jinsang Sanjie products. Jinsang Sanjie and Jinsang Kaiyin Capsule were included in the NRDL in 2021, and Jinsang Kaiyin and Qingyin are dual cross-over products with both prescription and over-the-counter drugs. With the increase in production capacity, the expansion of clinical applications and the coverage of medical insurance, the sales of Jinsang Series Products increased rapidly.

For the year ended 31 December 2021, the Group's revenue from respiratory and ENT products amounted to approximately HK$1,706.33 million, representing a year-on-year increase of approximately 28.1% as compared to the revenue of approximately HK$1,331.69 million for the same period in 2020, of which the Qie Nuo increased by approximately 10.1% and the Jinsang Series increased by approximately 57.1%.

- **Cerebro-cardiovascular emergency products**

The Group's products mainly cover the fields of platelet inhibitors, blood pressure control, and vascular active drugs. The main products include Li Shu An® (norepinephrine bitartrate injection, adrenaline hydrochloride injection), Xin Wei Ning (tirofiban hydrochloride and sodium chloride injection), Nuo Fu Kang® (methoxamine hydrochloride injection) and Rui An Ji (fructose sodium diphosphate oral solution), etc.

Li Shu An®, norepinephrine bitartrate injection, a booster drug, is used for blood pressure control in acute low blood pressure state, and can also be used for blood pressure maintenance after the sudden suspension and recovery of heart jump. The adrenaline hydrochloride injection is suitable for severe respiratory difficulties caused by bronchospasm, which can quickly relieve the allergic shock caused by drugs, and can also be used to extend the effect time of infiltrating anesthesia drugs. Major rescue medication for cardiopulmonary resuscitation caused by various reasons. Both products are included in the National Reimbursement Drug List and the National Essential Drug List, and the norepinephrine bitartrate injection with heavy tartrate passed the consistency evaluation for the first time in China in 2021. As an important first-aid medicine, the two products are recommended by a number of guidelines and expert consensus, such as the Expert Consensus on the Application of Vasopressors in Emergency Shock (2021) (《血管加壓藥物在急診休克中的應用專家共識(2021)》), the Expert Consensus on the Diagnosis and Treatment of Adult Heart Emergency in China (2021) (《成人心臟驟停後綜合征診斷和治療中國急診專家共識(2021)》), the Guidelines for the Treatment of Sepsis/Sepsis in Emergency in China (2018) (《中國膿毒症/膿毒性休克急診治療指南(2018)》), the Expert Consensus on Diagnosis and Treatment of Cardio Disorders in China (2018) (《心源性休克診斷和治療中國專家共識(2018)》), the Consensus of Chinese Emergency Experts on Diagnosis and Treatment of Traumatic Disorders in China (2017) (《創傷失血性休克診治中國急診專家共識(2017)》), the Guidelines for Diagnosis and Treatment of ESC Urgent and Chronic Heart Failure in 2016 (《2016 ESC急、慢性心力衰竭診斷和治療指南》), and the Guidelines for Rational Use of Medication for Heart Failure (2nd Edition) (《心力衰竭合理用藥指南(第2版)》), and the clinical status of the products is remarkable. The Group's Li Shu An® is well known for its brand and has achieved steady sales growth.

Xin Wei Ning, tirofiban hydrochloride and sodium chloride injection, is mainly used in acute myocardial infarction (STEMI) for adult patients and patients who plan to perform direct coronary angioplasty (PCI) procedures with electrocardiogram changes and/or the rise of myocardase who are not ST-stage elevated acute coronary syndrome (NSTE-ACS) within 12 hours of final chest pain. The product was approved for launch in 2004. It is China's first platelet surface glycoprotein GP Ⅱb/Ⅲa receptor antagonist and China's first intravenous antiplatelet drug. It was included in the NRDL in 2009. Currently, it has been recommended and applied by several authoritative guidelines and expert consensus, such as the Guidelines for Diagnosis and Treatment of Acute ST Section Elevation Myocardial Infarction (2019) (《急性ST段抬高型心肌梗死診斷和治療指南(2019)》), the Guidelines for Diagnosis and Treatment of Non-ST Section Elevation Acute Coronary Artery (2016) (《非ST段抬高型急性冠狀動脈綜合征診斷和治療指南(2016)》), the Guidelines for Rational Use of Drugs for Coronary Heart Disease (2nd Edition) (《冠心病合理用藥指南(第2版)》), and the Chinese Expert Consensus for the Treatment of Ⅱb/Ⅲa Receptor Antagonist in Coronary Atherosclerosis (2016) (《血小板糖蛋白Ⅱb/Ⅲa受體拮抗劑在冠狀動脈粥樣硬化性心臟病治療的中國專家共識(2016)), which provides a strong guarantee for the prevention and control of acute thrombosis and the restoration of blood flow and perfusion of ACS patients in China. At the same time, the product also entered into the recommendation of the Expert Consensus on the Clinical Application of Tirofiban in Cerebral Conglomerate Diseases (《替羅非班在動脈粥樣硬化性腦血管疾病中的臨床應用專家共識》) issued by the China Stroke Association and other institutions at the end of 2019. The Group is also actively exploring its application value in the field of brain blood vessels.

Nuo Fu Kang, methoxamine hydrochloride injection, a booster drug, is used for the treatment of low blood pressure during general anesthesia, and can prevent the occurrence of abnormal heart rate, which can be used for low blood pressure induced by the internal obstruction of the vertebral tube. It is used to terminate arrays of ventricular hyperactivity. The product is the first generic of the Group in China, and has been launched for more than 30 years. It has been recommended and used by guidelines and expert consensus, including the Guiding Opinions on the Management of Peripheral Anesthesia in Chinese Geriatric Patients (2014/2017/2020) (《中國老年患者圍術期麻醉管理指導意見(2014/2017/2020)》), the Expert Consensus on the Management of Interventional Anesthesia in Intracranial Diseases in China (2016) (《中國顱腦疾病介入治療麻醉管理專家共識(2016)》), the Expert Consensus on the Application of α 1 Nephrolimus-based receptor agonist during the Peripheral Operation Period (2017Edition) (《α1腎上腺素能受體激動劑圍術期應用專家共識(2017版)》), the Expert Consensus on Anesthesia in Chinese Industry (2018/2020) (《中國產科麻醉專家共識(2018/2020)》), and the Consensus on the Clinical Management of Chinese Experts in the Peripheral Anesthesia Period of Non-cardiac Surgery in Patients (2020) (2020《心臟病患者非心臟手術圍麻醉期中國專家臨床管理共識(2020年)》).

Rui An Ji, fructose sodium diphosphate oral solution, which is mainly used for the treatment of angina pectoris of coronary heart disease, acute myocardial infarction, arrhythmia and heart failure, and viral myocarditis; It is used for brain ischemic symptoms caused by cerebral infarction and cerebral hemorrhage. It was included in the Diagnosis and Treatment Suggestions for Children's Heart Failure (2020 Revision) (《兒童心力衰竭診斷和治療建議(2020年修訂版)》), National Expert Consensus on Prevention and Treatment of Burst and shock (2020 Edition) (《燒傷休克防治全國專家共識(2020版)》), "National Prescription Set in China(《中國國家處方集》), "Zhufutang Practical Pediatrics (8th Edition) (《諸福棠實用兒科學》第八版) and Pediatric Therapeutic School (2nd Edition) (《兒科治療學》第2版). It was mainly recommended for the treatment of cardiovascular diseases such as heart failure and viral myocarditis, which effectively helped patients improve their myocardial energy metabolism and improve their cardiac functions.

For the year ended 31 December 2021, the revenue of the Group's cerebro-cardiovascular emergency chemical drug preparation products was approximately HK$1,872.03 million, representing an increase of approximately 32.7% as compared to HK$1,410.97 million for the corresponding period in 2020, among which the revenue of four core products, namely Li Shu An®, Nuo Fu Kang®, Xin Wei Ning and Rui An Ji, amounted to approximately HK$1,833.01 million in aggregate, representing an increase of approximately 34.4% as compared to HK$1,363.58 million for the corresponding period in 2020.

- **Medical devices**

The Group's medical device products mainly cover coronary intervention and peripheral vascular intervention treatment. In October 2019 and April 2020, the Group launched two high-end drug-coating balloon RESTORE DEB® and APERTO® OTW in China, respectively. The two drug-coating balloon products adopt the unique patented SAFEPAX technology. Both drug-coating products are stable, with small decay rate and strong product competitiveness. After more than two years of clinical use, the product has been recognized by clinical doctors and patients and good market reputation.

RESTORE DEB®, a coronary drug-coating balloon, is currently the only drug-coating balloon with the dual indications of original coronary artery disease mutation and stent restenosis. Its clinical research results were published in the important journal "JACC (Journal of the American College of Cardiology) Cardiovascular Interventions" in the field of cardiovascular disease, and its clinical status was also affirmed in the guidelines and expert consensus such as the Guidelines for Treatment of Percutaneous Coronary Intervention (中國經皮冠狀動脈介入治療指南) and the Chinese Expert Consensus on Clinical Application of Drug Coated Balloon (藥物塗層球囊臨床應用中國專家共識).

APERTO® OTW is the first drug-coating balloon for the indication of arteriovenous fistula stenosis in dialysis patients. This product has the dual characteristics of high pressure resistance and drug coating. Compared with ordinary high pressure balloon, APERTO® OTW has a significant advantage in the passing rate of target lesions for six months after surgery, which will greatly contribute to the extension of the life time of fistula and the improvement of the quality of life of dialysis patients. Its clinical research results are published in American Journal of Kidney Diseases, an important journal in the field of kidney disease treatment.

For the year ended 31 December 2021, the Group's revenue from medical devices was approximately HK$272.37 million, representing an increase of approximately 211% as compared to HK$87.46 million for the corresponding period in 2020.

Bio-Technology Products and Health Products

The Group's biotechnology products and health products mainly include amino acids, bio-pesticides, bio-feed additives, etc. During the Year, the revenue of biotechnology products and healthcare products was approximately HK$2,231.46 million, representing an increase of approximately 48.5% as compared to HK$1,503.08 million for the corresponding period in 2020.

Under the guidance of the business philosophy of "new technology, high quality, industrial chain and internationalization", the Group has been deeply engaged in the amino acid industry for many years, and has developed into one of the world's leading enterprises that produce high-quality amino acid products on a large-scale basis through biological manufacturing. The Group is committed to serving the biotechnology big health industry by producing high-quality amino acid products. At present, the production capacity of the Group's core amino acid product, Taurine, ranks second in the world, and the production capacity of Cysteine series ranks first in the world. Benefiting from the continuous expansion of the international business and the general health business, the revenue of the Group's amino acid products (including Taurine products) increased by approximately 54.5% from HK$1,178.63 million for the corresponding period in 2020 to approximately HK$1,820.92 million; the revenue of bio-pesticides and bio-feed additives related products also recorded an increase of approximately 21.8%.

- **Specialized Pharmaceutical Raw Materials and Other Products**

  Specialized pharmaceutical ingredients and other products are the relatively stable segment among the product segments of the Group. As an important part of the front end of the integrated supply chain of pharmaceutical ingredients and products, the Group has always been proactively improving technology level and product quality, reforming the product production technology to increase efficiency, and adjusting the product matrix to enhance market competitiveness and improve economic efficiency. During the year, the relevant revenue of this segment was approximately HK$989.37 million, representing an increase of approximately 28.8% as compared to HK$768.09 million for the corresponding period in 2020.

Distribution Costs and Administrative Expenses

For the year ended 31 December 2021, the distribution costs and administrative expenses of the Group were approximately HK$2,397.85 million and HK$909.62 million respectively, as compared to approximately HK$1,860.08 million and HK$685.24 million respectively for the corresponding period in 2020. The increase in distribution costs was mainly due to the fact that the market development and team expansion of sales representatives have returned to normal operation during the Year. The distribution costs accounted for approximately 27.9% of the revenue for the Year, which approximated to 29.3% for the corresponding period in 2020. As the Group's business expanded, the overall administrative expenses recorded an increase of approximately 32.7% as compared to the corresponding period in 2020.

Finance Costs

For the year ended 31 December 2021, the Group's finance costs amounted to approximately HK$92.96 million as compared to approximately HK$115.42 million for the corresponding period in 2020. During the Year, the Group continuously adjusted its loan portfolio, resulting in a decrease of approximately 19.5% in the overall finance costs.

Research and Development and Project Investment

The Group invested a large amount of funds for the pre-clinical research, clinical trials, listing and registration phases of research projects, which generated a total of HK$331.42 million in the research and development expenses for the year ended 31 December 2021. If the advance payment and other contributions for new projects is added, the total investment in research and development and various projects of the Group amounted to over HK$2.3 billion in 2021.

Receivables and Payables

As at 31 December 2021, the trade and other receivables of the Group amounted to approximately HK$2,661.45 million, representing an increase of approximately HK$767.29 million as compared to the balance in 2020. The main reason of such increment is mainly due to the increase of business scope during this period, resulting in an increase of approximately HK$289.03 million in the trade and bills receivables. Also the prepayment amount increased by approximately HK$379.37 million mainly related to the deposit payment and milestone payment of various projects including (but not limited to) Conavi Medical Inc. project, Cardio Focus project, ALK project and Formosa project, etc. amounted to approximately HK$156.42 million. Also it was paid approximately HK$199.01 million to Natixis as deposit for the Sirtex HoldCo project. The details of these projects are stated in the sections below.

As at 31 December 2021, the trade and other payables of the Group amounted to approximately HK$2,871.76 million, representing an increase of approximately HK$732.31 million as compared to the balance in 2020. The main reason of such increment is mainly due to the increase of business scope during this period, resulting in an increase of approximately HK$72.01 million in the trade and bills payables. Furthermore, in order to cope with the expansion of business scope, the accrued selling and operating expenses such as salaries, marketing and promotion, R&D expenses etc. increased by approximately HK$322.46 million.

Research and Development

The Group is one of the earliest domestic pharmaceutical companies that have performed transformation of technological innovation and internationalization, devoting itself to building a system of innovative R&D and outstanding talents. The Group has formed a unique layout and concept of technological innovation and development via active cooperation with the world-leading pharmaceutical companies, universities and scientific research institutions. In line with the strategic concepts of international layout, differentiated innovation and professional development for core therapeutic areas, the Group has formed a product layout which focuses on four major segments, including cerebro-cardiovascular precision interventional diagnosis and treatment, tumor treatment, severe disease and anti-infection and respiratory and ENT. At present, the Group has sufficient and reasonable R&D pipelines comprised of 106 projects under research and 43 innovative projects, involving in different stages from pre-clinical to new drug application, and thus forming a good echelon effect.

Along with the high-level R&D capability, during the Year, the Group obtained manufacturing approvals for 21 projects and applied for launching application for 8 projects, obtained clinical research approvals for 10 innovative projects and applied for clinical trial for 5 projects, achieving numerous milestones.

Innovative R&D Pipeline

- **Cerebro-cardiovascular Precise Intervention**

The field of cerebro-cardiovascular precision intervention diagnosis and treatment is one of the core strategic areas of the Group the Group is committed to building an international leading platform for precision interventional diagnosis and treatment platform. It has 10 innovative products thoroughly covering coronary artery intervention, peripheral vascular intervention, neurological intervention, structural cardiac disease, electrophysiology and heart failure and complete the comprehensive layout for 6 core strategic markets. Among which, two products for coronary artery and peripheral vascular intervention were approved to launch and other products are underway orderly.

In the field of coronary artery intervention and peripheral vascular intervention treatment, the Group adapts the treatment concept of "intervention without implantation" and has three drug-coating balloon products and one shock wave therapy system against vascular calcification. Post-marketing clinical study for RESTORE DEB®, coronary drug-coating balloon, and APERTO® OTW, drug coating balloon, which have been launched, commenced successfully. In addition, the product LEGFLOW® OTW for peripheral vascular diseases has also entered into clinical research stage and is expected to be launched in 2024. In the field of vascular calcification treatment, the Group has been developing a shock wave therapy system, which is an innovative medical device for the treatment of moderate or severe arterial calcification. It is the latest generation of vascular calcification therapy, which destroys superficial and deep calcification in affected areas by shock wave without causing soft issue injuries in the inside of blood vessel and vascular intima.

In the field of coronary artery intervention, the Group's global innovative product, NOVASIGHT Hybrid, combines intravascular ultrasound/optical coherence tomography and can simultaneously show the ultrasound and optical image with the same direction, axis and phase. It is also the first intravascular ultrasound/optical coherence tomography system approved by the Food and Drug Administration of the United States ("FDA") with promising prospect in the field of coronary artery imaging and intracavitary interventional surgery. This product has already been launched in the United States, Canada and Japan, and was enrolled in the special review approval process of innovative medical device in 2019 for registration in China. Currently, the product has completed the clinical stage and is expected to obtain the approval for launch from the PRC in 2022.

In the field of neurointervention, the Group has a stent retriever product against ischemic stroke, LONG. With reference of mature interventional technology and stent of coronary and peripheral, neurological stent retriever can extend an ischemic stroke patient's treatment window from 6 hours to 24 hours of drug treatment, becoming a new clinical method for treating cerebral stroke. Such product is a critical step for the achievement of the Group's target of "treating the heart and brain with the same therapeutic method". Currently, the product is in the pre-clinical research stage and has entered into clinical stage in 2021 and it is anticipated to obtain the approval for launch from the PRC in 2024.

In terms of structural cardiac disease, the Group has deployed Saturn, a global innovative medical device, for mitral valve replacement, which implanted by transseptal intervention, which minimizes surgical trauma and shortens postoperative recovery time. Its innovative combination of annulus reconstruction technology and valve replacement technology will improve the adaptability of the device and will be suitable for various mitral valve structures. Currently, the product is under development stage.

In the field of electrophysiology, the Group has HeartLight X3 laser ablation platform, an innovative medical device for the treatment of atrial fibrillation. It is the latest generation of atrial fibrillation ablation platform equipped with the point-to-point adjustable energy precise ablation characteristics of traditional radiofrequency catheter ablation, and at the same time having the characteristics of simple operation and short procedure time of cryoablation, while greatly reducing the dependence on the operator. HeartLight X3 was approved for commercialization in the United States in May 2020. It is the only product in the world that can achieve circumferential ablation by laser in the treatment of atrial fibrillation. The preparation for launching the project in the PRC is underway.

In the field of heart failure, the Group will work with an innovative medical device company incubated by Yale University to develop CoRISMA, a transcatheter implantation medical device for patients with stage three and final stage of heart failure, which is powered with the world advanced wireless energy transmission technology to provide, through minimally invasive surgery, less traumatic, highly safe and less postoperative complications treatment without exposure to infection from power cord. Currently, the product is under development stage.

- **Anti-tumor**

The Group's comprehensive layout in the tumor field reflects the forward-looking, technological and innovative concepts of tumor treatment On the one hand, taking SIR-Spheres® Y-90 microsphere injection as the core, systematically develop RDC products and establish a radiopharmaceutical diagnosis and treatment platform. On the other hand, it creates new tumor immunotherapy products, such as oncolytic viruses, DNA immunotherapy and mRNA tumor vaccines, etc., to solve the ineffectiveness and drug resistance of tumor immunotherapy. Currently, 16 global innovative products have been reserved, covering 13 cancer types including liver cancer, prostate cancer, and colorectal cancer, involving tumor intervention, RDC drugs and immunotherapy. Through the product portfolio, the Group expands into internal medicine, surgery, interventional medicine, nuclear medicine and other departments to form a multi-disciplinary synergy so that tumor treatment products can serve patients in different areas and departments At present, SIR-Spheres® Y-90 microsphere injection, a blockbuster product for tumor intervention, has been approved for launching, and the launch of other products is also in progress.

SIR-Spheres® Y-90 microsphere injection is the key product of the field of tumor intervention of the Group. It is the only product in the world for the selective internal radiation therapy "SIRT" for colorectal cancer liver metastases, which has been used by over 120,000 people in 50 countries and regions around the world. It is recommended in the treatment guidelines of numerous international authoritative organizations, including the National Comprehensive Cancer Network (NCCN), the European Society for Medical Oncology Guidelines (ESMO), the European Association for the Study of the Liver (EASL), the National Institute for Health and Care Excellence in the United Kingdom (NICE), etc. and has been included in several authoritative clinical practice guidelines in China, including the "Guidelines for Diagnosis and Treatment of Primary Liver Cancer (2022 edition)" (《原發性肝癌診療指南(2022版)》), "Chinese Guidelines for Diagnosis and Comprehensive Treatment of Colorectal Cancer Liver Metastases (2018 edition)" (《中國結直腸癌肝轉移診斷和綜合治療指南(2018版)》), "Clinical Practice Guidelines for Liver Cancer and Liver Transplantation in China (2018 edition)" (《中國肝癌肝移植臨床實踐指南(2018版)》), etc.. SIR-Spheres® Y-90 microsphere injection has been officially granted a drug registration certificate by NMPA in February 2022, which can be used for the treatment of patients with unresectable colorectal liver metastases who have failed to respond to the standard therapy. During the Reported Period, outstanding progress was achieved in overseas R&D and market exploration. In March 2021, SIR-Spheres® Y-90 resin microspheres were recommended by National Institute for Health and Care Excellence (NICE). In the same month, the FDA in the United States approved to conduct clinical trials of SIR-Spheres® Y-90 resin microspheres on primary liver cancer (HCC) and the first patient was dosed in May.

In the field of tumor intervention, the Group also has a thermosensitive embolic agent for the treatment of liver cancer, which is a tumor treatment product that has been granted innovative medical devices by NMPA in the PRC. At room temperature, the gel has good fluidity. After being delivered to the blood vessels of the diseased tissue through the microcatheter, the gel forms in-situ gel from the peripheral blood vessel to the main supply vessel at body temperature, realizing the embolization of the blood vessel in diseased tissue. It is suitable for embolic treatment of various hypervascular parenchymal organs tumors, especially for the liver hypervascular benign, moderate and malignant tumors. Due to the drug-loading characteristic of this product, it will be possible to jointly launch a new combination product with SIR-Spheres® Y-90 microsphere injection in the future to expand the scope of application of single product. Currently, the preclinical development is underway.

In the field of RDC, the Group has obtained the rights of 9 RDC products, during such period, significant progress has been achieved for various products. In June 2021, first patient was dosed with TLX591-CDx in Japan, which was approved for launching in the United States and Australia in December, with special authorization in Brazil to allow pre-approval sales, and launching application for the product has been filed in 17 countries;TLX591 was approved for phase III clinical trials in Australia in June 2021; in July 2021, first patient with the expanding indication bladder cancer was dosed with TLX250-CDx in Australia, while phase III clinical trials for clear cell renal cell carcinoma progressed smoothly, and 95% of patients were enrolled within the year; in December 2021, the Group cooperated with ITM to obtain the exclusive rights to develop, manufacture and commercialize three RDC products of TOCscan® , ITM-11 and ITM-41 in the Greater China region. TOCscan® have been approved for launching in Germany, Austria, and France , and ITM-11 and ITM-41 have entered phase III clinical trials and phase I clinical trials respectively overseas. The preparation work for introducing 9 products to China is progressing smoothly.

In the field of tumor immunotherapy, TAVO™ of the Group, the first world's first gene immunotherapy product, applies electroporation delivery system to inject DNA-based interleukin-12 ("IL-12"). IL-12 has immune stimulation to turn the immunologically cold tumors (non-responding) into hot tumors (responding). TAVO™ was granted Fast Track designation by the FDA in 2017 and as an orphan drug for the treatment of unresectable metastatic melanoma. Currently, a registration-enabled phase IIb clinical trial for the treatment of anti-PD-1 checkpoint resistant metastatic melanoma in form of combination with anti-PD-1 drug KEYTRUDA® (Generic name: pembrolizumab) is progressing smoothly and is expected to complete at the end of 2022. In April 2021, OncoSec received the CE mark certification from EU for its gene electrotransfer device GenPulse™; in July 2021, OncoSec entered into a collaboration agreement with Merck & Co., Inc. (known as MSD outside the United States and Canada) (NYSE: MRK) for a pivotal global phase III study of TAVO™ combined with KEYTRUDA® for late-stage metastatic melanoma. Clinical studies on indications such as TAVO™ against triple-negative breast cancer and squamous cell carcinoma is undergoing steadily.

The Group also deployed tumor immunotherapy products on the mRNA platform. The Group's mRNA platform AuroRNA Biotech has R&D and production platforms with advanced mRNA technology and LNP technology for tumor immunotherapy as well as research, development and production of mRNA vaccine for infectious disease. During the Reporting Period, AuroRNA Biotech has completed the construction of the mRNA R&D and production platform, which was officially put into use. AuroRNA Biotech has a global innovative mRNA product for HPV-positive head and neck cancer. By triggering an adoptive immune response in the body, it can be used in combination with existing tumor immune checkpoint inhibitor to effectively increase the response rate of patients with cancer and improve their clinical prognosis. The product is currently in the pre-clinical development stage.

In order to strengthen further in-depth cultivation of the tumor immunity field, the Group also has a worldwide innovative Vesicular Stomatitis Oncolytic Virus product (VSV-GPM) REV-001 for the treatment of colorectal cancer. This product is the only oncolytic virus that does not insert exogenous genes, where the genetically modified virus enhances the selectivity of tumor cells, but is less toxic to normal cells. In addition, the virus genes will not be integrated into the human cell genomes and has no risk of genotoxicity with higher safety. REV-001 targets the RAS protein of refractory tumors. Refractory tumors with this target have high incidence rate, high malignancy and high fatality rate. Currently, there is no effective treatment method for the targeted refractory tumors. The product is currently in the pre-clinical development stage.

- **Severe Disease and Anti-infection**

  For the severe disease and anti-infection field, based on the in-depth exploration of unsatisfied clinical needs, the Group has forward-looking layout in respect of sepsis, ARDS, COVID-19, viral infections, anaphylaxis and other diseases that pose a major threat to human health and currently has four global innovative drugs with new mechanisms of action in the research pipeline.

  The clinical progress of STC3141, a world-wide innovative drug for the treatment of sepsis, was rapid. The phase II clinical research, for the treatment of ARDS caused by COVID-19 infection and phase Ib clinical research for the treatment of sepsis were approved to commence in Australia in May 2020 and first patient was dosed in December 2020; approval from NMPA to commence the phase Ib clinical trial for treatment of ARDS patients was obtained in early March 2021, and the first patient was dosed in November 2021; from April to October 2021, the phase IIa clinical trial for treatment of severe COVID-19 patients was approved in Belgium, Poland and the United Kingdom. Enrollment and dosing of all patients were completed in December 2021, and follow-up work for all patients was completed in January 2022. Preliminary data indicates good mortality and regression rates for patients with serious illness. At present, the project has obtained six clinical approvals for four indications of sepsis, ARDS, severe COVID-19, and ARDS caused by COVID-19 on three continents and in five countries namely China, Australia, Belgium, the United Kingdom and Poland, and clinical trials in several international centers are in full progress.

  APAD, another drug of the Group for the treatment of sepsis, has undergone compound screening and is in the pre-clinical development stage currently. APAD can antagonize a variety of pathogen-related molecules, and can treat sepsis caused by bacterial and viral infections. It is complementary to the STC3141 on antagonizing the excessive immune response of the body to treat sepsis, which brings along with synergy for the treatment of severe sepsis patients.

  A global innovative small molecule compound based on protein structure design with a clear mechanism of action is jointly developing by the Group and Griffith University in Australia, which is currently in the stage of compound screening.

  In the field of anaphylaxis, the Group has deployed a pre-filled adrenaline automatic injection pen, which is a one-off automatic syringe embedded with the sterile solution of adrenaline. By urgently injecting single-dose adrenaline to the outside of the leg muscle (muscle injection), the product can urgently treat sudden and life-threatening anaphylaxis caused by insect bites, food, drugs or exercise. At present, the product has been launched in Europe, Korea and Hong Kong, China, and the registration work in mainland China is actively progressing.

- **Respiratory and ENT**

  Respiratory and ENT are the traditional fields of strength of the Group. In order to further strengthen the innovation reserve in this field, consolidate its dominant position in the market and enhance its competitiveness, the Group has deployed four innovative drugs in this field.

  BRM421 is small molecule peptide eye drops for the treatment of dry eye disease that can accelerate the division and proliferation of limbal stem cells, and in turn stimulate the repair of ocular surface for curing the dry eye disease. According to the Phase II clinical study data completed in the United States, compared to the therapeutic products for dry eye disease that are currently available in overseas market and are expected to be launched in China in the coming years such as cyclosporine eye drops, the BRM421 product has high safety and low irritation, as well as the potential to quickly alleviate the symptoms of dry eye disease within two weeks. Currently, the product is under steady progress of registration in the PRC.

  The CBT-001 product for the treatment of pterygium, is an innovative and improvement from an existing drug, Nintedanib, which is used for the treatment of pulmonary fibrosis. It inhibits neovascularization and tissue fibrosis. Currently, phase II clinical trials have been completed in the United States with high safety and significant clinical efficacy, which can inhibit the growth of pterygium and control the aggravation of the disease. The global phase III clinical trial for CBT-001 will commence in 2022 and its registration work is undergoing steadily in the PRC.

  Ryaltris (GSP301) is a new type of glucocorticoid and antihistamine compound nasal spray for the treatment of seasonal allergic rhinitis. Currently, the product has been approved for launching in countries and regions such as Australia, South Korea, Russia and the European Union. Its launch application has been filed in the United States. For registration in China, phase III clinical trial for the treatment of allergic rhinitis and rhinoconjunctivitis symptoms in patients aged 12 years and above was approved in October 2021.

  APP13007, the exclusive development and commercialization rights of an improved new drug hormone nano-suspension eye drops for anti-inflammatory and pain relief after ophthalmology surgery, is a potent glucocorticoid developed by Formosa, Inc, which has efficient local anti-inflammatory and strong capillary contraction effect and uses a unique nano-preparation technique to eliminate the risk of low bioavailability and safety due to the low water solubility of hormones products. The completed phase II clinical trial in the United States has shown that the product has good effectiveness and safety at lower concentrations. Currently, the registration work in the PRC is underway.

R&D Center

The Group has made a global R&D layout with a positive and open attitude and has achieved phased results. In terms of drugs, the Group has established four R&D technology platforms around the world: RDC technology platform, DNA R&D technology platform, mRNA R&D technology platform and Glycomics R&D technology platform; established five R&D centers: Wuhan Optics Valley International R&D Center, which is led by polypeptide histology and pharmaceutical platform, and provides technical support for the R&D of the Group's high-end preparations; and four overseas R&D centers: San Diego R&D Center-Immunotherapy (DNA Technology) Antitumor, Boston R&D Center — Precision Interventional Antitumor, Belgium R&D Center — mRNA and Australia R&D Center — Severe Disease and Anti-Infection, which are to carry out the early development of global innovative products and undertake the overseas clinical research and promotion of innovative products.

For medical devices, the Group has set up overseas R&D platforms and production bases in North America and Europe to continuously develop innovative products. The Group has established research and development and production bases for passive products and active products in Changzhou, China and Wuhan Optics Valley, respectively. The research and development and production bases in Changzhou have been put into use, and the research and development and production bases in Wuhan Optics Valley are expected to be officially put into use in 2022, continuously consolidating the research and development and production capacity in China.

R&D Team

As a technology-based innovative pharmaceutical enterprise, the Group has long been committed to building a high-end innovative R&D talent system to promote the global development of innovative projects. At present, the Group, together with its associates, has a total of 643 R&D personnel (including overseas R&D teams such as Sirtex and OncoSec), representing an increase of 22% as compared with the same period of last year, of which 383 have master's degree and doctoral degree holders, accounting for nearly 60%, and more than 30 are internationally renowned scientists. All professional leaders and core team members of each segment have academic background in clinical medicine or pharmacy, while some of whom also have overseas education or working experience.

Development of Generic Drugs

During the period under review, Bimatoprost Eye Drops, Lafutidine Tablets, Tertiary Sulfate Injection and Tadalafil Tablets obtained drug registration certificates issued by the NMPA, among which, Bimatoprost Eye Drops, Lafurt Tablets and Tertiary Sulfate Injection were approved for marketing as first-to-market generic drugs.

Consistency Evaluation

During the period under review, indapamide tablets, metoprolol tartrate tablets, tirofiban hydrochloride and sodium chloride injection, norepinephrine bitartrate injection, adrenaline hydrochloride injection, nimesulide tablets and bromhexine hydrochloride injection were approved to pass the consistency evaluation. In particular, the first drug of norepinephrine bitartrate injection and nimesulide tablets passed the consistency evaluation, and new applications were made for succinylcholine chloride (anhydrous) injection, amiodarone hydrochloride injection, fluorouracil injection, Warfarin Sodium Tablets, Di Gao Xin injection, QIMAITEhydrochloride injection, Zuo Xi Meng Dan injection, dobutamine hydrochloride injection and moxifloxacin hydrochloride eye drops. At present, a total of 17 products of the Group have been approved or deemed to have passed the Consistency Evaluation, and another 13 products are under review.

Intellectual Property Protection

During the period under review, the Group applied for 67 new patents, including 14 core patent applications and 97 new patents, 43 of which were invention patents, accounting for 44.3%. The Group has accumulated 480 valid patents, including 261 invention patents and 219 utility model patents and design patents. Among them, the new PCT patent applications for relevant indications of STC3141 project entered 13 countries and regions including the United States, Europe, China, Japan, Australia, etc.; 4 new core patents and 2 PCT patent applications for innovative projects such as APAD, parainfluenza, BRM421, etc.; 45 patents were independently developed or licensed from third parties in the high-end medical device segment, including 25 core patent applications and 28 patents granted, covering China, the United States, Europe, Japan, South Korea and other markets; 12 new patent applications were filed in the immuno-oncology segment (including controlled or invested enterprises); In the biological segment, 13 new patent applications were filed, including 7 core patents and 1 PCT patent application. A total of 110 effective patents were filed, including 70 invention patent applications and 12 PCT applications.

Commercialization capability

The Group's performance continued to improve, and the continuous launch of innovative products and profit contribution cannot be separated from the continuous improvement of commercialization capabilities. The Group currently has nearly 3,500 sales personnel, more than 3,100 sales personnel in traditional advantageous areas, covering nearly 17,000 hospitals and approximately 260,000 pharmacies across the country; 110 sales personnel in the innovative medical device segment, covering nearly 700 hospitals; a total of 228 sales personnel in the nuclear medicine segment worldwide and associates are actively carrying out the hospital admission and hospital coverage of SIR-Spheres®Y-90 microsphere injection.

Material investment, M&A and Cooperation

During 2021 and up to the date of this report, the Group continued to implement the development strategy of "self-development + global expansion", further exploring high-quality innovative projects around the world to expand the Group's product pipeline and enhance the Group's comprehensive strengths, and putting vigorous efforts in transformation towards innovation and internationalization. As of the date of this report, the Group has carried out the following material investment, M&A and cooperation:

- **Acquisition of East Ocean Medical**

  In February 2021, the Group entered into a share purchase agreement with East Ocean Capital (Hong Kong) Limited, pursuant to which the Group acquired 752 shares of East Ocean Medical (Hong Kong) Limited ("East Ocean Medical") at USD12 million. Upon completion of the share purchase agreement, East Ocean Medical became a wholly owned subsidiary of the Group. The principal assets of East Ocean Medical are the 20-year exclusive agency rights for products of Conavi Medical Inc., such as "Novasight Hybrid" series and "Foresight ICE" series in regions such as Mainland China, Hong Kong, Macau and Taiwan. The acquisition of East Ocean Medical is in line with the Group's layout and planning of building a world-leading cerebro-cardiovascular precision interventional diagnosis and treatment platform, which is conducive to the Group's integration of diagnosis and treatment in the field of precision intervention.

- **Acquisition of Shenming Medical and obtaining all development and commercialization rights of an innovative thermosensitive embolic agent**

  In May 2021, the Group entered into an equity transfer agreement with Jiangsu Shenming Medical Technology Co., Ltd. ("Shenming Medical"), pursuant to which, the Group acquired 100% equity interest in Shenming Medical at a consideration of RMB 8.6 million upon satisfaction of the relevant conditions, and obtained all the development and commercialization rights of the temperature-sensitive embolic agent developed by Shenming Medical for the treatment of liver cancer and the subsequent development of gel products. The investment will further improve the Group's layout in the field of tumor intervention.

- **Obtained exclusive commercialization rights for the new generation of innovative medical device HeartLight X3 laser ablation platform**

  In May 2021, the Group entered into a cooperation and exclusive product licensing agreement with Cardio Focus, Inc. ("Cardio Focus") in the United States. With a milestone payment of not more than USD20 million and a certain percentage of sales commission, the Group introduced the exclusive commercialization rights and conditional core technology transfer rights of the new generation HeartLight X3 laser ablation platform product of Cardio Focus for HeartLight® Endoscopic Ablation System, an innovative medical device for treating atrial fibrillation, in mainland China, Hong Kong and Macau, as well as the priority cooperation rights of Cardio Focus for other products in the licensed territory. HeartLight X3 is another global innovative product introduced by the Group in the field of cerebro-cardiovascular precision intervention and is an important strategic plan of the Group in building a world-leading cerebro-cardiovascular precision interventional diagnosis and treatment platform.

- **Obtained exclusive development and commercialization rights of an improved new drug hormone nano-suspension eye drop for anti-inflammatory and analgesic after ophthalmology surgery**

  In June 2021, the Group entered into an exclusive product licensing agreement with Formosa. The Group obtained the exclusive development and commercialization rights of APP13007 developed by TFDA in mainland China, Hong Kong and Macau for anti-inflammatory and analgesic after ophthalmology surgery, with milestone payments of up to USD9.5 million and certain percentage of sales commission. The cooperation with Formosa this time has not only introduced a product for the treatment of ocular inflammation in the ophthalmology sector, but also further enriched the product pipeline of high-barrier drugs in the ophthalmology sector, providing strategic reserves for the Group's medium and long-term development.

- **Increase in shareholding in Sirtex Holdco**

  In July 2021, Grand Decade Developments Limited ("Grand Decade"), a wholly-owned subsidiary of the Group, entered into an equity subscription agreement with Natixis ("Natixis") and Grand Pharma Sphere Pte Ltd. ("Sirtex HoldCo"), pursuant to which Grand Decade subscribed for 84,704,650 shares allotted by Sirtex HoldCo at a consideration of USD100,000,000. In August 2021, Natixis further entered into the Second Subscription Agreement with Sirtex HoldCo. Upon completion of both transactions, Grand Decade owns 49.15% shares of Sirtex HoldCo. Through these two subscriptions, Sirtex will be able to reduce its net liabilities and facilitate the full development of its business.

- **Acquisition of shares in Wuhan Grand Hoyo Company Limited**

  In July 2021, the Group entered into an acquisition agreement with Wuhan Sanzhen Industry Holding Co., Ltd. to acquire 10% equity interest in Wuhan Grand Hoyo Company Limited ("Grand Hoyo") at an aggregate consideration of RMB 51,980,000. The acquisition will enable the Group to increase its equity interest in Grand Hoyo and consolidate its control over the target company to become one of the most competitive amino acid manufacturers in the PRC.

- **Joint development of a global innovative intravascular shock wave calcification treatment system and establishment of overseas R&D platform in the field of cerebro-cardiovascular precision interventional devices with FastWave**

  In August 2021, the Group entered into a series of investment and strategic cooperation agreements with FastWave in the United States, pursuant to which the Group will acquire 100% equity interest in FastWave in stages for a total consideration of up to USD72 million, and will invest up to USD8 million to support and cooperate in the development of an innovative medical device for the treatment of moderate and severe arterial calcification, namely the endovascular seismic wave calcification treatment system. In addition, FastWave is expected to become a wholly-owned subsidiary of the Group in the field of cerebro-cardiovascular precision interventional devices and an overseas high-end innovative medical device R&D platform upon satisfaction of relevant conditions.

- **Introduction of Jext® pre-filled epinephrine auto-injector from ALK**

  In August 2021, the Group entered into an exclusive product license agreement with Denmark based ALK-Abelló A/S ("ALK"). The Group has obtained long-term exclusive commercialization rights of Jext® pre-filled epinephrine auto-injector developed by ALK for the treatment of anaphylaxis in mainland China, Macau and Taiwan for a total down-payment and milestone fees of EUR 12 million. Introduction of such product will fill the gap in the domestic market and achieve rapid treatment for patients with anaphylaxis.

- **Introduction of a world innovative system for the treatment of heart failure from CoRISMA**

  In August 2021, the Group formed strategic partnership in respect of the equity interests and product with U.S. based CoRISMA MCS Systems, Inc ("CoRISMA"). The Group will acquire approximately 22.2% equity interests in CoRISMA at a consideration of USD12 million through different tranches. Subsequently, the Group will make further investment to obtain the exclusive development, manufacturing and commercialization rights of a series of CoRISMA's products, the innovative medical device for the treatment of heart failure, in Greater China Region (including Mainland China, Hong Kong, Macau and Taiwan) and various countries and regions in Southeast Asia, and facilitate the launch of relevant products in Authorized Regions. CoRISMA, founded in 2018, is an innovative medical device company that incubated by the Bonde Artificial Heart Laboratory at Yale University, is focused on the development of global innovative medical devices for patients with severe heart failure. Certain equity interests of CoRISMA are held by the Yale University. The joint founder of CoRISMA, Professor Pramod Bonde, is a cardiac surgeon of Yale New Haven Hospital and is leading researcher in the field treatment of heart failure. The transaction will also enhance the cooperation between the Group and worldwide leading education institutions like Yale University.

- **Acquisition of 80% equity interest in Huachen Biotech for the development of glycine industry**

  In October 2021, Hubei Grand Life Science & Technology Co., Ltd. ("Grand Life Science") of the Group entered into an equity acquisition agreement with Hebei Huayang Biological Technology Co., Ltd. *, pursuant to which Grand Life Science will acquire 80% equity interest in Cangzhou Huachen BioTech Co., Ltd.* (滄州華晨生物科技有限公司, "Huachen BioTech") at a consideration of RMB 107.2 million to establish a presence in the glycine industry chain and lay a foundation for the establishment of the Group's leading position in the amino acid industry.

- **Introduction of Saturn, a global innovative mitral valve replacement medical device**

  In November 2021, the Group entered into a strategic cooperation agreement on equity investment and product introduction with InnovHeart, pursuant to which the Group acquired approximately 17.8% equity interest in InnovHeart and the exclusive development, manufacturing and commercialization rights of Saturn, a global innovative medical device for mitral valve replacement, in Mainland China, Hong Kong, Macau and Taiwan at a consideration of approximately EUR 43.8 million. So far, the Group has achieved the comprehensive layout of innovative products in six directions in the field of cerebro-cardiovascular precision interventional diagnosis and treatment, successfully completed the development planning objectives set at the beginning of the year as scheduled, and became one of the companies with the widest product layout and the most comprehensive disease coverage in the field of cerebro-cardiovascular precision interventional diagnosis and treatment.

- **License-in three ITM global innovative RDC drugs**

  In December 2021, the Group entered into a product strategic cooperation with ITM, pursuant to which the Group will pay a licensing fee and milestone payment of not more than EUR 520 million to obtain TOCscan® (68Ga-Edotreotide) for the diagnosis of gastrointestinal pancreatic NET developed by ITM; (2) ITM-11 (n.c.a.177Lu-Edotreotide) for the treatment of gastrointestinal pancreatic NET; and (3) Exclusive rights to develop, manufacture and commercialize 3 global innovative RDC products in Greater China (Mainland China, Hong Kong, Macau, Taiwan), including ITM-41 (n.c.a.177LuZoledronate) for the treatment of bone metastasis in malignant tumors.

Other than stated above, the Group did not have other material acquisition or disposal during the review period.

INVESTOR RELATIONS

The Group has been committing to improving its corporate governance to ensure the long-term development. During the year, the Group published annual reports, annual results announcements, and other announcements and circulars on the websites of the Company and the Hong Kong Exchanges and Clearing Limited, and issued voluntary announcements, so as to disclose the latest business developments of the Group to shareholders and investors.

At the same time, the Group actively maintains close communication with investors through various channels, including securities company roadshows, large-scale telephone conferences, one-on-one meetings and other diversified communication methods, to introduce the Group's business situation, development progress and overseas member companies' businesses to investors, and simultaneously releases the latest business updates through different media channels, aiming to build an open, two-way, transparent and sincere communication platform, so that investors can keep abreast of the Group's business progress and development prospects. During the year, the Group actively communicated with the capital market and investors through new product presentations, results announcements and investor open days, and participated in a number of summits, forums, strategy conferences and special roadshows held by large investment banks and securities companies, attracting 100 institutional investors and analysts. Through communication with investors, the Group hopes to listen to more valuable opinions and extensively collect feedback from investors by establishing an active and efficient information and communication mechanism, so as to further enhance its corporate governance.

The Group's investor relations management is conducive to establishing a high-quality corporate image and delivering the core strategy of technological innovation. It has been highly recognized in the industry in multiple dimensions. In December 2021, it was awarded the "2021 Listed Company with the Most Investment Potential in the New Economy" by the Financial Union, and in January 2022, it was awarded the "Most Valuable Pharmaceutical and Medical Company" and the "Best IR Team" in the sixth Golden Hong Kong Stocks Awards.

PROSPECTS

On 30 January 2022, the Ministry of Industry and Information Technology, the National Development and Reform Commission, the Ministry of Science and Technology and other nine departments jointly issued the "14th Five-Year" Pharmaceutical Industry Development Plan ("14th Five-Year Plan"). The plan puts forward higher requirements for the pharmaceutical industry, and sets out specific development requirements in terms of product innovation and industrial technology breakthrough, industrial chain stability and competitiveness, supply guarantee capability, pharmaceutical manufacturing capability system and new international competitiveness. Facing the changes in the industry, the Group seized the opportunities arising from the high-quality development of the pharmaceutical industry. Driven by technological innovation, the Group continued to deploy global innovative products and advanced technologies, continuously enriched and improved product pipelines, strengthened the layout and construction of the industrial chain. In 2022, a few global innovative products like SIR-Spheres®Y-90 microspheres injection will be launched in the China market, and the Group will put full effort in different core aspects, continuously contribute new profit growing points and persistently consolidate its position as an industry leader in advantageous fields for building solid foundation for the continuous growth of the Group.

Promote the construction of radiopharmaceuticals diagnosis and treatment platform and accelerate the research and development of innovative drugs for severe diseases

In recent years, China's radiopharmaceuticals market has developed rapidly, and the supporting policy and guidance have also accelerated the development of China's nuclear medicine. In 2021, the state issued the first framework document for nuclear technology in the field of medical and health applications, namely the Medium and Long-term Development Plan for Medical Isotope (2021-2035) (醫用同位素中長期發展規劃(2021–2035年)) and the Technical Guidelines for Non-clinical Research of Radioactive In-vivo Diagnostic Drugs (放射性體內診斷藥物非臨床研究技術指導原則) and other regulatory policies, which are of great significance to China's strategy of improving the capability of medical isotope-related industries, promoting and regulating the research and development of domestic radioactive in-vivo diagnostic drugs, and ensuring health. The Group closely followed the policy direction, deeply deployed and built a radionuclide drug diagnosis and treatment platform, and connected the industrial chain links such as the supervision, registration, R&D, raw materials, transportation, and admission to hospitals of radionuclide drugs, laying a solid foundation for the implementation of the Group's radionuclide drugs.

In early 2022, in the 14th Five-Year, new mechanism innovative drugs such as microsphere injections and drug-device combinations are taken as the focus of future development in the future. SIR-Spheres®Y-90 microspheres injection, a blockbuster product of the Group's radionuclide drug diagnosis and treatment platform, was successfully launched in China in February 2022. The launch of SIR-Spheres®Y-90 microspheres injection is in line with the policy direction and the development of the industry. At the same time, the Group's RDC drug will also usher in a new milestone. In the future, the Group will take SIR-Spheres®Y-90 microspheres injection as the core and RDC drugs as the R&D direction. Through cooperation with universities and excellent R&D companies around the world, the Group will consolidate its R&D strength, promote the Group's industrial chain layout in the field of radionuclide drugs, and accelerate the construction of the Group's radionuclide drugs diagnosis and treatment platform. The Group will strive to provide patients with global leading anti-tumor solutions with multi-indication treatment options, multi-means and integrated diagnosis and treatment.

STC3141, the global innovative drug in the field of severe diseases, is a small molecule drug self-developed by the Group with a brand-new mechanism of action. The global clinical progress of the product is expected to be rapid. It is expected that the results of the Phase IIa clinical trial of STC3141 in Europe for severe COVID-19 infection will be officially announced in the second quarter of 2022, which will further provide strong data support for the subsequent global clinical advancement of STC3141. The clinical milestone of STC3141 has proved the Group's ability to develop self-developed products, and laid a solid foundation for the Group's subsequent internationalization. At the same time, the product is also expected to fill the gap in the field of sepsis, ARDS and other severe diseases that have no effective treatment and drugs in the world, and provide more and better clinical solutions for patients and doctors.

Deploying world-class innovative medical device products and promoting the localization of high-end medical devices

With the advancement of the new medical reform, China's medical device industry is looking for certainty and prosperous development opportunities amid crises and opportunities. In 2021, the medical device industry accelerated regulation, and unified consumable codes, centralized procurement of consumables, and medical insurance payment by disease diagnosis-related groups (DRG)/disease classification (DIP) and have a profound impact on the future regulation and operation of the industry, which clarified the new development direction of the industry in the future. According to the 14th Five-Year Plan, innovative medical devices such as high-end interventional implants, new medical imaging equipment and biomedical materials will be the focus of future development. The Group has precisely identified the future development path during the industry reform, deployed innovative technologies globally, continued to expand world-class innovative medical device products, and continuously improved the Group's comprehensive strength.

In 2021, the Group invested a total of over USD160 million in the field of cerebro-cardiovascular precision interventional diagnosis and treatment, including a series of high-end interventional products such as HeartLight X3, a new generation of atrial fibrillation treatment laser ablation platform, CoRISMA, a series of innovative devices for the treatment of heart failure, FastWave, an endovascular seismic calcification treatment system for the treatment of arterial calcification and Saturn, a series of mitral valve replacement products. The Group also established an overseas high-end innovative medical device R&D platform, and completed a comprehensive layout in six directions, namely coronary intervention, peripheral intervention, neurointervention, structural heart disease, electrophysiology and heart failure. The Group's new medical imaging device, NOVASIGHT Hybrid, which incorporates two imaging technologies, namely vascular ultrasound and optical coherence tomography, is expected to be approved and launched in China in 2022, which will undoubtedly become a new profit growth point of the Group. In the future, the Group will continue to deploy world-class high-end medical devices, promote the process of product launch in China and the construction of localization, accelerate the industrialization of innovative medical devices, and create a high-end medical device platform in the field of cerebro-cardiovascular precision interventional diagnosis and treatment that integrates research, production, supply and sales.

Continue to promote high-quality development in traditional advantageous areas and further build a new pattern of comprehensive advantages in the whole industry chain

The 14th Five-Year Plan will elevate the status of the pharmaceutical industry from an "important industry" to a "strategic industry", while the normalization of volume-based procurement will impose new requirements on pharmaceutical enterprises' pharmaceutical manufacturing capabilities and supply guarantee capabilities. Therefore, the stability and competitiveness of the industry chain are important factors for enterprises to survive in the traditional chemical drug field. APIs and chemical preparations have always been the traditional advantageous areas of the Group. Many of the Group's popular products have achieved the integration of raw material preparations. The stable industrial chain advantages have provided the Group with strong competitiveness in the field of traditional chemical drug. In the future, the Group will continue to develop high-end generic drug preparations in a scientific manner, and at the same time further enhance the integration of raw materials and preparations of the Group's strategic varieties to create a comprehensive advantage in the entire industry chain, improve the company's ability to resist risks., and provide material support for the research and development of the Group's innovative products.

Amino acid industry is another traditional advantage area of the Group. Through the acquisition of Huachen BioTech, the Group has made an important step towards the diversification of amino acid strategy from the field of high-quality amino acid. In the future, the Group will further integrate the resources of the amino acid industry to build the world's best food-grade glycine production base. While enriching the product cluster, the Group will further extend the amino acid industry chain, establish a deep industrialization and large-scale layout in the upstream amino acid raw materials and downstream terminal health food and pharmaceutical preparations fields, and deeply participate in the global high-end market competition, laying a foundation for the establishment of the Group's leading position in the amino acid industry.

Adhering to the clinical value-oriented approach and scientifically promoting the development of the TCM segment

With the policy support for the TCM industry under the 14th Five-Year Plan, as well as various policy benefits such as the Guiding Opinions on Supporting the Inheritance, Innovation and Development of TCM by Medical Insurance (《關於醫保支持中醫藥傳承創新發展的指導意見》), Certain Policies and Measures on Accelerating the Featured Development of TCM (《關於加快中醫藥特色發展的若干政策措施》), and the Opinions on Promoting the Inheritance Innovation and Development of TCM (《關於促進中醫藥傳承創新發展的意見》) issued earlier, the determination of the country to focus on the development of TCM industry is very clear, and the market demand for TCM is expected to be further released. The Group's Xian Beilin Pharmaceutical Company Limited (西安碑林藥業股份有限公司) has been deeply engaged in the Chinese medicine industry for more than 50 years. It integrates the research and development, production and sales of Chinese medicine, and has multi-channel industry advantages and brand market recognition. He Xue Ming Mu tablets and Jinsang series its exclusive products, have good clinical efficacy and market reputation. In the future, the Group will continue to focus on clinical value. Based on the clinical needs of ophthalmology and otorhinolaryngology departments in traditional advantageous fields, the Group will deepen the development of high-quality Chinese medicine products based on clinical practices to meet the needs of patients. At the same time, the Group will actively develop fields that have not yet met clinical needs, aiming to become a leading enterprise in the field of Chinese medicine.

Financial Resources and Liquidity

As at 31 December 2021, the Group had current assets of HK$6,778.59 million (31 December 2020: HK$5,318.96 million) and current liabilities of HK$5,566.13 million (31 December 2020: HK$4,302.93 million). The current ratio was approximately 1.22 at 31 December 2021 as compared with approximately 1.24 at 31 December 2020.

The Group's cash and bank balances as at 31 December 2021 amounted to HK$1,752.86 million (31 December 2020: HK$1,836.70 million), of which approximately 7.0% were denominated in Hong Kong Dollars, United States Dollars, Australian Dollars, Euro and 93.0% in Renminbi.

As at 31 December 2021, the Group had outstanding bank loans of approximately HK$2,849.29 million (31 December 2020: HK$2,345.69 million) were granted by banks in the PRC and Hong Kong. All bank loans were denominated in RMB, USD and HK$. The interest rates charged by banks ranged from 2.18% to 6.89% (31 December 2020: 2.60% to 6.89%) per annum, in which approximately HK$226.0 million bank loans were charged at fixed interest rates. Certain bank loans were pledged by assets of the Group with a net book value of approximately HK$284.35 million (31 December 2020: HK$86.22 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was approximately 21.3% as at 31 December 2020 while it was also approximately 20.9% as at 31 December 2020.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2021, the Group has a cross currency swap contract to offset the currency exchange risk between HKD and RMB in related to the interests payment of certain bank loans. Save as disclosed above, the Group did not have other foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Updates on Significant Matters

With reference to the disclosure in the 2016, 2017, 2018, 2019 and 2020 annual report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "Tianjin Jingming"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2021, the court has concluded 56 cases, and 2 cases is under processes in the people's court with aggregate compensation of approximately RMB1.69 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB30.96 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and Grand Pharm (China) had claimed the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgment by the court, the original shareholders of Tianjin Jingming should compensate to us approximately RMB8.09 million as the existing compensate and liquidated damages at the point of raising litigation. As the execution of the enforcement order from the people's court, Grand Pharm (China) has got properties and cash at approximately RMB6.60 million in aggregate from the original shareholders of the Tianjin Jingming, and the outstanding amount is still under enforcement processes. Also Grand Pharm (China) has raised second litigation claiming the original shareholders of the Tianjin Jingming for the losses of approximately RMB19.0 million from the indemnification made before 7 March 2021 related to such product quality incident made by Tianjin Jingming, and as at 31 December 2021 it is under second trial at the people's court. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group raised a litigation against those vendors in related to the said Performance Guarantee, and after the first trial, second trial and retrial from the court, the court granted the final judgement in December 2020. It was concluded that the Group can get back the RMB10 million share transfer consideration deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB11.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. As at the date of this report, an enforcement order application was submitted and has been accepted by the people's court. The Group has followed the judgement from the court and get back the RMB10 million deposited in the bank account jointly controlled by the Group and the vendors.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected directly or indirectly, by a number of risks and uncertainties pertaining to the Group's businesses. To the best of knowledge and belief, the Directors consider that the following are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risks

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

Foreign Exchange Rates Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2021, save as disclosed above, the Group did not carry out other hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

For interest-sensitive products and investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing the risk in a cost-effective manner when appropriate, through variety of means.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

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

Investment Risk

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

Economic Environment

Most of the Group's facilities, operations and its revenue are located in and derived from Mainland China and Hong Kong, the PRC. The Group's results of operations and financial condition therefore depend on the economies of Mainland China and Hong Kong, the PRC. The economy of Hong Kong is significantly affected by the developments in the Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative economic developments, and other regional economies may also deteriorate.

The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

Environmental Policies

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize its environmental impact by reducing water consumption and encouraging recycle of office supplies and other materials.

Compliance with Relevant Laws and Regulations

Save as disclosed above, during the year ended 31 December 2021, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

(ii) Suppliers

The Group has developed long-standing relationships with a number of suppliers and take a great care to ensure that they share its commitment to quality and ethics. The Group cautiously selects its suppliers and requires them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

The Group is committed to offer quality products to its customers and keep them informed its latest business developments.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group employed about 10,029 staff and workers in the PRC and overseas (31 December 2020: about 8,722). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Issue of new shares and use of proceeds

On 1 August 2020, the Company entered into a placing agreement with China International Capital Corporation Hong Kong Securities Limited ("Placing Agent"), pursuant to which the Placing Agent has conditionally agreed to act as agent for the Company, to place, or procure the placing of, on a best effort basis, up to a total of 172,000,000 new shares at the placing price of HK$5.90 per placing share to not less than six placees. The closing price was HK$7.34 per share on 31 July 2020 (being the last trading day of the shares immediately preceding the date of signing of the placing agreement. On 10 August 2020, the Company completed the allotment and issuance of 172,000,000 ordinary shares with a nominal value of HK$1,720,000. After deducting the placing commission and the related fees and expenses, the aggregate net proceeds were approximately HK$1,013.60 million, represents the net price per placing share is approximately HK$5.89, and are expected to in the research and development projects (including but not limited to its existing and future domestic and overseas projects on research and development of pharmaceutical products), expansion of our research team and investment in technology. For the year ended 31 December 2020, there were approximately HK$613.11 million out of the proceeds applied to the usage stated above, and the remaining proceeds were fully utilized in 2021 for the usage stated above.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2021, the Group as lessor had operating lease commitments of HK$0.21 million (2020: HK$0.12 million).

As at 31 December 2021, the Group had capital commitments of HK$180.32 million (2020: HK$108.70 million).

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, no subsequent events occurred after 31 December 2021 which may have a significant effect, on the assets and liabilities of future operations of the Group.

CONTINGENT LIABILITIES

As at 31 December 2021, the Directors were not aware of any material contingent liabilities.

APPRECIATION

On behalf of the board of Directors (the "Board"), I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Dr. Tang Wei Kun
Chairman

Hong Kong, 17 March 2022

Corporate Governance Report

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange during the year ended 31 December 2021:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2021.

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive Directors — Dr. Tang Weikun, Dr. Shao Yan, Dr. Niu Zhanqi and Dr. Shi Lin and 3 independent non-executive Directors — Ms. So Tosi Wan, Winnie, Mr. Hu Yebi and Dr. Pei Geng. Dr. Tang Weikun is the Chairman and Mr. Zhou Chao is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Dr. Tang, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Mr. Zhou, as the Chief Executive Officer, focuses on the day-to-day management of the Group's business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive Directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent and meet the independent guidelines set out in the Listing Rules.

All Directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company's Bye-Laws.

BOARD DIVERSITY POLICY

The Company has implemented a board diversity policy with the aim to set out the approach to achieve diversity in the Board. The Company sees increasing diversity at Board level as essential to supporting attainment of its strategic objectives and to achieve sustainable and balanced development. In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of board diversity. The Board should have a balance of skills and experience and a diversity of perspectives appropriate to the requirements of the Company's business.

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. Currently the Board comprises 5 male and 2 female.

Corporate Governance Report

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Up to 31 December 2021, the Directors complied with the paragraph A.6.5 of the Code Provision on participation in continuous professional training as follows:

	Mode of participation	
	a	b
Dr. Tang Weikun (appointed on 1 June 2021)	✓	✓
Dr. Shao Yan	✓	✓
Dr. Niu Zhanqi	✓	✓
Dr. Shi Lin (appointed on 1 June 2021)	✓	✓
Ms. So Tosi Wan, Winnie	✓	✓
Mr. Hu Yebi	✓	✓
Dr. Pei Geng	✓	✓
Mr. Liu Chengwei (retired on 1 June 2021)	✓	✓
Mr. Hu Bo (retired on 1 June 2021)	✓	✓

a: Directors received regular briefings and updates from the Company Secretary/the Company's management on the Group's business, operations and corporate governance matters.

b: Directors read technical bulletins, periodicals and other publications on subjects relevant to the Group and/or on their responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The audit committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the audit committee consists of three independent non-executive Directors namely, Ms. So Tosi Wan, Winnie (Chairwoman), Mr. Hu Yebi and Dr. Pei Geng. Ms. So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The audit committee held two meetings during the year ended 31 December 2021 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference. Currently, the remuneration committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Dr. Tang Weikun and an independent non-executive Director Mr. Hu Yebi as members.

Corporate Governance Report

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and reviewing specific remuneration package of all Directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The remuneration committee met once during the year to review the remuneration policy for all Directors and senior management.

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2021 are set out in note 15 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has established a nomination committee with written terms of reference. Currently, the nomination committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Dr. Shao Yan and an independent non- executive Director Mr. Hu Yebi as members.

The nomination committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The nomination committee held a meeting in 2021 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

ATTENDANCE RECORD AT MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2021 are set out as below:

	Meetings Attended/Held					
Directors	**Annual General Meeting**	**Special General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Dr. Tang Weikun (appointed on 1 June 2021)	0/0	1/1	24/24	N/A	0/0	N/A
Dr. Shao Yan	1/1	1/1	38/38	N/A	N/A	1/1
Dr. Niu Zhanqi	1/1	1/1	38/38	N/A	N/A	N/A
Dr. Shi Lin (appointed on 1 June 2021)	0/0	1/1	24/24	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	1/1	1/1	38/38	2/2	1/1	1/1
Mr. Hu Yebi	1/1	1/1	38/38	2/2	1/1	1/1
Dr. Pei Geng	1/1	1/1	38/38	2/2	N/A	N/A
Mr. Liu Chengwei (retired on 1 June 2021)	1/1	0/0	14/14	N/A	1/1	N/A
Mr. Hu Bo (retired on 1 June 2021)	1/1	0/0	14/14	N/A	N/A	N/A

Corporate Governance Report

AUDITORS' REMUNERATION

During the year, the auditors performed the work of statutory audit for the year of 2021. Audit fees for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$3,400,000.

FINANCIAL REPORTING

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently. The Directors are not aware of any other material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Company has an internal audit team which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board. The Board also ensures that the review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

During the year ended 31 December 2021, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review in the year ended 31 December 2021 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

(1) A list of risks was created after the scope of risks was determined and risks were identified.

(2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.

(3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

(6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

(1) The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

(2) Confidentiality agreements or confidentiality clauses are in place when the Group enters into significant negotiations.

(3) The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

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

The work performed by the Board on corporate governance functions during the year ended 31 December 2021 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend general meetings of the Company which allows the Directors to meet and communicate with them.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Unit 3302, The Center,
99 Queen's Road Central, Hong Kong
Email: victor.foo@grandpharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye-laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

Environment, Social and **Governance Report**

This report is prepared by the Company in accordance with the Environment, Social and Governance Reporting Guidelines as set out in Appendix 27 of the Listing Rules. This report covers entities with substantial effect to the financial and actual operational process, mainly being the companies and production plants located in Wuhan City, Hubei Province, the PRC. Save as otherwise indicated, the data and contents in this report are all in relation to the period from 1 January 2021 to 31 December 2021.

THE BOARD'S ESG COMMITMENT

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is committed to determining the most effective way to integrate ESG considerations into its structure and committees. The Group also evaluates and monitors ESG-related risks and ensures these risks are thoroughly considered in the process of decision making and embedded into the management of risk and opportunities across the Group.

The Group strives to achieve a high level of public transparency by regularly engaging stakeholders and disclosing information in a timely and accurate manner. The Group maintains regular exchanges and dialogues with peers, investors and other stakeholders to share the updates of ESG-related risks and regulatory requirements etc. The Group also tracks existing and emerging regulations to ensure that its ESG policies, processes and disclosures meet expectations.

Legal compliance is an essential pillar for sound corporate governance and underpins sustainable operations. The Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues during the Reporting Period, and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

THE GROUP'S ESG APPROACH

The Board and senior management of the Group are involved in the materiality assessment in identifying material ESG issues that impact the Group's business operation. The management of the Group actively participates in the optimisation of existing operation plans, fully supports various resources and strives to integrate ESG matters into the daily operation and management of the enterprise.

The Group has a vision for its operation practices and the provision of quality products and excellent services. The Group not only abides by strict standards and requirements to ensure the highest quality of its products, but also sticks to develop innovative products to meet the global healthcare demand and improve the quality of life. The Group is committed to becoming a pioneer in core technology, increasing investment in research and development, recruiting talents around the world, maintaining innovation in various business areas, complying with relevant rules and regulations, and continuously improving the quality management system, so as to achieve stable product quality to meet customer requirements.

The Group is well aware that the development, promotion and sale of pharmaceutical products are related to public health. Therefore, the Group's will put the products safety and service quality, including the development, production, testing and after-sales of products, in an important position when setting ESG management objectives. At the same time, the Group will focus on more safe, more effective or more cost-effective innovative drugs to meet the actual needs of patients and maximise social benefits taking into account the unmet medical demands of the international pharmaceutical market. The Group will consider the effect of operational activities on the environment in order to build a green, harmonious and sustainable society with all stakeholders.

Environment, Social and **Governance Report**

COMMUNICATIONS WITH STAKEHOLDERS

Key stakeholders of the Group include shareholders and investors, government and regulatory authorities, customers, suppliers, employees and communities. The Group strives to communicate with the stakeholders from time to time to understand their opinions and expectations, and assist the Group to continuously improve and enhance the comprehensive management ability and level of the enterprise through effective and diversified communication channels so as to satisfy the needs of the stakeholders. The Group has identified the stakeholders as follows:

Stakeholders	Shared objectives	Communication and feedback channels
Shareholders and investors	— Steady growth in return on investments — Asset preservation and appreciation — Explore new markets and opportunities — Prevent operational risks — Safeguard information rights	— General meetings — Annual report and announcement — Investor meetings — Press release
Government and regulatory authorities	— Strict compliance with relevant laws and regulations — Safe production — Pay tax in accordance with law	— Email and telephone communication — Tax payment — Implementation of national policies
Customers	— Provide premium products — Product safety — Provide sustainable innovative products — Create win-win situation — Offer refined customer service and communication channels	— Corporate website — Technical training and seminar — Product release conference — On-site visit
Suppliers	— Product safety — Fair and open procurement — Win-win cooperation	— Evaluation on suppliers — On-site inspection — Daily communication
Employees	— Protect employees' benefits and rights — Promote occupational health and safety — Provide equal employment opportunities — Build a platform for growth and diversified development — Work-life balance	— Staff training — Staff care activities — Staff interview — Internal email
Community	— Facilitate employment — Enhance local economic development — Strengthen environmental protection and reduce pollution on environment	— Provide employment opportunities — Promote local economic development — Improve infrastructure in locality — Poverty alleviation — Voluntary services

Environment, Social and **Governance Report**

ENVIRONMENTAL POLICY AND PERFORMANCE

Environmental protection responsibility is a must to an enterprise, which shall ensure the sustainability of the environment and resources through committed efforts during its management and operation process. In this connection, the Group aimed to develop its environmental management system and improve environment-related policies, adopt long-effective environmental management and supervisory means, adhere to the corporate environmental protection principles of placing environmental friendliness as the first priority, taking precaution as the main measure, adopting comprehensive rectification and management and implementing energy-saving and emission reduction in the production process in order to practically assume our corporate social responsibility and achieve the best environmental performance.

The Group strictly abides by and pays close attention to the laws and regulations of the PRC government on energy conservation and environmental protection, such as the Environmental Protection Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the Law of the People's Republic of China, the Solid Waste Pollution Prevention and Control Law of the People's Republic of China, the Soil Pollution Prevention and Control Law of the People's Republic of China, the Emission Standard of Air Pollutants for Pharmaceutical Industry, and we also strictly comply with the relevant pollutant emission standards, such as the Emission Standard of Air Pollutants for Pharmaceutical Industry, the Emission Standard of Air Pollutants for Boiler, the Standard for Pollutant on the Storage and Disposal Site for General Industrial Solid Wastes. We concern about the impact of global climate change on the Group's business and the environment, explore green development methods in depth, improve organizational management and target assessment, and insist on giving priority to environmental protection, prevention, comprehensive management, energy saving and emission reduction in the production process as the corporate environmental protection policy, fulfill corporate social responsibility, establish a green corporate image, and build a green and responsible brand.

During the year, the Group was not aware of any major incidents relating to environmental protection and was not punished by competent environmental protection department. The Group continued to strengthen the control of the source of pollutants, optimised the process of end treatment and reduced pollutant emissions of the enterprise. The Group increased its investment to constantly improve, renovate and upgrade the enterprise protection equipment pursuant to new standards and requirements on safety and environmental protection to ensure wastewater, waste gas and waste discharge are up to standard.

Environment, Social and Governance Report

(1) Emission

To advance our governance on environmental protection, the Group has established a safety and environmental protection management organisation, industrial park and members. For coping with various potential environmental incidents more effectively, each member has developed its respective emergency proposal and on-site handling plan for unexpected environmental incidents with necessary emergency supplies equipped, and conducted regular emergency drills to ensure ordered emergency work.

The Group has established a systematic inspection system for the operation of environmental protection facilities. The Group delegates professionals to conduct on-site inspection on the operation of environmental protection facilities of the members every half year, so as to ensure the stable operation of environmental protection facilities of the members and meet the emission standards.

— **Waste gas emission management**

The Group adopts exhaust gas absorption, dust removal and filtration and other methods for emission management of exhaust gas generated by operations in production and operation sites. All workshops and laboratories turn on the exhaust fans or dust collectors during operations with harmful gases and components, and the adsorbent and screening filters used in the exhaust devices or dust collectors are regularly replaced. For volatile chemical reagents and materials, sealing measures are taken to reduce the air pollution caused by the volatilization of reagents and materials. For the use or generation of volatile organic compounds, the reaction process is carried out in a closed reactor and the gas is exported to the exhaust gas treatment facility to reduce the air pollution caused by the storage of materials and the reaction process.

The Group adopts acid and alkali absorption, dust removal and filtration, activated carbon adsorption, photocatalytic oxidation and other methods for exhaust gas treatment in the production and operation process. The exhaust gas treatment facilities must be turned on when the production facilities are in operation, and the absorption fluid, adsorbent and screening filter of the exhaust gas treatment facilities are replaced regularly to ensure the effective operation of the exhaust gas treatment facilities. In addition, the Group strictly implements exhaust gas management, and arranges special personnel for operation and maintenance of each exhaust gas treatment facility and requires enterprises producing exhaust gas pollutants to engage third-party agencies to conduct pollutant testing, and strictly control the discharge of exhaust gas pollutants in compliance with standards.

— **Wastewater discharge management**

All members of the Group strictly implement the Water Pollution Prevention and Control Law of the People's Republic of China and establish a supervision and inspection mechanism for sewage treatment operation to ensure that the sewage of each member meets the discharge standard. The Group requires all members to conduct source control, classified collection and quality control of sewage. For the production wastewater, domestic sewage, tail water from fire services, initial rainwater, etc. with no value for use, each member implements the principles of clean water and sewage diversion and quality-based separation treatment, whereby sewage of different concentrations must be discharged to the sewage treatment station via different pipelines. The sewage outlets of key members are equipped with online testing equipment in respect of ammonia nitrogen, total nitrogen and total phosphorus, and jointly test the pollutant discharge with relevant government departments.

At the same time, the Group adopts concrete pouring for anti-corrosion for each sewage pool and septic tank, and sets up cofferdam in the acid and alkali raw material storage area, and carries out anti-corrosion work in cofferdam as required to ensure that the underground water body is not contaminated.

The Group has introduced environmental protection professionals, set up internal and external expert teams to monitor the operation of sewage treatment facilities of key members throughout the entire process. In case there is any change for the operation parameters of sewage treatment facilities of members, the Group will assist the members to adjust the operation parameters of the facilities in a timely manner to ensure the stable and effective operation of sewage treatment facilities.

— **Solid waste discharge management**

Each member of the Group has established a system of responsibility for prevention and control of solid waste from generation, collection, storage, transportation to disposal and utilization. For hazardous waste, we actively optimize the production process, increase the frequency of recycling of solvents and activated carbon to reduce the generation of hazardous waste on the premise of satisfying the process requirements. For those that cannot be recycled, each member has built a standard temporary storage of hazardous waste, and has met the three prevention standards of anti-leakage, anti-loss and anti- proliferation. The hazardous waste generated is collected and temporarily stored, and a hazardous waste treatment contract is signed with competent authorities and handed over the hazardous waste to such unit for treatment.

For general waste, each member reduces the discharge of solid waste through comprehensive utilization. For those that cannot be comprehensively utilized, the environmental protection department of the park is entrusted for unified disposal.

The expired or discarded drugs that have entered the market are collected by distribution companies, destroyed by professional teams, and disposed of as hazardous wastes to control the possible harm to the environment caused by the outflow of expired drugs.

(2) Use of Resources and Impact on the Environment and Resources

In order to actively respond to global climate change, the Group has taken proactive actions to reduce energy and resource consumption through measures such as organizational management, data index testing, and equipment and technological transformation, and has reduced greenhouse gas emissions while reducing energy consumption.

The direct energy used by the Group in the production and operation process is mainly natural gas and fuel coal, while indirect energy includes purchased electricity and steam. The Group has formulated internal management procedures in accordance with the policies, regulations and standards of the state, local and industry authorities related to energy conservation, such as the Energy Conservation Law of the People's Republic of China and the Law of the People's Republic of China on Promoting Clean Production to improve the utilization rate of energy and resources and reduce the possible waste of energy and resources that may be generated.

Key measures implemented in 2021 include:

— By installing frequency inverters to adjust the power of facilities, replacing energy-saving equipment and other energy-saving measures, the annual electricity consumption was reduced by 50,000 KWH;

— Change the wet vacuum pump in the dimethyl sulfate workshop area to dry vacuum pump, saving 64% of water per ton of product;

— Implementation of steam condensate recycling project and change of wet discharge of sulfuric acid slag to dry discharge, reducing water consumption per ton of product by 18.48%;

Environment, Social and Governance Report

The summary below are the key performance indicators of 2021 for thirteen main members of the Group (which contribute approximately 61.8% revenue of the Group):

	Item	Unit	Approximate
		Energy Consumption	
Resource usage	Electricity	(kWh per annum)	170,861,000
	Coal	(tons per annum)	54,000
	Natural Gas	(cubic meters per annum)	14,217,000
	Water	(tons per annum)	2,779,000
	Steam (purchased from other suppliers)	(tons per annum)	52,000
	Packing Materials-plastics	(tons per annum)	215
		Gas Emissions	
Emissions	Particulates	(tons per annum)	50
	Nitrogen Oxides	(tons per annum)	37
	Volatile Organic Compounds (VOC)	(tons per annum)	361
		Sewage	
	Total Sewage	(tons per annum)	1,287,500
	Chemical Oxygen Demand	(tons per annum)	1,148
	Ammonia Nitrogen	(tons per annum)	107
		Wastes	
	Total Hazardous Wastes	(tons per annum)	939
	Total Non-hazardous Wastes	(tons per annum)	1,742
Greenhouse gas emissions	Direct	(Tonnes CO_2 equivalent per annum)	172,000
	Indirect	(Tonnes CO_2 equivalent per annum)	104,000

Note: Only the statistics of emissions applicable to the Group is listed. Direct greenhouse gas emissions from operations that are controlled by the Group mainly generated from the consumption of natural gas and coal fuel for generating steam. Indirect greenhouse gas emissions from operations mainly resulted from the electricity purchased.

(3) Climate Change

The impacts and risks of climate change on the sustainable development of global enterprises bring various challenges to the operation of enterprises, which are issues for them to address to.

The People's Republic of China has announced the goal of "carbon peak emissions and carbon neutrality" to the world. In the future, it will continue to put more efforts on environmental protection and increase the control of resources and energy consumption. Enterprises will face increased investment in environmental protection and energy-saving equipment, which will bring higher cost pressure. The Group has actively carried out carbon emission verification, and at the same time, internally, the Group actively promoted green development with the direction of source control and classified treatment of pollution sources, so as to reduce the generation and emission of pollutants from the source and reduce the risk and cost of environmental protection.

Global warming will affect the harvest of crops, which may lead to the price rise of raw materials and supply chain shortage of a small number of fermentation pharmaceutical enterprises of the Group, including corn steep liquor, soybean meal, rice and other biological fermentation raw materials. In order to reduce the risk of single raw materials because of the influence of climate and geographical factors, the Group is actively considering to expand the source of raw material suppliers in different places to ensure the stability of operation and supply in the future.

In addition, the increased frequency and intensity of extreme weather may bring potential safety risks to the Company's production and operation. In order to ensure that in the event of sudden extreme weather events, all emergency work can be quickly activated and operated, and to improve the emergency response capability for climate change crisis events, each member of the Group, in accordance with the Production Safety Accident Emergency Plan, has set up emergency measures for extreme weather such as storm and strong snow, established an emergency command system, clarified the organizational structure and responsibilities, strengthened linkage and quickly responded to minimize casualties and property losses caused by extreme weather.

On the other hand, we are actively considering a comprehensive analysis of the effect of climate change on the future development of enterprises through scientific methodology so as to deeply understand the actual influence of climate change on the industry. We believe that this will help us to strengthen our control of climate change risks and formulate strategies to address climate change in the long term, medium term and short term.

Environment, Social and **Governance Report**

EMPLOYMENT AND LABOUR PRACTICES

Sustainable development of talents serves as an important guarantee for the Group's to accomplish its strategic objectives. The Group works hard to create a fair and harmonious working environment to build up an enterprise with competitiveness and growing power. As such, the foundation of talents has been laid for the corporate sustainable development.

(1) Employee's Rights

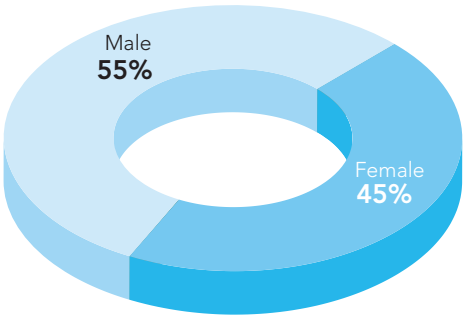
The Group has stringently implemented relevant laws and regulations such as the Labor Law of the People's Republic of China, and Labor Contract Law of the People's Republic of China, and formulated the human resources management system to proactively safeguard the legal rights of employees.

The Group promotes a cultural atmosphere of synergistic cooperation, advocates equality between people, and adheres to the principle of fairness and justice. We are against any form of discrimination. We have adopted the same starting salary for employees of different gender, complied with the same minimum wage standard, forbid any sexual discrimination during the employment and promotion processes, and applied equal pay for equal work. The wages of the Group's almost all existing employees are higher than the minimum wage standard of their location, and are in compliance with the local labor rules and policies. The Group will, in accordance with requirements of the national law at the time of recruiting employees, stringently examine the identities and ages of applicants, and will not recruit employees under the age of 18. The Group is not aware of any differentiation in salary packages in relation to gender, age and nationality during recruitment and examination, selection, employment and deployment of applicants.

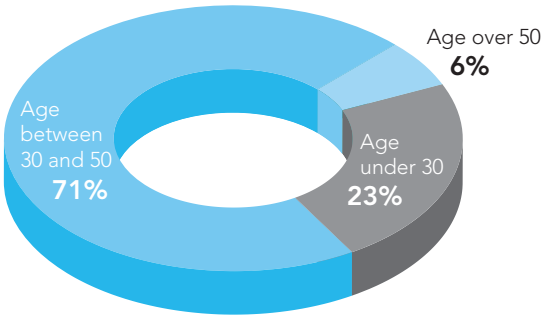
For employee's welfares, the Group abides by the local labor rules, pays for statutory benefits for all formal staff, and offers leaves as required by the law; it provides holidays and benefits in accordance with requirements of the national and local law for all such female employees during the "three periods" (periods of pregnancy, maternity and lactation), and allows them to return to the workforce except for those who voluntarily render resignation. Male employees are also entitled to paternity leave for each confinement of their spouse. Furthermore, the Group has entertainment facilities such as library, badminton courts and table-tennis courts. We also organise different activities for enriching the after-work lives of our employees.

As of 31 December 2021, the Group had 10,029 employees. The breakdown of employees by gender and age group is as follows:

By gender



By age group



Except for four employees who are domiciled in Australia and four employees who are domiciled in Belgium, the rest of the employees are domiciled in the PRC. The employee turnover rate in the PRC is approximately 8.9%.

(2) Employee's Safety

The designs of manufacturing plants and equipment are following the Measures for Supervision and Management of Drug Production, Regulation on the Safety Management of Hazardous Chemicals and other related laws and regulations. The Group is committed to improve continuously and preventing risks to implement the safety production at all level in order to provide safe working environment with proper equipment, and implements measures for safe working behaviors to safeguard occupational health and safety of employees. The Group has set up a safety and environmental protection centre with qualified safety administrators for daily management on environmental, health and safety, such as security and fire management. For the safety design of production plants, the Group will use closed electrical equipment in the facilities where produce steams, corrosive gas and dust. In the facilities with explosive gas or dust, the Group will use explosion-proof electrical equipment. In the facilities with flammable and explosive or toxic gas, the Group implemented flammable or toxic gas leakage alarms with emergency stop settings; installed and upgraded the engineering control measures for ventilation and dust removal equipment and noise reduction measures to continuously improve the working environment of employees, and qualified labor protection products are provided in accordance with regulatory requirements.

The Group will carry out comprehensive trouble hidden investigation and rectification of various production facilities, auxiliary facilities and public areas to eliminate safety vulnerability and provide a strong guarantee for on-site security from time to time. During the past three years, neither major safety incidents and serious fire accidents nor work-related fatal incidents of members of the Group were happened. The total number of working days lost due to work injury was 2,883 days in 2021.

(3) Employee's Training

The Group's talent training and development work is closely focused on the strategic guideline of "comprehensive advantages, innovation-driven, and global expansion" to further promote the training management at the level of corporate compliance operations, and allocate training resources to new businesses and new projects. While increasing the efforts in talent introduction, the Group insisted on the cultivation of internal talents and conducted a review of strategic talents for key functions such as research and development. The Group provided targeted training of talent in the industry based on business characteristics, improved the training mechanism, established a mentor system and a communication platform for management trainees, and focused on the training and follow-up of newly introduced talents, management trainees, middle and senior management personnel and new employees. Among the key training groups, males and females accounted for 66% and 34% respectively, and senior managers and middle managers accounted for 15% and 31% respectively. The average training hours for male and female employees were 86 hours and 79 hours, respectively, and the average training hours for each senior management and middle management were 73 hours and 95 hours, respectively.

Environment, Social and **Governance Report**

COMMUNITY

The Group has always been creating value for shareholders and wealth for customers whilst proactively engaging in public service, caring for the lives of minority groups and people in difficulties and earnestly fulfilling its social responsibility in order to promote the advancement and harmonious development of communities, enterprises and the regional economy. In July 2021, Henan and other places continued to experience sudden and severe rainfall, and severe waterlogging and flooding occurred in many cities in Henan Province. After learning about the urgent need for digestive medicine, cold medicine, anti-inflammatory medicine and other medical supplies in the disaster area of Henan, the Group coordinated with the relevant departments of the enterprise and donated supplies worth approximately RMB1 million through the Health Commission of Xinxiang City, Henan Province to protect the life and health of the local people after the disaster and help the people of Henan to tide over the difficulties. In addition, the Group also donated pharmaceutical products, including laryngology and ophthalmology products, of approximately RMB1.7 million to the Red Cross Society of Shaanxi Province in June 2021, for carrying out humanitarian treatment activities of treating diseases and saving lives in seven cities in Shaanxi Province.

OPERATION PRACTICE

(1) Supply Chain Management

The majority of the Group's suppliers are located in the PRC and only less than 1% of them are from overseas. The Group has formulated a series of procurement management system and procurement control procedure, and has strictly selected suppliers and monitored the procurement process in accordance with the Drug Administration Law of the People's Republic of China and Good Manufacturing Practice. In selecting suppliers, a due diligence will be performed. The Group may visit the production plants if necessary and investigate the credit performance as well as the company's nature and background. The samples provided are required to pass the testing and trial production before such suppliers could become the Group's qualified suppliers. Procurement staffs have also conducted regular visits to suppliers to maintain close liaison and good cooperation relations with them. Meanwhile, the quality notices made by suppliers have been regularly monitored to ensure all of the raw materials used by the Group are in compliance with the standard requirements and ready for use.

Currently, the global epidemic situation is still uncertain. The Group has strengthened its mid- and long-term supply chain construction in supply chain management, such as strategic supplier management, localisation of imported materials, supplier sourcing, supplier dynamic management, upstream and downstream special research, etc. to ensure the stability and continuous supply of the procurement supply chain system.

(2) Product Liability

The production and sale of the Group's drugs are conducted in accordance with relevant rules as required in the Drug Administration Law of the People's Republic of China, Regulations for Implementation of the Drug Administration Law of the People's Republic of China, Good Manufacturing Practice and Norm on Production, Quality Control of Traditional Chinese Medicine and Good Pharmacovigilance Practice, and has a complete production quality control system. Most of the drugs produced have been certified by GMP/GSP.

Drug quality correlates with the life safety of patients, and even the lifespan of the enterprise. The Group introduces the concept of risk management in the whole process of drug production and promotes the quality culture of maximising the interests of patients, which requires high standard and high quality of products and reduces product errors during production, so as to lower the risk in terms of product quality during production. A system for product return and exchange analysis has been formulated with relevant requirements such as storage and logistics management of drugs, automatic temperature and humidity monitoring system. Furthermore, modern information technology is used in the collection of information, adverse reactions, consultations and complaints of drugs, and the information will be analysed for the continuous improvement of drug quality to ensure the medicines is safe, effective, uniform and stable in order to enhance the patients' confidence in products of the Group. The Group has also established a sound pharmacovigilance system, actively carried out post-marketing safety research, and strengthened the practice of social responsibility of drug safety. In 2021, the Group did not recall any products due to safety and health reasons, and received 236 complaints from customers. Once the Group received complaints, we will do analysis on the content of complaint, collect safety information and deal with it immediately. Our customers were 100% satisfied with our responses.

(3) Anti-corruption

The Group, committed to pursuing operation in good faith, constantly enhances internal control and monitoring mechanism within the enterprise, and stringently observes the rule on fair competition. It organised the employees to study the laws and regulations against commercial bribery and other unfair competition. Employees are required to strictly comply with provisions in relation to prohibition of commercial bribery acts under the Law Against Unfair Competition of the People's Republic of China, Criminal Law and Companies Ordinances, and all of the relevant management rules on integrity and self-discipline as stipulated by the Company. The Group is firmly against commercial bribery, bribery and receiving gifts arising from other improper commercial acts, and establishes a management system and measures on capital management to prevent money laundering.

The Group has established a professional and high-quality compliance management team to supervise and manage the commercial bribery, bribery and other improper business practices of the Company, especially in key areas and key projects of overseas operations to specify compliance management institutions or assign full-time personnel; put into practice an undertaking system aiming at preventing commercial bribery against key personnel in key areas prone to corruption and employees in key positions were required to sign the compliance undertaking ; carried out regular or irregular inspections on the compliance management of each department to trace the root causes and identify defects; strengthened accountability for violations and improved the punishment mechanism for violations by linking with performance appraisals to effectively prevent risks. The Group conducts anti-corruption supervision and management in strict compliance with relevant national laws and regulations and the Company's internal policies, establishes an internal anonymous compliance reporting channel to timely discover, prevent and deal with employees' violations of disciplines and regulations, and timely reports to relevant departments for those suspected of committing crimes. The Group also regularly organizes anti-corruption trainings to enhance employees' understanding of job-related crimes and the study of relevant laws and regulations, and incorporates the study of internal compliance management system into the normalized and institutionalized training mechanism to enhance employees' compliance awareness and cultivate corporate compliance culture.

In 2021, the Group and its employees were not involved in any corruption litigation.

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 22 and 20 to the consolidated financial statements respectively.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2021 is set out in the section "Management Discussion and Analysis" on pages 24 to 49 of this annual report.

Description of principal risks and uncertainties that may be faced by the Group can be found in the section "Management Discussion and Analysis — Principal Risks and Uncertainties" on pages 46 to 47 of this annual report.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the section "Management Discussion and Analysis — Financial Resources and Liquidity" on page 45 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which may have a significant impact on the Group are set out in the section "Management Discussion and Analysis — Environmental Policies" and "Management Discussion and Analysis — Compliance with Relevant Laws and Regulations" separately on page 48 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2021 and the state of affairs of the Group at that date are set out on pages 87 to 204.

DIVIDEND POLICY

The Company has adopted a dividend policy, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for future growth of the Group.

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

i. The Company's actual and expected financial performance;

ii. Retained earnings and distributable reserves of the Company and each of the members of the Group;

iii. The Group's working capital, capital expenditure requirements and future expansion plans;

iv. The Group's liquidity position;

v. General economic conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

vi. Other factors that the Board deems relevant.

Report of the Directors

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Bermuda and the Company's Bye-laws. The Board will review the dividend policy from time to time and there can be no assurance that dividend will be paid in any particular amount for any given period.

DIVIDEND

The Board recommends the payment of final dividend of approximately HK$390,450,000 at 11 HK cents per share (2020: HK$390,450,000 at 11 HK cents per share) for the year ended 31 December 2021. No interim dividend was declared during the year (2020: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 41 to the consolidated financial statements respectively. As at 31 December 2021, the Company's reserves available for distribution, calculated in accordance with the relevant laws and regulations of Bermuda, amounted to approximately HK$7,036.31 million (2020: approximately HK$6,995.21 million).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2021 are set out in notes 22 and 20 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group during the year are set out in note 32 to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Dr. Tang Weikun (appointed on 1 June 2021)
Dr. Shao Yan
Dr. Niu Zhanqi
Dr. Shi Lin (appointed on 1 June 2021)
Mr. Liu Chengwei (retired on 1 June 2021)
Mr. Hu Bo (retired on 1 June 2021)

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie
Mr. Hu Yebi
Dr. Pei Geng

Pursuant to bye-law 87(1), Dr. Shao Yan, Dr. Niu Zhanqi and Ms. So Tosi Wan, Winnie will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election of the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation. Each of the independent non-executive Directors has been appointed pursuant to a letter of appointment for a term of one year, which is renewable automatically for successive terms of one year after the expiry of the term of appointment, unless terminated by not less than three months' notice in writing served by either party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTEREST

Save Dr. Niu Zhanqi, an executive director, who is the president of Pharmaceutical Management Headquarters of China Grand and a director of Huadong Medicine, and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the Directors are aware of, no Directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2021, the related party transactions entered by the Group are all disclosed note 42 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non- exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 42 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2021, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

(1) On 30 June 2020, Grand Pharm (China) entered into an agreement (the "Huadong Medicine Supply Agreement") with Huadong Medicine. Pursuant to the Huadong Medicine Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the Huadong Medicine Supply Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB160.0 million, RMB165.0 million and RMB169.0 million respectively (the "Huadong Medicine Supply Caps"). In 2021, the transaction amount under Huadong Medicine Supply Agreement is approximately RMB92.9 million.

(2) On 30 June 2020, Grand Pharm (China) entered into an agreement (the "China Grand Supply Agreement") with China Grand. Pursuant to the China Grand Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to China Grand or its related companies and the maximum annual amount of products to be sold by the Group to China Grand for each of the periods commencing from the date where the terms of the China Grand Supply Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB26.0 million, RMB27.0 million and RMB28.0 million respectively (the "China Grand Supply Caps"). In 2021, the transaction amount under China Grand Supply Agreement is approximately RMB0.9 million.

(3) On 30 June 2020, Grand Pharm (China) entered into the purchase agreement (the "Baoding Jiufu Purchase Agreement") with Baoding Jiufu Biochemical Co., Ltd (the "Baoding Jiufu"), and a supplemental agreement on 16 July 2021 (the "Baoding Jiufu Purchase Supplemental Agreement"). Pursuant to the Baoding Jiufu Purchase Agreement and Baoding Jiufu Purchase Supplemental Agreement, Grand Pharm (China) or its related companies shall purchase raw materials from Baoding Jiufu or its related companies for the production of amino acid products and other pharmaceutical products. The maximum annual amount of products to be purchased by the Group from Baoding Jiufu for each of the periods commencing from the date where the terms of the Baoding Jiufu Purchase Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB41 million, RMB212 million and RMB431 million respectively (the "Baoding Jiufu Purchase Caps"). In 2021, the transaction amount under Baoding Jiufu Purchase Agreement and Baoding Jiufu Purchase Supplemental Agreement is approximately RMB111.1 million.

(4) On 30 June 2020, Wuhan Kernel Bio-Tech Co., Ltd. (an indirect non-wholly owned subsidiary of the Company) (the "Wuhan Kernel") entered into the sub-contracting agreement (the "Baoding Jiufu Sub-Contracting Agreement") with Baoding Jiufu. Pursuant to the Baoding Jiufu Sub-Contracting Agreement, Wuhan Kernel or its related companies shall engage Baoding Jiufu for the provision of processing services for the production of antibiotics which can be applied in animal feeds. The maximum annual amount of products to be subcontracted by the Wuhan Kernel to Baoding Jiufu for each of the periods commencing from the date where the terms of the Baoding Jiufu Sub-Contracting Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB48 million, RMB50 million and RMB52 million respectively (the "Baoding Jiufu Sub-Contracting Caps"). In 2021, the transaction amount under Baoding Jiufu Sub-Contracting Agreement is approximately RMB0.4 million.

(5) On 9 December 2021, Cangzhou Huachen BioTech Co., Ltd. (an indirect non-wholly owned subsidiary of the Company) (the "Huachen BioTech ") entered into an agreement (the "Huachen BioTech Supply Agreement") with Hebei Huayang Biological Technology Co., Ltd. (the "Hebei Huayang "). Pursuant to the Huachen BioTech Supply Agreement, Huachen BioTech or its related companies shall supply glycine, other raw materials for pharmaceutical use and related services, to Hebei Huayang or its related companies and the maximum annual amount of products to be sold by the Group to Hebei Huayang for each of the periods commencing from the date where the terms of the Huachen BioTech Supply Agreement become effective until 31 December 2021 and for the two years ending 31 December 2023 are RMB200.0 million, RMB700.0 million and RMB1.0 billion respectively (the "Huachen BioTech Supply Caps"). In 2021, the transaction amount under Huachen BioTech Supply Agreement is approximately RMB52.8 million.

As Huadong Medicine and Baoding Jiufu are regarded as connected persons of the Company since they are associates of the China Grand (which is a substantial shareholder of the Company), and the subject matters of each of the Huadong Medicine Supply Agreement, China Grand Supply Agreement, Baoding Jiufu Purchase Agreement, Baoding Jiufu Purchase Supplemental Agreement and Baoding Jiufu Sub-Contracting Agreement (collectively known as "China Grand Continuing Connected Transaction Agreements") are similar in nature, pursuant to Rule 14A.81 of the Listing Rules the transactions between the Group and each of these companies would be aggregated. As the aggregated amount of the Huadong Medicine Supply Caps, the China Grand Supply Caps, Baoding Jiufu Purchase Caps and Baoding Jiufu Sub-Contracting Caps exceed HK$10,000,000 per annum, the transactions contemplated under the China Grand Continuing Connected Transaction Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Huachen BioTech is owned as to 80% by the Group and 20% by Hebei Huayang. Accordingly, Hebei Huayang is a connected person of the Company. As the amount of the Huachen BioTech Supply Caps exceed HK$10,000,000 per annum, the transactions contemplated under the Huachen BioTech Supply Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed and confirmed that these transactions were entered into:

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

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the China Grand Continuing Connected Transaction Agreement and Huachen BioTech Supply Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

(i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

(ii) obtained the relevant agreements governing each of the continuing connected transactions from management;

(iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 30 June 2020, 16 July 2021 and 9 December 2021 made by the Company in respect of each of the continuing connected transactions.

SHARE OPTION SCHEME

During the year ended 31 December 2021, the Company did not adopt any share option scheme and no outstanding share options.

No share options were granted or exercised under any share option scheme during the year ended 31 December 2021 and 2020 and there were no outstanding share options as at 31 December 2021 and 2020.

SHARE AWARD SCHEME

On 1 September 2021, the Company has adopted the Share Award Scheme ("Scheme") in which the Group's employees, directors or consultants will be entitled to participate. Details of the Scheme are set out in the Company's announcement dated 1 September 2021.

In 2021, the Group has paid to the trust established for the Scheme HK$155.0 million, and approximately HK$143.5 million of which was used to purchase 22,430,500 Shares as part of the trust fund and such Shares are held by the trustee for the benefit of the eligible participants under the trust.

Save for the aforesaid, as at the date of this report, the Board neither granted any awards nor caused to pay the trustee the trust fund for purchase nor subscription of Shares.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, the Directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

LONG POSITIONS IN THE SHARES OF THE COMPANY:

Name of Director and chief Executive of the Company	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share Capital
Tang Weikun	Beneficial owner	60,000	0.00%
Shao Yan	Interests in spouse (Note)	6,019,600	0.17%
Zhou Chao	Beneficial owner	56,000	0.00%

Note: Dr. Shao Yan, a Director, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr. Shao Yan shall be deemed to be interested in such 6,019,600 shares.

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

PERMITTED INDEMNITY PROVISION

The articles of associations of the Company provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate insurance cover or other relevant arrangement in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long and short positions in the shares of the Company:

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Outwit Investments Limited ("Outwit")	1	1,671,671,149 (L)	Beneficial owner	47.09 (L)
Grand (Hongkong) International Investments Holdings Limited ("Grand Investment")	1	1,671,671,149 (L)	Interest of controlled corporation	47.09 (L)
China Grand Enterprises Incorporation ("China Grand")	1	1,671,671,149 (L)	Interest of controlled corporation	47.09 (L)
Shanghai China Grand Asset Finance Investment Management Co., Limited ("Shanghai Finance")	2	286,039,153 (L)	Beneficial owner/ Interest of controlled corporation	8.06 (L)
Mr. Hu Kaijun ("Mr. Hu")	1 & 2 & 3	1,998,730,302 (L)	Interest of controlled corporation	56.30 (L)
Ms. Chau Tung	1 & 2 & 3	1,998,730,302 (L)	Beneficial owner/ Interest in spouse	56.30 (L)
CDH Giant Health I Limited ("CDH Giant")	4	356,648,142 (L)	Beneficial owner	10.05 (L)
CDH Fund V, L.P. ("CDH Fund")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
CDH V Holdings Company Limited ("CDH V")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
China Diamond Holdings V Limited ("China Diamond V")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
China Diamond Holdings Company Limited ("China Diamond")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)

(L) denotes long position

Notes:

1. Outwit is the beneficial owner of 1,671,671,149 Shares. Grand Investment, being wholly-owned by China Grand, held 99.85% equity interests of Outwit, and Ms. Chau Tung, spouse of Mr. Hu, held the remaining 0.15% equity interests. Grand Investment and China Grand are therefore deemed to be interested in 1,671,671,149 Shares pursuant to the SFO.

2. Beijing Yuanda Huachuang Investment Co., Ltd. (北京遠大華創投資有限公司), a company wholly owned by Mr. Hu, owned 70% of the equity interests of Shanghai Finance. Shanghai Finance is the beneficial owner of 255,142,148 Shares. East Ocean Capital (Hong Kong) Limited, a wholly owned subsidiary of Shanghai Finance, also holds 30,897,005 Shares. Shanghai Finance is therefore deemed to be interested in 286,039,153 Shares pursuant to the SFO.

3. China Grand is controlled and ultimately and beneficially owned by Mr. Hu. Ms. Chau Tung, spouse of Mr. Hu, is also the beneficial owner of 41,020,000 Shares. Mr. Hu and Ms. Chau Tung are therefore deemed to be interested in 1,998,730,302 Shares pursuant to the SFO.

4. CDH Giant is the beneficial owner of 356,648,142 Shares. CDH Giant is wholly-owned by CDH Fund, and pursuant to the SFO CDH Fund is therefore deemed to be interested in the 356,648,142 Shares. CDH Fund is controlled by CDH V, which in turn held as to 80% by China Diamond V. China Diamond V is in held as to 100% by China Diamond.

Save as disclosed above, as at 31 December 2021, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who 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 of 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 any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the five largest customers of the Group accounted for less than 30% of the Group's total revenue while the five largest suppliers accounted for less than 30% the Group's total purchases.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2021 and as at the latest practicable date prior to the issue of this annual report.

Report of the Directors

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 50 to 55.

AUDITORS

The consolidated financial statements for the year ended 31 December 2021 have been audited by HLB Hodgson Impey Cheng Limited which shall retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Board of Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Dr. Tang Weikun
Chairman

Hong Kong, 17 March 2022

Biographical Details of **Directors and Senior Management**

EXECUTIVE DIRECTORS

Dr. Tang Weikun, aged 37, joined Grand Pharma (China) Co., Ltd. (a major subsidiary of the Group) ("Grand Pharma (China)") in 2012 and worked for several companies of the Group. He has been the assistant of the president of Grand Pharma (China) since April 2019, and was appointed as the president of Grand Pharma (China) with effect from 1 June 2021. Dr. Tang has overall responsible for the operation of Grand Pharma (China). Dr. Tang completed his life science and technology undergraduate education at Wuhan University in 2007, and obtained his doctoral degree in microbiology from the College of Life Sciences, Wuhan University in 2012.

Dr. Shao Yan, aged 59, was appointed as an executive Director in October 2008. Dr. Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr. Shao currently focus on the business development and investment of the Company. Dr. Shao has over 30 years of experience in corporate management and venture capital investment. Dr. Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr. Niu Zhanqi, aged 55, was appointed as an executive Director in November 2016. Dr. Niu has more than 10 years' experience in pharmaceutical research and development. He is currently the president of the Pharmaceutical Management Headquarters of China Grand. He also is a director of Huadong Medicine since June 2016. Dr. Niu holds a bachelor's degree in science from Nankai University and a doctoral degree (PhD) in pharmaceutics from Shenyang Pharmaceutical University.

Dr. Shi Lin, aged 58, joined the Group in 2019 and is currently the deputy president and chief pharmaceutical officer of Grand Pharma (China). Before joining the Group, she had been the EU Registration Leader in Global Regulatory Affairs (GRA) Neuroscience of Janssen R&D in Belgium. Dr. Shi has over 30 years of clinical and research experience in the pharmaceutical industry, with significant experience working with global multifunctional matrix teams to drive forward complex projects. She led various applications for clinical trials (Clinical Trial Applications (CTA) and Investigational New Drug Applications (IND)) in different countries in Europe and the United States, particularly in relation to strategic assessments in first clinical trials and innovative research paths. Dr. Shi obtained her doctoral degree in medical sciences from Vrije Universiteit Brussel in 2005. She has been appointed as visiting professor and visiting fellow in various universities, such as Tongji Medical College affiliated to Huazhong University of Science and Technology (華中科技大學同濟醫學院) in Wuhan. Dr. Shi was awarded as "2014 Top Ten Chinese Technology Leaders in Europe" (2014度歐洲華人10大科技領軍人才*) by the Federation of Chinese Professional Association in Europe (全歐華人專業協會聯合會*).

Biographical Details of **Directors and Senior Management**

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie, aged 59, was appointed as an independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Hu Yebi, aged 58, was appointed as an independent non-executive Director in December 2018. Mr. Hu received his Master of Business Administration from Netherlands International Institute for Management in the Netherlands and a Postgraduate Diploma in Management Engineering from Beijing Institute of Technology in Beijing, the PRC. Mr. Hu has more than twenty years of experience in securities and financial services, mergers and acquisitions and corporate finance. Mr. Hu is the founder and chairman of Vision Finance Group Limited. Mr. Hu is currently a non- executive director of Beijing Sports and Entertainment Industry Group Limited (stock code: 1803) and was an executive director of Beijing Enterprises Medical and Health Industry Limited (stock code: 2389) and Beijing Properties (Holdings) Limited (stock code: 925), but already resigned in October 2018 and November 2018 respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Dr. Pei Geng, aged 62, was appointed as an independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

SENIOR MANAGEMENT

Mr. Zhou Chao, aged 32, has been the executive deputy officer of the Company since June 2019, and is also a director of certain associated company of the Group. Mr. Zhou is responsible for overall internal management of the Group. Prior to joining the Company, Mr. Zhou was the legal manager, senior legal manager and business director of the department of legal security management of China Grand Enterprises Incorporation (a substantial shareholder of the Company), and he is also directors of certain local and overseas companies. Mr. Zhou graduated from the Law School of Ocean University of China in 2011, and obtained his Master of International Economic Law Degree from the University of International Business and Economics. Mr. Zhou led and participated several local and overseas transactions in related to large scale merger and acquisition projects and introduction of various types of products.

Mr. Foo Tin Chung, Victor, aged 53, joined the Company in September 2011 as a company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is the company secretary and chief financial officer of Justin Allen Holdings Limited (stock code: 1425) since April 2018, which is listed on the Stock Exchange.

Mr. Shi Xiaofeng, aged 55, joined the principal subsidiary Grand Pharm (China) since 2003 and is the chairman of the board of directors and the officer of the strategic decision committee of Grand Pharma (China). Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA certificate at China Europe International Business School.

Independent Auditors' Report

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
GRAND PHARMACEUTICAL GROUP LIMITED (FORMERLY KNOWN AS CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED)
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Grand Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 87 to 204, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other 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 Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' 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 judgment, 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.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of pharmaceutical business

Refer to notes 3, 21 and 23 to the consolidated financial statements

The Group has goodwill and intangible assets of approximately HK$596,746,000 and HK$1,009,764,000 respectively relating to the cash generating units engaged in business of manufacture and sales of pharmaceutical preparations and medical devices, biotechnology products and health products, specialised pharmaceutical raw materials and other products mainly, in the People's Republic of China as at 31 December 2021. Management performed impairment assessment of pharmaceutical business and concluded that no impairment is necessary to provide. This conclusion was based on value-in-use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth. Independent external valuation were obtained in order to support management's estimates.

Our procedures in relation to management's impairment assessment included:

- Evaluation of the independent valuer's competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the pharmaceutical business and using our valuation experts;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and
- Checking, on sampling basis, the accounting and relevance of the input data used.

We found the key assumptions were supported by the available evidence.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of trade and other receivables, loan receivables and amounts due from related companies

Refer to notes 3, 5(b)(iv),19, 28, and 34 to the consolidated financial statements

As at 31 December 2021, the Group had gross trade and other receivables, loan receivables and amounts due from related companies of approximately HK$1,279,069,000, HK$113,985,000 and HK$13,441,000, respectively. The provision for impairment of trade and other receivables, loan receivables and amounts due from related companies are approximately HK$149,073,000, HK$795,000 and HK$121,000, respectively.

In general, the credit terms granted by the Group to the customers ranged between 30 to 180 days (2020: 30 to 180 days). Management applied judgement in assessing the expected credit losses ("ECL"). Trade and other receivables relating to counterparties with known financial difficulties or significant doubt on collection of trade receivables are assessed individually for provision for impairment allowance. ECL are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its business and its ageing category, and applying ECL rates to the respective gross carrying amounts of the trade receivables. The management assessed the recoverability of loan receivables and accounts due from related companies based on these counterparties' capability of repayment. The ECL rates on these receivables are determined based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

We focused on this area due to the impairment assessment of trade and other receivables, loan receivables and amounts due from related companies under the ECL model involved the use of significant management judgements and estimates.

Our procedures in relation to management's impairment assessment of the trade and other receivables, loan receivables and amounts due from related companies as at 31 December 2021 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;
- Checking, on a sample basis, the ageing profile of the trade and other receivables amounts due from related companies as at 31 December 2021 to the underlying financial records and post year-end settlements to bank receipts;
- Inquiring of management for the status of each of the material trade and other receivables, loan receivables and amounts due from related companies past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and
- Assessing the appropriateness of the ECL provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the ECL.

We found that the management's judgment and estimates used to assess the recoverability of the trade and other receivables, loan receivables and amounts due from related companies and its impairment provision to be supportable by available evidence.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Interests in associates

Refer to note 3 and 20 to the consolidated financial statements

As at 31 December 2021, the carrying amounts of interest in associates amounted to approximately HK$8,066.7 million which represented approximately 38.3% of the Group's total assets.

Included in the interests in associates, the Group has 56.84% interest in Grand Pharma Sphere Pte Limited ("Grand Pharma Sphere") which is accounted for under the equity method. The Group's share of loss from Grand Pharma Sphere for the year ended 31 December 2021 was approximately of HK$9.8 million and the Group's share of net assets of Grand Pharma Sphere was HK$4,873.3 million as at 31 December 2021, which represented approximately 23.1% of the Group's total assets.

Grand Pharma Sphere's revenue amounted to approximately HK$1,242.2 million for the year ended 31 December 2021. Revenue was generated from sale of SIR-Spheres Y-90 resin microspheres, a targeted radiotherapy for liver cancer. Revenue is recognised when control of the product has transferred to the customer, being when the product is delivered to the distributor or medical facility and when the customer has sole discretion over the use of the product and there are no unfulfilled obligations that could affect the customer's acceptance of the product.

Our procedures in relation to the i) the audit work performed on interest in Sirtex; and ii) management's impairment assessment of interest in associates included:

i) The audit work performed on the Group's interest in Sirtex:

Sirtex Medical Pty Ltd. ("Sirtex") is a wholly owned subsidiary of Grand Pharma Sphere and is audited by non-HLB auditors ("the Sirtex Auditors"). We have discussed with the Sirtex Auditors their audit approach and result of their work. We have reviewed their working papers. We discussed the key audit matters relating to Sirtex with Group's management and evaluated the impact on our audit of the consolidated financial statements.

We have reviewed and discussed the Sirtex Auditors' report in accordance with our group audit instructions, we found that the Group's share of results and net assets of Grand Pharma Sphere were supported by the available evidence.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Interests in associates (continued)

Refer to note 3 and 20 to the consolidated financial statements *(continued)*

Management determines at the end of each reporting period the existence of any objective evidence through which the Group's interests in all associates may be impaired. The assessment of indicators of impairment and where such indicators exist and the determination of the recoverable amounts requires significant management's judgement.

ii) Management's impairment assessment of interests in associates included:

- Evaluating of the Group's assessments as to whether any indication of impairment exist by reference to the available information in the relevant market and industries;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge; and
- Checking, on a sample basis, the accuracy and relevance of information included in the impairment assessment of interest in associates.

We found the key assumption adopted in management impairment assessment on interests in associates were supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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.

Independent Auditors' Report

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

Independent Auditors' Report

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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 director on the audit resulting in this independent auditors' report is Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 17 March 2022

Consolidated Statement of Profit or Loss and **Other Comprehensive Income**

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Revenue	7	**8,597,975**	6,352,919
Cost of sales		**(3,350,737)**	(2,317,725)
Gross profit		**5,247,238**	4,035,194
Other revenue and income	8	**349,016**	383,552
Distribution costs		**(2,397,848)**	(1,860,086)
Administrative expenses		**(909,617)**	(685,239)
Impairment of financial assets at amortised cost, net		**(353)**	(17,805)
Net income from financial assets at fair value through profit or loss	9	**484,848**	271,409
Fair value change on derivative financial instruments		**(8,350)**	–
Share of results of associates		**113,862**	61,979
Finance costs	10	**(92,964)**	(115,421)
Profit before tax		**2,785,832**	2,073,583
Income tax expense	11	**(380,800)**	(292,374)
Profit for the year	12	**2,405,032**	1,781,209
Other comprehensive income, net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value gain/(loss) on investment in equity instruments at fair value through other comprehensive income		**28,641**	(15,602)
Share of other comprehensive (loss)/income of associates		**(12,047)**	26,435
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**274,095**	356,602
Other comprehensive income for the year, net of income tax		**290,689**	367,435
Total comprehensive income for the year, net of income tax		**2,695,721**	2,148,644
Profit/(loss) for the year attributable to:			
— Owners of the Company		**2,402,563**	1,792,661
— Non-controlling interests		**2,469**	(11,452)
		2,405,032	1,781,209
Total comprehensive income/(loss) attributable to:			
— Owners of the Company		**2,696,069**	2,174,432
— Non-controlling interests		**(348)**	(25,788)
		2,695,721	2,148,644
Basic and diluted (HK cents)	14	**67.72**	52.03

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

Consolidated Statement of **Financial Position**

As at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current assets			
Property, plant and equipment	16	**3,409,183**	3,033,216
Right-of-use assets	17	**392,528**	377,113
Investment properties	18	**167,151**	132,696
Interests in associates	20	**8,066,669**	6,133,066
Equity instruments at fair value through other comprehensive income	30	**145,685**	171,164
Loan receivables	19	**–**	113,959
Goodwill	21	**596,746**	505,574
Intangible assets	23	**1,009,764**	881,843
Deferred tax assets	24	**24,608**	25,162
Prepayments	25	**466,107**	291,594
		14,278,441	11,665,387
Current assets			
Financial assets at fair value through profit or loss	26	**1,112,968**	520,767
Inventories	27	**1,117,156**	955,314
Trade and other receivables	28	**2,661,450**	1,894,160
Loan receivables	19	**113,190**	45,676
Amounts due from related companies	34	**13,320**	35,436
Pledged bank deposits	29	**7,645**	30,910
Cash and cash equivalents	29	**1,752,860**	1,836,695
		6,778,589	5,318,958
Current liabilities			
Trade and other payables	31	**2,871,759**	2,139,452
Contract liabilities	31	**202,106**	269,049
Bank and other borrowings	32	**2,116,471**	1,568,454
Lease liabilities	33	**5,728**	6,200
Amounts due to related companies	34	**4,831**	57,575
Amount due to the immediate holding company	36	**2,331**	2,331
Derivative financial instrument	39	**8,350**	–
Income tax payable		**354,549**	259,866
		5,566,125	4,302,927
Net current assets		**1,212,464**	1,016,031
Total assets less current liabilities		**15,490,905**	12,681,418

Consolidated Statement of **Financial Position**

As at 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Non-current liabilities			
Bank and other borrowings	32	**1,510,070**	798,562
Lease liabilities	33	**13,306**	15,162
Deferred tax liabilities	35	**197,849**	181,879
Deferred income	37	**326,818**	341,606
		2,048,043	1,337,209
Net assets		**13,442,862**	11,344,209
Capital and reserves attributable to owners of the Company			
Share capital	38	**35,496**	35,496
Reserves		**13,357,135**	11,204,008
Equity attributable to owners of the Company		**13,392,631**	11,239,504
Non-controlling interests		**50,231**	104,705
Total equity		**13,442,862**	11,344,209

The consolidated financial statements on pages 87 to 204 were approved and authorised for issue by the board of directors of the Company on 17 March 2022 and are signed on its behalf by:

Tang Wei Kun
Director

Shao Yan
Director

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

Consolidated Statement of **Changes in Equity**

For the year ended 31 December 2021

	Attributable to owners of the Company												
	Share capital	Share premium	Contribution surplus reserve	Statutory reserve	Safety fund reserve	Translation reserve	Other reserve	FVTOCI reserve	Treasury shares	Retained profits	Total equity attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000 (Note a)	HK$'000 (Note b)	HK$'000	HK$'000 (Note c)	HK$'000	HK$'000 (Note d)	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2020	33,776	5,511,107	121,273	403,510	28,825	(207,894)	(98,504)	1,038	–	2,582,136	8,375,267	135,740	8,511,007
Profit for the year	–	–	–	–	–	–	–	–	–	1,792,661	1,792,661	(11,452)	1,781,209
Other comprehensive loss for the year, net of income tax													
Change in fair value of FATOCI	–	–	–	–	–	–	–	(15,602)	–	–	(15,602)	–	(15,602)
Share of other comprehensive income of associates	–	–	–	–	–	–	–	26,435	–	–	26,435	–	26,435
Exchange difference on translation of foreign operations	–	–	–	–	–	370,938	–	–	–	–	370,938	(14,336)	356,602
Total comprehensive income for the year	–	–	–	–	–	370,938	–	10,833	–	1,792,661	2,174,432	(25,788)	2,148,644
Issued under subscription, net	1,720	1,011,942	–	–	–	–	–	–	–	–	1,013,662	–	1,013,662
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	388	–	–	–	388	–	388
Dividend paid	–	–	–	–	–	–	–	–	–	(324,245)	(324,245)	(5,247)	(329,492)
Transfer	–	–	–	76,172	–	–	–	–	–	(76,172)	–	–	–
As at 31 December 2020 and 1 January 2021	35,496	6,523,049	121,273	479,682	28,825	163,044	(98,116)	11,871	–	3,974,380	11,239,504	104,705	11,344,209
Profit for the year	–	–	–	–	–	–	–	–	–	2,402,563	2,402,563	2,469	2,405,032
Other comprehensive loss for the year, net of income tax													
Change in fair value of FATOCI	–	–	–	–	–	–	–	28,641	–	–	28,641	–	28,641
Share of other comprehensive income of associates	–	–	–	–	–	–	–	(12,047)	–	–	(12,047)	–	(12,047)
Exchange difference on translation of foreign operations	–	–	–	–	–	276,912	–	–	–	–	276,912	(2,817)	274,095
Total comprehensive income for the year	–	–	–	–	–	276,912	–	16,594	–	2,402,563	2,696,069	(348)	2,695,721
Transfer of FVTOCI reserve to retained earning upon disposal	–	–	–	–	–	–	–	(25,419)	–	–	(25,419)	–	(25,419)
Purchase of treasury shares	–	–	–	–	–	–	–	–	(143,503)	–	(143,503)	–	(143,503)
Capital contribution from non-controlling interest	–	–	–	–	–	–	300	–	–	–	300	17,594	17,894
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	–	–	16,659	16,659
Acquisition of additional interest in a subsidiary (Note 22)	–	–	–	–	–	–	16,130	–	–	–	16,130	(79,150)	(63,020)
Dividend paid	–	–	–	–	–	–	–	–	–	(390,450)	(390,450)	(9,229)	(399,679)
Transfer	–	–	–	65,392	–	–	–	–	–	(65,392)	–	–	–
As at 31 December 2021	35,496	6,523,049	121,273	545,074	28,825	439,956	(81,686)	3,046	(143,503)	5,921,101	13,392,631	50,231	13,442,862

Consolidated Statement of **Changes in Equity**

For the year ended 31 December 2021

Notes:

a. Each of the Company's the PRC subsidiary's Articles of association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to document (Cai Qi 2006 No. 478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to or received from non-controlling interests for acquisition of additional equity interest or additional capital injection in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired or disposed.

d. Where any Group's entity purchases the Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity owners. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity owners. As at 31 December 2021, the Company held 22,430,500 treasury shares and the aggregate price of the purchased shares was deducted from equity as "Treasury shares reserve" for an amount of HK$143,503,000.

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

Consolidated Statement of **Cash Flows**

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Operating activities			
Profit before tax		**2,785,832**	2,073,583
Adjustments for:			
Amortisation of intangible assets	23	**17,024**	11,660
Depreciation of property, plant and equipment	16	**305,504**	259,821
Depreciation of right-of-use assets	17	**16,991**	15,580
Finance costs	10	**92,964**	115,421
Recognition of government grant	37	**(41,151)**	(163,504)
Loss on disposal of property, plant and equipment	12	**3,920**	3,587
Write-off of property, plant and equipment	12	**31,087**	7,009
Impairment loss on inventories	12	**1,042**	8,165
Allowance for expected credit loss recognised in respect of trade and other receivables	12	**11,774**	9,888
(Reversal of)/allowance for expected credit loss recognised in respect of loan receivables	12	**(32)**	827
(Reversal of)/allowance for expected credit loss recognised in respect of amounts due from related companies	12	**(11,389)**	7,090
Fair value gain on financial assets at fair value through profit or loss, net	9	**(483,681)**	(264,972)
Fair value change on derivative financial instrument		**8,350**	–
Interest income	8	**(9,633)**	(18,046)
Share of results of associates		**(113,862)**	(61,979)
Gain on sales and lease back transaction, net	8	**(2,372)**	(8,576)
Net gain in fair value of investment properties	8, 18	**(29,575)**	(45,648)
Investment income from financial assets at fair value through profit or loss	9	**(1,167)**	(6,437)
Operating cash flows before movements in working capital		**2,581,626**	1,943,469
Increase in inventories		**(118,735)**	(100,962)
Increase in trade and other receivables		**(701,648)**	(122,231)
Increase in trade and other payables		**605,500**	2,489
Decrease in amounts due from related companies		**34,105**	8,771
(Decrease)/Increase in amounts due to related companies		**(53,771)**	21,288
Decrease in contract liabilities		**(74,633)**	(51,817)
Increase in deferred incomes		**10,548**	14,853
Cash generated from operations		**2,282,992**	1,715,860
Income tax paid		**(277,317)**	(259,914)
Net cash generated from operating activities		**2,005,675**	1,455,946

Consolidated Statement of **Cash Flows**

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Investing activities			
Purchase of property, plant and equipment	16	**(471,570)**	(209,011)
Purchase of intangible asset	23	**(64,797)**	(49,560)
Payments of right-of-use assets		**–**	(20,029)
Acquisition of financial assets at fair value through profit or loss		**(148,023)**	(193,762)
Acquisition of financial assets at fair value through other comprehensive income		**(56,083)**	(86,110)
Decrease/(Increase) in loan receivables		**46,477**	(160,462)
Addition of investments in associates		**(1,201,426)**	(911,479)
Dividends received from an associate	20	**198,753**	410,967
Advances from associates		**97,912**	21,630
Repayment of advances from associates		**(13,751)**	(256,469)
Withdrawal of pledged bank deposits		**23,898**	92,520
Increase in non-current prepayments		**(91,027)**	(188,649)
Proceeds from disposal of property, plant and equipment		**23,789**	1,531
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	11,237
Proceeds from disposal of financial assets at fair value through other comprehensive income		**121,482**	–
Interest income received	8	**9,633**	18,046
Investment income from financial assets at fair value through profit or loss	9	**1,167**	6,437
Net cash outflow from acquisition of subsidiaries		**(141,808)**	–
Net cash outflow from acquisition of subsidiaries that are not constitute business		**(103,605)**	–
Net cash used in investing activities		**(1,768,979)**	(1,513,163)
Financing activities			
Acquisition of partial interest of a subsidiary		**(63,020)**	(10,102)
Capital contribution from non-controlling interests		**17,894**	–
Net proceed from issue of new shares from subscription		**–**	1,013,662
Purchase of shares for share award scheme		**(143,503)**	–
Increase in non-current prepayments		**(11,497)**	–
Repayments of bank and other borrowings		**(1,615,733)**	(1,900,619)
Repayments of lease liabilities		**(5,705)**	(24,427)
Interest paid		**(92,964)**	(115,421)
Proceed from new bank and other borrowings		**1,981,036**	2,141,875
Repayment to an immediate holding company		**–**	(1,207)
Dividend paid		**(390,450)**	(324,245)
Dividends paid to non-controlling interest		**(9,229)**	(5,247)
Net cash (used in)/generated from financing activities		**(333,171)**	774,269
Net (decrease)/increase in cash and cash equivalents		**(96,475)**	717,052
Cash and cash equivalents at the beginning of year		**1,836,695**	1,059,269
Effect of foreign exchange rate changes		**12,640**	60,374
Cash and cash equivalents at the end of year			
Cash and cash equivalents		**1,752,860**	1,836,695

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

Notes to the Consolidated **Financial Statements**

For the year ended 31 December 2021

1. GENERAL INFORMATION

Grand Pharmaceutical Group Limited (formerly known as China Grand Pharmaceutical and Healthcare Holdings Limited) (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and health products, specialised pharmaceutical raw materials and other products, in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent company of the Company and China Grand Enterprises Incorporation is the ultimate holding company of the Company. The ultimate controlling party is Mr. Hu Kaijun.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as functional currency of the Company, and the functional currency of the most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year:

Amendments to HKFRS 16	Covid-19 Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

Except as described as below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform — Phase 2"

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* ("HKFRS 7").

As at 1 January 2021, the Group has several interest-bearing bank loans denominated in Hong Kong dollars on the Hong Kong Interbank Offered Rate ("HIBOR") and variable interest bearing borrowings reference to 6 months USD London Interbank Offered Rate ("USD LIBOR"), the interests of which are indexed to benchmark rates that may be subject to interest rate benchmark reform. As at reporting date, the relevant counterparties have no intention to change the interest rate benchmark in the interest-bearing bank loans. The transition is subjected to the negotiation between the Groups and the relevant counterparties.

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for interest-bearing bank loans measured at amortised cost.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[2]

[1] Effective for annual periods beginning on or after 1 April 2021.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after 1 January 2023.
[4] Effective for annual periods beginning on or after a date to be determined.

The directors of the Group anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. For the purpose of preparation of the consolidation financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the Consolidated **Financial Statements**

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specific/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* ("HKFRS 9"), when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination *(Continued)*

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to right-of-use assets, intangible assets and property, plant and equipment which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Notes to the Consolidated **Financial Statements**

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash- generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. The associate uses accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in associates is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediate in profit or loss in the period in which the investment is acquired.

Any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of HKAS 28 and HKFRS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sales. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the carrying amount of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such change in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Sale of goods

Revenue from manufacture and sales of pharmaceutical preparations and medical devices, sales of biotechnology products and nutrition products and sales of specialised pharmaceutical raw materials and other products are recognised at point in time when carrier designated by the customer, or after the customer's acceptance or after control transfer to customer. The credit period granted to customers by the Group is determined based on the characteristics of customers' credit risk, which is consistent with industry practice and there is no significant financing component. The Group's obligations to transfer goods to customers for consideration received or receivable from customers are shown as contract liabilities.

Dividend income

Dividend income from investments is recognised at point in time when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

Leasing

Definition of 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.

For contracts entered into or modified on or after date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Consolidated **Financial Statements**

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from the commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at the date. 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.

The lease payments included:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase options, if the Group is reasonably certain to exercise the options; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents the lease liabilities is presented as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise. When a lease contract contains a specific clause that provides for rent reduction or suspension of rent in the event that the underlying assets (or any part thereof) are affected by adverse events beyond the control of the Group and the lessee so as to render the underlying assets unfit or not available for use, the relevant rent reduction or suspension of rent resulting from the specific clause is accounted for as part of the original lease and not as a lease modification. Such rent reduction or suspension of rent is recognised in profit or loss in the period in which the event or condition that triggers those payments to occur.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessor *(Continued)*

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates at the date of transactions are used. Exchange difference arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Notes to the Consolidated **Financial Statements**

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other revenue and income".

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit/(loss) before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probably that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale except for freehold land, which is always presumed to be recovered entirely through sales.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than freehold lands and construction in progress). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than allocated land and construction in progress over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gain and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties under construction are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period which the property is derecognised.

If an investment property become a stock of properties because its use has changed as evidenced by the commencement of development with view to sale, any difference the carrying amount and the fair value of the property at the date of transfer is recognised in profit or loss. Subsequent to the changes, the property is stated at lower of deemed cost, equivalent to the fair value at the date of transfer, and net realisable value.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected until credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expenses or income; and
- remeasurement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Retirement benefit costs and termination benefits *(Continued)*

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.

- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by HKAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered/reduces service cost by attributing contributions to the employees' periods of service in accordance with HKAS 19 paragraph 70.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefit accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value if the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and income.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets *(Continued)*

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other revenue and income" line item in profit or loss, if any.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "fair value change on financial assets at fair value through profit or loss" line item.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

The Group recognises a loss allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan receivables, pledged bank deposits, amounts due from related companies and cash and cash equivalents). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 1 year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, loan receivables and amounts due from related companies where the corresponding adjustment is recognised through a loss allowance account.

Classification as financial liabilities or equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including bank and other borrowings, lease liabilities, trade payables, accruals and other payables, amounts due to related companies and amount due to the immediate holding company) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

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

(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); or

(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.

Close family members of an individual are those family members who may be expected to influence, or be influence by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

Notes to the Consolidated **Financial Statements**

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

Share-based payments

Equity-settled share-based payment transactions

Shares granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Cash-settled share-based payment transactions

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognised in profit or loss for the year. For cash-settled share-based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share-based payments.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statement.

Valuation of inventories

Valuation of inventories is stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product by product basis at the end of each reporting period and assess the need for write down of inventories.

Significant influence over individual company

Note 20 describes that Grand Pharma Sphere Pte Ltd. is an associate of the Group although the Group has 56.84% ownership interest in Grand Pharma Sphere Pte Ltd. Until July 2021, the Group had a 49% ownership in Grand Pharma Sphere Pte Ltd since June 2018; the remaining 51% of shareholdings were owned by CDH Genetech that is a related party of the Group. During the year ended 31 December 2021, additional effective interest of 7.84% was gained by the Group. Details of Grand Pharma Sphere Pte Ltd. are set out in note 20.

The directors of the Company assessed whether the Group has control over Grand Pharma Sphere Pte Ltd. based on whether the Group has the practical ability to direct the relevant activities of Grand Pharma Sphere Pte Ltd. unilaterally. In making the judgement, the directors of the Company considered the Group's effective voting rights in Grand Pharma Sphere Pte Ltd. After assessment, the directors of the Company concluded that the Group does not have sufficiently dominant voting interest to direct the relevant activities of Grand Pharma Sphere Pte Ltd. and therefore the Group does not have control over Grand Pharma Sphere Pte Ltd.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2021 was approximately HK$596,746,000 (2020: HK$505,574,000). Details of the recoverable amount calculation are disclosed in note 21.

Impairment of intangible assets

The Group performs annual tests on whether there has impairment of intangible assets in accordance with the accounting policy. The recoverable amounts are determined based on value in use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, post-tax discount rates, and other assumptions underlying the calculation.

The carrying amount of intangible assets as at 31 December 2021 was approximately HK$1,009,764,000 (2020: HK$881,843,000). Detailed information is disclosed in note 23.

Provision of ECL for trade and other receivables, loan receivables and amounts due from related companies

The Group uses three-stage model to calculate ECL for the trade and other receivables, loan receivables and amounts due from related companies. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The three-stage model is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and other receivables, loan receivables and amounts due from related companies with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables, loan receivables and amounts due from related companies are disclosed in notes 5(b)(iv), 19, 28 and 34.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Income tax and deferred tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets

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

The patents, trademarks and capitalised development costs are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

The intangible asset will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

During the year ended 31 December 2021, the Group did not change the estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets.

Impairment test for interests in associates

The Group completed its annual impairment test for interests in associates by comparing the recoverable amount of interests in associates to its carrying amount as at 31 December 2021. The Group has engaged the Valuer to carry out a valuation of the interests in associates as at 31 December 2021 based on the value in use calculations. This valuation uses cash flow projections based on the financial estimates covering a five-year period, and discount rates ranged from 11.71% to 31.68%. The cash flows beyond the five-year period and ten years period are extrapolated using a steady 2.0% to 2.5% growth rate for the pharmaceutical industries in which are operated by associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021 HK$'000	2020 HK$'000
Financial assets		
Equity Instruments at FVTOCI	**145,685**	171,164
Financial assets at FVTPL	**1,112,968**	520,767
Financial asset at amortised cost (including cash and cash equivalents)		
— Trade and other receivables	**1,959,398**	1,587,669
— Loan receivables	**113,190**	159,635
— Amounts due from related companies	**13,320**	35,436
— Pledged bank deposits	**7,645**	30,910
— Cash and cash equivalents	**1,752,860**	1,836,695
	5,105,066	4,342,276
Financial liabilities		
At amortised costs		
— Trade and other payables	**2,678,013**	1,984,356
— Bank and other borrowings	**3,626,541**	2,367,016
— Lease liabilities	**19,034**	21,362
— Amounts due to related companies	**4,831**	57,575
— Amount due to the immediate holding company	**2,331**	2,331
	6,330,750	4,432,640
Derivative financial instrument at fair value	**8,350**	–
	6,339,100	4,432,640

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, financial asset at FVTPL, trade and other receivables, loan receivables, amounts due from related companies, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings, lease liabilities, amounts due to related companies, amount due to the immediate holding company and derivative financial instrument at fair value. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

i. Currency risk

The Group's presentation currency is HK$, however, the Group major subsidiaries' functional currency are RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, cash and cash equivalents, trade and other payables, bank and other borrowings are denominated in foreign currencies of United State dollars ("USD"). Such USD denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD.

The Group currently does not have any USD hedging policy but the management monitors USD exchange exposure and will consider hedging significant USD exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2020: 10%) in exchange rate of USD against RMB while all other variables are held constant. 10% (2020: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2020: 10%) change in foreign currency rates.

	2021	2020
	HK$'000	HK$'000
Increase/(decrease) in profit for the year		
— if USD weakens against of RMB	**(15,960)**	(17,317)
— if USD strengthens against of RMB	**15,960**	17,317

A change of 10% (2020: 10%) in exchange rate of USD against RMB does not affect other components of equity except the translation reserve.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2021	2020
	HK$'000	HK$'000
USD		
— Trade and other receivables	**153,581**	148,268
— Loan receivables	**113,190**	160,462
— Cash and cash equivalents	**111,744**	38,547
— Trade and other payables	**(9,452)**	(293)

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

ii. Interest rate risk

The Group has variable-rate interest-bearing assets and liabilities including pledged bank deposits, bank balances and bank and other borrowings and is therefore exposed to interest rate risk. Details of these financial instruments are disclosed in respective notes. The Group currently does not have interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate risk is mainly concentrated on the fluctuation of variable-rates borrowings and People's Bank of China Loan Prime Rate borrowings as detailed in note 32.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2020: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2020: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$461,000 (2020: increase/decrease by approximately HK$1,265,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank and other borrowings.

Derivatives

As of 31 December 2021, the Group has not moved any existing contracts to alternative benchmark rates. The Group's USD LIBOR-linked financial instruments that need to be but have yet to transitioned to alternative benchmark rates as at 31st December 2021 are as below:

— a carrying amount of HK$777,256,000 of variable rate interest-bearing liabilities referenced to 6-month USD LIBOR;

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

ii. Interest rate risk *(Continued)*

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). The Group has financial instruments referenced to USD London Interbank Offered Rate (USD-LIBOR BBA) and Hong Kong Interbank Offered Rate (HIBOR).

In March 2021, the UK Financial Conduct Authority formally announced the future cessation or non-representativeness of the following LIBOR benchmark settings:

— all sterling, euro, Swiss Franc, Japanese yen LIBOR after 31 December 2021;

— 1-week and 2-month USD LIBOR after 31 December 2021; and

— overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR after 30 June 2023.

In Hong Kong, the Hong Kong Monetary Authority still recognises HIBOR as a credible and reliable benchmark and confirms that there is no plan to discontinue HIBOR although an alternative, the Hong Kong Dollar Overnight Index Average (HONIA) has already been identified.

The Group does not hold any financial instruments referenced to 1-week and 2-month USD LIBOR and as such there are no contracts required to be replaced by 31 December 2021. The Group's financial instruments referenced to HIBOR and 6 months USD LIBOR are not expected to be impacted by the IBOR reform.

The management of the Group's monitors transition to alternative benchmark rates. The Group's treasury function is closely monitoring the market development on IBOR reform and have commenced discussion with counterparties on contracts that need to be amended as a result of the reform, but specific changes have yet to be agreed.

iii. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

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For the year ended 31 December 2021

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

As at 31 December 2021

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Non-derivative instruments							
Trade and other payables	–	2,678,013	2,678,013	–	–	–	2,678,013
Bank and other borrowings	2.65	3,693,788	2,163,212	1,510,911	19,665	–	3,626,541
Lease liabilities	7.87	23,671	6,976	5,285	8,324	3,086	19,034
Amounts due to related companies	–	4,831	4,831	–	–	–	4,831
Amount due to the immediate holding company	–	2,331	2,331	–	–	–	2,331
		6,402,634	4,855,363	1,516,196	27,989	3,086	6,330,750

As at 31 December 2020

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Non-derivative instruments							
Trade and other payables	–	1,984,356	1,984,356	–	–	–	1,984,356
Bank and other borrowings	3.47	2,513,455	1,623,792	269,554	620,109	–	2,367,016
Lease liabilities	7.68	26,653	7,589	5,966	7,755	5,343	21,362
Amounts due to related companies	–	57,575	57,575	–	–	–	57,575
Amount due to the immediate holding company	–	2,331	2,331	–	–	–	2,331
		4,584,370	3,675,643	275,520	627,864	5,343	4,432,640

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

Bank loans with a repayment on demand clause are included in the "On demand or within one year" time band in the above maturity analysis. As at 31 December 2021, the aggregate carrying amounts of these bank loans amounted to HK$681,194,000. Taking into account the Group's financial position, the management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank loans will be repaid 3 years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Maturity Analysis — Bank loans with a repayment on demand clause based on scheduled repayments			
	Less than 1 year	1–2 years	Total undiscounted cash outflows	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2021	98,478	534,794	633,272	611,194

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk

The credit risk of the Group mainly arises from bank balances and deposits, trade and other receivable, loan receivables, amount due from associates and amounts due from related companies. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, ECL rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2021 and 2020.

The credit risk for amount due from associates are considered to be low, therefore no ECL provision was made during the year ended 31 December 2021 and 2020.

ECLs are recognised in three 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 the end of each reporting period, 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.

As at 31 December 2021 and 2020, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of pharmaceutical products and are transacted on credit. The Group's trade receivables arise from sales of pharmaceutical products to the customers. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 5.72 % and 2.01% (2020: 5.87% and 1.99%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

The Group measures loss allowances for trade and other receivables, loan receivables and amount due from related companies at an amount equal to 12-month ECLs and lifetime ECLs, which are calculated using three-stage model. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

(1) Provision of ECL on trade and other receivables

The tables below show loss allowance for ECL based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2021 and 31 December 2020.

As at 31 December 2021	**12-months ECLs Stage 1 HK$'000**	**Lifetime ECLs Stage 2 HK$'000**	**Lifetime ECLs Stage 3 HK$'000**	**Total HK$'000**
Trade receivables and other receivables				
— Industry average	**11,235**	**–**	**–**	**11,235**
— CCC- to CC	**–**	**27,499**	**–**	**27,499**
— D	**–**	**–**	**110,339**	**110,339**
	11,235	**27,499**	**110,339**	**149,073**

As at 31 December 2020	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Trade receivables and other receivables				
— Industry average	9,044	–	–	9,044
— CCC- to CC	–	4,100	–	4,100
— D	–	–	137,736	137,736
	9,044	4,100	137,736	150,880

The credit rating of industry average represented the debtors that have not incurred due payments. If the invoice dates of the outstanding debt were from 3 months to 1 year, the credit rating will be represented from CCC- to CC. In case the debts have been outstanding over 1 year, the credit rating will be marked as D.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(1) Provision of ECL on trade and other receivables (Continued)

The (reversal of)/provision of trade receivables as at 31 December 2021 and 2020 were as follows:

	HK$'000
As at 1 January 2020	100,194
Provision for the year	1,408
Exchange realignment	6,025
As at 31 December 2020 and 1 January 2021	107,627
Reversal for the year	(8,128)
Exchange realignment	3,432
As at 31 December 2021	**102,931**

The (reversal of)/provision of ECL on other receivables as at 31 December 2021 and 2020 were as follows:

	HK$'000
As at 1 January 2020	32,702
Provision for the year	8,480
Exchange realignment	2,071
As at 31 December 2020 and 1 January 2021	43,253
Provision for the year	19,902
Written off	(18,916)
Exchange realignment	1,903
As at 31 December 2021	**46,142**

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(2) Provision of ECL on due from related companies

The table below show loss allowance for ECL on amounts due from related companies based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2021 and 2020.

As at 31 December 2021	**12-months ECLs Stage 1 HK$'000**	**Lifetime ECLs Stage 2 HK$'000**	**Lifetime ECLs Stage 3 HK$'000**	**Total HK$'000**
Amounts due from related companies				
— Industry average	**–**	**–**	**–**	**–**
— CCC- to CC	**–**	**121**	**–**	**121**
— D	**–**	**–**	**–**	**–**
	–	**121**	**–**	**121**

As at 31 December 2020	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Amounts due from related companies				
— Industry average	1,981	–	–	1,981
— CCC- to CC	–	5	–	5
— D	–	–	9,336	9,336
	1,981	5	9,336	11,322

The (reversal of)/provision of ECL on due from related companies as at 31 December 2021 and 2020 was as follows:

	HK$'000
As at 1 January 2020	3,629
Provision for the year	7,090
Exchange realignment	603
As at 31 December 2020 and 1 January 2021	11,322
Reversal for the year	(11,389)
Exchange realignment	188
As at 31 December 2021	**121**

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5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(3) Provision of ECL on loan receivables

The table below show loss allowance for ECL on loan receivables based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2021 and 2020.

As at 31 December 2021	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Amounts due from related companies				
— Industry average	–	–	–	–
— CCC- to CC	–	795	–	795
— D	–	–	–	–
	–	795	–	795

As at 31 December 2020	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Amounts due from related companies				
— Industry average	827	–	–	827
— CCC- to CC	–	–	–	–
— D	–	–	–	–
	827	–	–	827

The (reversal of)/provision of ECL on loan receivables as at 31 December 2021 and 2020 was as follows:

	HK$'000
As at 1 January 2020	–
Provision for the year	827
Exchange realignment	–
As at 31 December 2020 and 1 January 2021	827
Reversal for the year	(32)
As at 31 December 2021	**795**

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. Equity price risk

The Group is exposed to equity price risk through its investment in equity securities measured at FVTPL and FVTOCI. For equity securities measured at FVTPL quoted in relative active markets, the management of the Group manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities for investees operating in pharmaceutical industry sector for long term strategic purposes which had been designated as FVTOCI.

The sensitivity analysis have been determined based on the exposure to equity price risk at the reporting date. Sensitivity analysis for unquote equity securities with fair value measurement categorized within Level 3 were disclosed in note 5(b)(vi).

If the prices of the respective equity instruments listed in Hong Kong had been 5% (2020: 5%) higher/lower, the post-tax profit for the year ended 31 December 2021 would increase/decrease by approximately HK$1,667,000 (2020: would increase/decrease by approximately HK$1,750,000) as a result of the changes in fair value of listed equity security in Hong Kong.

If the prices of the respective equity instruments listed outside Hong Kong had been 5% (2020: 5%) higher/lower, the post-tax profit for the year ended 31 December 2021 would increase/decrease by approximately HK$45,258,000 (2020: would increase/decrease by approximately HK$23,103,000) as a result of the changes in fair value of listed equity security outside Hong Kong.

vi. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

— the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

— the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider the fair values of trade and other receivables, loan receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to the immediate holding company approximate to its carrying amount as the impact of discounting is not significant.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

vi. Fair value *(Continued)*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL (note 26)	**1,112,968**	**–**	**–**	**1,112,968**
Equity instruments at FVTOCI (note 30) (note (a))	**–**	**–**	**145,685**	**145,685**
Derivative financial instrument (note 39)	**–**	**(8,350)**	**–**	**(8,350)**

	2020			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL (note 26)	520,767	–	–	520,767
Equity instruments at FVTOCI (note 30) (note (a))	–	–	171,164	171,164

There were no transfer between level 2 and level 3 in the current year.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

vi. Fair value *(Continued)*

***Fair value hierarchy** (Continued)*

Note:

(a) As at 31 December 2021, the fair value of equity instruments of approximately 145,685,000 (2020: HK$171,164,000) were valued by an independent valuer. The calculation was based on investment costs and including some unobservable inputs.

Below is a summary of the valuation technique used and the key inputs to the valuation of equity instruments and derivative financial instruments:

	Valuation technique	Significant unobservable inputs	2021	2020
Financial assets				
Equity instruments				
9.6% of Ningbo Donghai Bank of Shares (note (i), (ii) and (iii))	Market approach	Adjusted Profit-To-Book ratio (note i)	**N/A**	1.00
		Liquidity discount rate (note ii)	**N/A**	15.8%
11.92% of eTheRNA Immunotherapies NV of Preferred Series B Shares (note iv)	Discounted cash flow method	Terminal growth rate	**1.8%**	1.60%
		Discount rate (note iv)	**16.01%**	18.10%
6.83% of Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares (note iv)	Discounted cash flow method	Terminal growth rate	**0.0%**	0.0%
		Discount rate (note iv)	**17.80%**	17.19%
Financial liability				
Derivative financial instrument — Cross currency swap	Discounted cash flow method	Discount rate	**0.94%**	N/A

Notes:

(i) A slight increase in the adjusted profit-to-book ratio used in isolation would result in a significant increase in the fair value measurement of the Ningbo Donghai Bank of Shares, and vice versa. As a result of the volatile financial market in 2020, the management adjusted the adjusted profit-to-book ratio from 1.42 to 1.00. A 5% increase/decrease in the adjusted profit-to-book ratio holding all other variables constant would increase/decrease the carrying amount of the Ningbo Donghai Bank of Shares by HK$46,588,000 in 2020.

(ii) A slight increase in the liquidity discount rate used in isolation would result in a slight decrease in the fair value measurement of Ningbo Donghai Bank of Shares, and vice versa. A 5% increase/decrease in the liquidity discount rate holding all other variables constant would decrease/increase the carrying amount of the Ningbo Donghai Bank of Shares by HK$3,696,000 in 2020.

(iii) The Shares have been disposed during the year ended 2021.

(iv) A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of the eTheRNA Immunotherapies NV of Preferred Series B Shares and Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares respectively, and vice versa. A 5% (2020: 5%) increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the eTheRNA Immunotherapies NV of Preferred Series B Shares and Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares by HK$5,672,000 and HK$3,380,000 (2020: HK$5,729,000 and HK$3,363,000) respectively.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

vi. Fair value *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	2021	2020
	HK$'000	HK$'000
As at 1 January	**171,164**	95,025
Addition during the year	**56,083**	86,110
Acquisition of subsidiary (note 40)	**15,616**	–
Disposal during the year	**(121,482)**	–
Fair value gain/(loss) in other comprehensive income	**28,641**	(15,602)
Exchange alignment	**(4,337)**	5,631
As at 31 December	**145,685**	171,164

Included in other comprehensive income is a fair value gain in an amount of approximately 28,641,000 (2020: fair value loss approximately HK$15,602,000) relating to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of "FVTOCI reserve".

6. CAPITAL RISK MANAGEMENT

The Group reviews its capital structure to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank and other borrowings, lease liabilities, amounts due to related companies and amount due to the immediate holding company and derivative financial instruments, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at the end of the reporting period was as follows:

	2021	2020
	HK$'000	HK$'000
Debts (note (a))	**3,652,737**	2,448,284
Cash and cash equivalents	**(1,752,860)**	(1,867,605)
Net debt	**1,899,877**	580,679
Equity (note (b))	**13,392,631**	11,239,504
Net debt to equity ratio	**14%**	5%

Notes:

(a) Debts comprises bank and other borrowings, lease liabilities, amounts due to related companies and amount due to the immediate holding company respectively.

(b) Equity includes all capital and reserves attributable to owners of the Company.

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7. REVENUE AND SEGMENT INFORMATION

For the years ended 31 December 2021 and 2020, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products, health products, specialised pharmaceutical raw materials and other products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's revenue represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets**	
	2021	2020	**2021**	2020
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**7,422,136**	4,842,323	**8,528,777**	7,567,295
America	**430,098**	471,258	**–**	–
Europe	**297,962**	356,331	**–**	–
Asia other than the PRC	**330,889**	530,094	**42,805**	21,739
Others	**116,890**	152,913	**–**	–
Total	**8,597,975**	6,352,919	**8,571,582**	7,589,034

Note: Non-current assets excluded equity instruments at fair value through comprehensive income, loan receivables, deferred tax assets and a part of interests in associates.

Information about major customers

For the years ended 31 December 2021 and 2020, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue

Disaggregation of revenue from contracts with customers

	2021 HK$'000	2020 HK$'000
Type of goods and services		
Manufacture and sales of pharmaceutical preparations and medical devices	**5,377,145**	4,081,751
Sales of bio-technology products and health products	**2,231,461**	1,503,082
Sales of specialised pharmaceutical raw materials and other products	**989,369**	768,086
Total revenue recognised at point in time	**8,597,975**	6,352,919

	2021 HK$'000	2020 HK$'000
Revenue disclosed in segment information		
External customers	**8,597,975**	6,352,919
Timing of revenue recognition		
At a point in time	**8,597,975**	6,352,919

All of the Group's revenue are recognised at point in time when carrier designated by the customers, or after the customer's acceptance or upon transfer of control of the goods to customer. All of the Group's revenue is generated in the PRC based on where goods are sold. All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contacts is not disclosed.

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8. OTHER REVENUE AND INCOME

	2021 HK$'000	2020 HK$'000
Government grants (note (i))	**69,354**	258,248
Interest income	**74,953**	18,046
Sales of raw materials, scrap and other materials, net	**5,776**	20,531
Gain on sales and lease back transaction, net	**2,372**	8,576
Rental income	**1,421**	736
Net gain in fair value of investment properties	**29,575**	45,648
Compensation income	**3,767**	17,273
Consultancy income (note (ii))	**123,199**	–
Sundry income	**38,599**	14,494
	349,016	383,552

Notes:

(i) The total amount in 2021 consist of government grant that have conditions amounted approximately HK$41,151,000 (2020: HK$163,504,000) and government grant which have no condition amounted approximately HK$28,203,000 (2020: HK$94,744,000) respectively.

(ii) The total amount in 2021 consist of income from the provision of various consultancy services such as product registration, technology consultancy, market development and consultation, etc.

9. NET INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK$'000	2020 HK$'000
Fair value loss on listed equity security in Hong Kong	**(1,667)**	(3,333)
Fair value gain on listed equity security outside Hong Kong	**485,348**	268,305
Investment income at fair value, net	**1,167**	6,437
	484,848	271,409

10. FINANCE COSTS

	2021 HK$'000	2020 HK$'000
Interest on bank and other borrowings:		
— wholly repayable within five years	**90,191**	112,877
Interest on lease liabilities	**2,773**	2,544
	92,964	115,421

11. INCOME TAX EXPENSE

	2021 HK$'000	2020 HK$'000
Current tax:		
The PRC Enterprise Income Tax	**370,443**	296,475
Deferred tax (notes 24 and 35)	**10,357**	(4,101)
	380,800	292,374

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax tax for both years. Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise (the "HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax (the "EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

The charge for the year is reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 HK$'000	2020 HK$'000
Profit before tax	**2,785,832**	2,073,583
Tax at the average income tax rate	**505,996**	518,396
Tax effect of share of results of associates	**(44,270)**	(9,416)
Tax effect of expenses not deductible for tax purpose	**89,535**	23,835
Tax effect of income not taxable for tax purpose	**(77,520)**	(75,653)
Tax effect of deductible temporary differences not recognised	**(4,412)**	260
Effect of tax exemptions granted to the PRC subsidiaries	**(23,870)**	(17,481)
Income tax on concessionary rate	**(137,683)**	(172,364)
Tax effect of tax losses not recognised	**73,024**	24,797
Tax charge for the year	**380,800**	292,374

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12. PROFIT FOR THE YEAR

	2021 HK$'000	2020 HK$'000
Profit for the year is stated after charging:		
Staff costs (excluding Directors' emoluments (note 15)) comprises:		
— Wages and salaries	**1,265,065**	974,924
— Retirement benefits schemes contributions	**82,188**	12,585
	1,347,253	987,509
Depreciation of property, plant and equipment (note 16)	**305,504**	259,821
Depreciation of right-of-use assets (note 17)	**16,991**	15,580
Amortisation of intangible assets (note 23)	**17,024**	11,660
Total depreciation and amortisation	**339,519**	287,061
(Reversal)/allowance for ECL on financial assets		
— trade and other receivables	**11,774**	9,888
— amounts due from related companies	**(11,389)**	7,090
— loan receivables	**(32)**	827
Allowance for ECL of financial assets at amortised cost, net	**353**	17,805
Auditors' remuneration		
— audit services	**3,400**	3,400
— non-audit services	**–**	–
Cost of inventories recognised as an expense (Note)	**3,350,737**	2,317,725
Gain on sales and lease back transaction, net	**(2,372)**	(8,576)
Write-off of property, plant and equipment	**31,087**	7,009
Research and development expenditure	**331,421**	219,310
Marketing and promotion expenses	**634,985**	521,456
Impairment loss on inventories	**1,042**	8,165
Loss on disposal of property, plant and equipment	**3,920**	3,587
Net foreign exchange loss	**35,802**	26,612
Short-term lease rental expenses	**1,026**	4,777
Fair value change on derivative financial instruments	**8,350**	–

Note: There are approximately HK$388,870,000 (2020: HK$306,720,000) related to cost of sales.

13. DIVIDEND

(i) Dividends payable to equity shareholders of the company attributable to the year

	2021 HK$'000	2020 HK$'000
Final dividend proposed after the end of the reporting period of HK$0.11 per share (2020: HK$0.11 per share)	**390,450**	390,450

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2021 HK$'000	2020 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.11 per share (2020: HK$0.096)	**390,450**	324,245

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity owners of the Company by the weighted average number of ordinary shares outstanding during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	2021 HK$'000	2020 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share calculation	**2,402,563**	1,792,661

	2021 '000	2020 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation (Note)	**3,548,050**	3,445,243

Note:

As at 31 December 2021, treasury shares are deducted from total shares in issue for the purpose of calculating earnings per share.

Diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2021 and 2020 as there were no potential dilutive ordinary shares in issue.

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15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2021 HK$'000	2020 HK$'000
Fees:		
Executive directors	**92**	150
Independent non-executive directors	**340**	340
	432	490
Other emoluments:		
Salaries and allowances	**4,079**	1,926
Retirement benefits scheme contributions	**43**	18
	4,554	2,434

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2021 and 2020.

The emoluments paid or payable to each of the nine (2020: seven) directors for the year ended 31 December 2021 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei (retired on 1 June 2021)	**21**	**–**	**–**	**21**
Mr. Hu Bo (retired on 1 June 2021)	**21**	**–**	**–**	**21**
Dr. Shao Yan *(Former chief executive officer)*	**–**	**2,345**	**18**	**2,363**
Dr. Niu Zhanqi	**50**	**–**	**–**	**50**
Dr. Tang Weikun *(Chairman)* (appointed on 1 June 2021)	**–**	**1,073**	**25**	**1,098**
Dr. Shi Lin (appointed on 1 June 2021)	**–**	**661**	**–**	**661**
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	**180**	**–**	**–**	**180**
Mr. Hu Yebi	**100**	**–**	**–**	**100**
Dr. Pei Geng	**60**	**–**	**–**	**60**
Total	**432**	**4,079**	**43**	**4,554**

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2020 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan *(Chief executive officer)*	–	1,926	18	1,944
Dr. Niu Zhanqi	50	–	–	50
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Hu Yebi	100	–	–	100
Dr. Pei Geng	60	–	–	60
Total	490	1,926	18	2,434

During year ended 31 December 2021, no directors of the Company agreed to waive or waived any emoluments.

During the year ended 31 December 2020, Dr. Shao Yan agreed to waive a portion of emoluments of approximately HK$252,000.

During the year ended 31 December 2020, the executive director of the Company, Dr. Shao Yan, was also the chief executive officer of the Company.

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2020: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2020: four) individuals are as follows:

	2021 HK$'000	2020 HK$'000
Employees		
Salaries and allowances	**11,442**	8,377
Retirement benefits schemes contributions	**443**	373
	11,885	8,750

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15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals *(Continued)*

These emoluments were within the following bands:

	2021 No. of employees	2020 No. of employees
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	2
Over HK$2,000,000	**4**	2
	4	4

During both years ended 31 December 2021 and 2020, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management who are non-director of the Group are within the following band.

	2021 No. of employees	2020 No. of employees
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
Over HK$2,000,000	**2**	–
	5	5

During both years ended 31 December 2021 and 2020, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

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16. PROPERTY, PLANT AND EQUIPMENT

	Owned buildings	Allocated land	Plant and machinery	Motor vehicles	Equipment	Others	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost								
As at 1 January 2020	1,553,394	1,678	1,838,398	30,476	83,713	412	745,426	4,253,497
Additions	17,545	–	86,790	3,911	18,848	–	81,917	209,011
Disposals	(2,109)	–	(37,947)	(3,818)	(4,877)	–	–	(48,751)
Write-off	(3,886)	–	(41,959)	(2,089)	(1,104)	–	–	(49,038)
Transfer	317,284	–	26,317	–	29,967	–	(373,568)	–
Exchange realignment	110,188	100	110,953	1,701	7,276	–	28,317	258,535
As at 31 December 2020 and 1 January 2021	1,992,416	1,778	1,982,552	30,181	133,823	412	482,092	4,623,254
Additions	64,926	–	103,031	4,613	27,405	–	271,595	471,570
Disposals	–	–	(48,514)	(3,334)	(305)	–	–	(52,153)
Acquired through acquisition of assets/ business combination	72,915	–	88,026	125	37	–	–	161,103
Write-off	(919)	–	(92,224)	(4,235)	(7,515)	–	–	(104,893)
Transfer	156,838	–	154,361	–	–	–	(311,199)	–
Exchange realignment	70,821	59	66,668	954	4,735	–	15,322	158,559
As at 31 December 2021	2,356,997	1,837	2,253,900	28,304	158,180	412	457,810	5,257,440
Accumulated depreciation and impairment								
As at 1 January 2020	409,054	–	842,788	14,719	65,054	412	–	1,332,027
Depreciation provided for the year	77,078	–	155,496	2,562	24,685	–	–	259,821
Eliminated on disposals	(7,021)	–	(30,002)	(3,340)	(3,270)	–	–	(43,633)
Eliminated on write-off	(1,612)	–	(38,452)	(1,027)	(938)	–	–	(42,029)
Exchange realignment	28,024	–	50,106	778	4,944	–	–	83,852
As at 31 December 2020 and 1 January 2021	505,523	–	979,936	13,692	90,475	412	–	1,590,038
Depreciation provided for the year	98,477	–	175,314	5,386	26,327	–	–	305,504
Eliminated on disposals	–	–	(21,900)	(2,289)	(255)	–	–	(24,444)
Eliminated on write-off	(328)	–	(64,811)	(3,238)	(5,429)	–	–	(73,806)
Exchange realignment	17,788	–	29,411	454	3,312	–	–	50,965
As at 31 December 2021	621,460	–	1,097,950	14,005	114,430	412	–	1,848,257
Net carrying amounts								
As at 31 December 2021	**1,735,537**	**1,837**	**1,155,950**	**14,299**	**43,750**	**–**	**457,810**	**3,409,183**
As at 31 December 2020	1,486,893	1,778	1,002,616	16,489	43,348	–	482,092	3,033,216

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

The above items of property, plant and equipment, except for construction in progress and allocated land are depreciated on a straight-line basis, at the following rates per annum:

Buildings	2.5%–10%
Plant and machinery	5%–25%
Equipment	12%–33.3%
Motor vehicles	10%–25%
Others	12.5%–20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant PRC's authorities.

Buildings are held in the PRC under medium-term leases.

As at 31 December 2021, certain buildings in the Group aggregated amount of approximately HK$121,315,000 (2020: HK$136,000) have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 43.

17. RIGHT-OF-USE ASSETS

	Motor vehicle leased for own used	Buildings leased for own use	Land right use	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost				
As at 1 January 2020	245	19,033	356,934	376,212
Additions	–	10,172	20,029	30,201
Exchange realignment	7	1,150	20,522	21,679
As at 31 December 2020 and 1 January 2021	252	30,355	397,485	428,092
Acquisition of asset/business combination (note 40)	–	–	14,999	14,999
Additions	734	3,226	–	3,960
Termination of lease	(264)	(6,288)	–	(6,552)
Exchange realignment	12	581	13,162	13,755
As at 31 December 2021	734	27,874	425,646	454,254
Accumulated depreciation				
As at 1 January 2020	112	4,070	29,666	33,848
Depreciation provided for the year	133	6,298	9,149	15,580
Exchange realignment	7	258	1,286	1,551
As at 31 December 2020 and 1 January 2021	252	10,626	40,101	50,979
Depreciation provided for the year	122	7,061	9,808	16,991
Termination of leases	(264)	(6,288)	–	(6,552)
Exchange realignment	2	88	218	308
As at 31 December 2021	112	11,487	50,127	61,726
Net carrying amounts				
As at 31 December 2021	**622**	**16,387**	**375,519**	**392,528**
As at 31 December 2020	–	19,729	357,384	377,113

Notes:

1. The Group leases several assets including office premises and land right use. The average lease term is 7 years (2020: 7 years).

2. The total cash outflow for leases amount approximately to HK$8,478,000 (2020: HK$26,971,000) for the year ended 31 December 2021.

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18. INVESTMENT PROPERTIES

	2021 HK$'000	2020 HK$'000
Residential properties	**167,151**	132,696

	2021 HK$'000	2020 HK$'000
As at 1 January	**132,696**	79,815
Fair value gain recognised in profit or loss (note 8)	**29,575**	45,648
Exchange realignment	**4,880**	7,233
As at 31 December	**167,151**	132,696

Asset measured at fair value

	2021			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Investment properties located in PRC	**–**	**–**	**167,151**	**167,151**

	2020			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Investment properties located in PRC	–	–	132,696	132,696

18. INVESTMENT PROPERTIES *(Continued)*

(a) Valuation of investment properties

The investment properties amounted of approximately HK$167,151,000 (2020: HK$132,696,000) of the Group were stated at fair value as at 31 December 2021. The fair value of investment properties as at 31 December 2021 and 2020 were arrived at based on the valuations carried out by Wuhan Huasheng Zhenghao Assets Appraisal Co., Ltd.*. *(This is the English translation of Chinese name or words which included for identification purposes only).

The valuer has valued the properties on the basis of comparable market transactions as available. Discussions of valuation processes and results are held between the Group and valuers at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2021 and 2020, the fair values of the properties have been determined by the valuer. At each financial year end, the Group (i) verifies all major inputs to the independent valuation report; (ii) holds discussions with the independent valuer.

Market approach method is adopted based on the principle of substitution, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value and capital values.

The valuation assumptions, unless otherwise stated, the valuer assumed that:

(a) The assets within the scope of the assessment are owned by the appraised unit and there is no ownership dispute;

(b) The assessment information provided by the entrusting party and the appraised unit is true, lawful and complete; and

(c) The assessment data collected by the assessors in the capacity range is authentic and credible.

There has been no change from the valuation technique used during the year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The valuation of investment properties is determined by various major inputs:

As at 31 December 2021, the major key inputs applied in valuing the investment properties were market selling price per each square meter. The range of unit market price were from RMB3,268 to RMB3,464 (2020: RMB1,764 to RMB2,801).

Another unobservable input was volume rate of the land use right. The ranges of plot ratio of investment properties were from 1.8 to 3.3 (2020: 3.7 to 4.0). An increase in volume rate would result in increase in the fair value of investment properties.

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19. LOAN RECEIVABLES

	2021	2020
	HK$'000	HK$'000
Loan receivables:		
Within one year	**113,985**	113,959
Two to five years	**–**	46,503
	113,985	160,462
Less: allowance for ECL	**(795)**	(827)
Total loan receivables	**113,190**	159,635
Less: Current portion	**(113,190)**	(45,676)
Non-current portion	**–**	113,959

The loan receivable was secured by shares of an unlisted company with a fixed interest rate of 8% per annum.

20. INTERESTS IN ASSOCIATES

	2021	2020
	HK$'000	HK$'000
Cost of unlisted investments	**7,647,643**	5,668,961
Share of post-acquisition profits and other comprehensive income	**82,606**	277,292
Group interests in associates	**7,730,249**	5,946,253
Amounts due from associates	**336,420**	186,813
	8,066,669	6,133,066

Amounts due from associates are unsecured, interest-free and not repayable/recoverable within next twelve months.

20. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's material associates is set out below:

Shanghai Xudong Haipu Pharmaceutical Company Limited (the "Xudong Haipu")

	2021	2020
	HK$'000	HK$'000
Total assets	**2,653,980**	2,553,345
Total liabilities	**(385,160)**	(397,210)
Net assets of the associate	**2,268,820**	2,156,135
Less: Non-controlling interests	**(68,007)**	(52,239)
Net assets attributable to owners of associate	**2,200,813**	2,103,896
Group's share of net assets of the associate	**1,210,447**	1,157,143
Goodwill	**1,006,962**	974,667
	2,217,409	2,131,810
Revenue	**1,443,419**	1,212,540
Profit for the year	**507,914**	456,205
Share interest in an associate for the year	**279,353**	250,913
Dividend received	**(198,753)**	(195,530)

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20. INTERESTS IN ASSOCIATES *(Continued)*

Grand Pharma Sphere Pte Ltd. (the "Grand Pharma Sphere")

	2021 HK$'000	2020 HK$'000
Total assets	**12,370,610**	12,596,769
Total liabilities	**(4,081,954)**	(5,777,797)
Net assets	**8,288,656**	6,818,972
Group's interest in the associate	**4,873,267**	3,341,296
Revenue	**1,242,167**	1,220,699
Loss for the year	**(18,028)**	(94,829)
Share of results of an associate for the year	**(9,835)**	(46,466)

Aggregate information of associates that are not individually material

	2021 HK$'000	2020 HK$'000
The Group's share of results of associates (note a)	**(155,656)**	(142,468)
The Group's interest in associates	**639,573**	473,147

Note:

(a) The share of results mainly consist of share of loss from OncoSec Medical Incorporated amounted approximately to HK$139,938,000 (2020: HK$135,843,000) (based on its management account adjusted under international generally accepted accounting principals).

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20. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates as at 31 December 2021 and 2020 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2021	2020		
Yangxin Fuxin (note (a) & (k))	PRC/PRC	Limited liability company	**40.32% (indirect)**	40.32% (indirect)	Contributed capital RMB2,000,000	Production and sales of fine chemicals and chemical medicine
Cardionovum Holding (note (b))	Hong Kong/ Hong Kong	Limited liability company	**33.33% (indirect)**	33.33% (indirect)	Contributed capital USD93,000,000	Development, production and distribution of advanced cardiovascular interventional medical devices and the provision of related services
East Ocean (note (c) & (k))	Hong Kong/ Hong Kong	Limited liability company	**NA (direct)**	23.69% (direct)	Issued capital HK$117,000,000/ contributed capital HK$58,500,001	Investment holding
Xudong Haipu (note (d) & (j))	PRC/PRC	Limited liability company	**55.00% (indirect)**	55.00% (indirect)	Contributed capital RMB60,000,000	Production and sales of pharmaceutical preparations for injections
Grand Pharma Sphere (note (e))	Singapore/ Singapore	Limited liability company	**56.84% (indirect)**	49.00% (indirect)	Contributed capital USD100	Investment holding
Revolmmune (note (f) & (k))	PRC/PRC	Limited liability company	**8.91% (indirect)**	9.68% (indirect)	Issued capital RMB813,447/ contributed capital RMB272,269	Development of colorectal cancer medicine
Nanjing Fuhan (note (g) & (k))	PRC/PRC	Limited liability company	**51.00% (indirect)**	51.00% (indirect)	Contributed capital RMB40,000,000	Investment holding
Nanjing Kainite (note (h) & (k))	PRC/PRC	Limited liability company	**29.27% (indirect)**	29.17% (indirect)	Contributed capital RMB3,100,000	Development of Neurological intervention
OncoSec (note (i))	USA/USA	Limited liability company	**42.71% (indirect)**	43.38% (indirect)	Contributed capital USD2,769	Development of cancer immunotherapy

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.

The Group held approximately 40.22% equity interest in Yangxin Fuxin and are accounted for the investment as an associate. The Group had further acquired approximately 0.24% equity interest in Grand Pharm (China). Immediately after completion of this acquisition, the Group's equity interest in Yangxin Fuxin was increased from 40.22% to 40.32%.

(b) Cardionovum Holding was an associate of Grand Wise International Trading Limited, a wholly-owned subsidiary of the Company, and Cardionovum Holding was establish with individual third party. The Company had subscribed for approximately 33.33% of the enlarged issued share capital of the Cardionovum Holding pursuant to an agreement signed on 21 April 2015, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over Cardionovum Holding because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(c) East Ocean was an associate of the Company and East Ocean was establish with a connected person of the Company. During the year ended 31 December 2020, the Company had contributed approximately HK$27,717,000, which increased the equity interest to 23.69%. The Group is able to exercise significant influence over East Ocean because it has the power to appoint one out of the three directors of that company under the shareholders agreement.

During the year ended 31 December 2021, the Company had further acquired 752 shares of East Ocean. The Group gain full control over East Ocean since the completion of acquisition. Details of the acquisition are stated in note 40.

(d) Xudong Haipu was an associate of Taiwan Tung Yang International Company Limited ("Tung Yang"). The Company entered into the acquisition agreement, the Company had acquired 100% of the Tung Yang shares at aggregate consideration HK$2,004,227,000 which are settled by cash and shares. Upon completion of the acquisition, Tung Yang is directly wholly-owned subsidiary of the Company. Shanghai Xudong Haipu Pharmaceutical Co., Ltd ("Xudong Haipu") and its subsidiaries are classified as associates of the Company after Completion. This is because material decisions of Xudong Haipu (including but not limited to the approval of its annual budget, manufacturing plan and profit distribution policy) are subject to the resolutions of the board of directors of Xudong Haipu which must be passed by at least two-third of its directors in attendance under the articles of association of Xudong Haipu. As the Tung Yang entitled to appoint only four out of the seven directors of Xudong Haipu, the Tung Yang does not have control over the operations and financial management of Xudong Haipu.

The completion of the acquisition took place on 5 September 2018. Details of the acquisition of the Tung Yang are disclosed in the announcement of the Company dated 24 May 2018, 31 July 2018 and 24 August 2018.

Even the Company was holding 55% of shares of Xudong Haipu, since the resolutions requires at least 5 out of 7 directors' approval to pass, where the Company only entitled to appoint 4 directors on the board meeting, the Company does not have control over the associate.

(e) Grand Pharma Sphere was an associate of Grand Decade Developments Limited ("Grand Decade") and it was the immediate holder of Grand Pharma Sphere (Australia BidCo) Pte Ltd. ("BidCo").

The Company entered into the binding scheme implementation deed pursuant to which CDH Genetech Limited ("CDH Genetech") and the Company had acquired 100% of the Sirtex Medical Pty Ltd. (formerly named Sirtex Medical Ltd.) ("Sirtex") shares. The Company and CDH Genetech had established BidCo to acquire the Sirtex shares and paid aggregate consideration HK$2,907,725,000. Upon completion of the acquisition, the Company and CDH Genetech owned 49% and 51% of the issued shares capital of the BidCo respectively. The completion of the acquisition took place on 20 September 2018. Details of the acquisition of the BidCo are disclosed in the announcement of the Company dated 14 June 2018, 26 July 2018, 20 September 2018 and 12 March 2019.

The Group entered into a subscription agreement with CDH Genetech pursuant to which the Group and CDH Genetech (or its nominee) will further subscribe shares of Grand Pharma Sphere in proportion to their respective equity interests. The total consideration for the further subscription is approximately HK$1,163,571,000 and the Group and CDH Genetech will invest for approximately HK$570,150,000 and HK$593,421,000 respectively.

Details of the further subscription of the Grand Pharma Sphere was disclosed in the announcement of the Company dated 4 May 2020.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(e) *(Continued)*

During the year ended 31 December 2021, there is an increase in shareholding in Grand Pharma Sphere through several transactions as described below. Details of the transactions are stated in the Company published announcement dated 2 July 2021, 11 August 2021 and 1 September 2021 and circular dated 13 September 2021.

On 1 July 2021, the Group has entered into a subscription agreement with Grand Pharma Sphere, pursuant to which, the Group has agreed to subscribe for and Grand Pharma Sphere has agreed to issue and allot 84,704,650 Grand Pharma Sphere Shares for a consideration of US$100 million. The subscription was completed in July 2021. As at 31 December 2021, the shareholdings in Grand Pharma Sphere held by the Group, has been increased by approximately 0.15% after a series of transactions.

The Group has also entered into two agreements of total return swap transaction ("TRS Agreements") with a financial institution (the "Natixis"), pursuant to which, among other things, the Natixis shall pass through to the Company the full economic exposure to the shares of Grand Pharma Sphere ("Sirtex HoldCo Shares") acquired by the Natixis pursuant to the Natixis's Subscriptions.

In view of the TRS Agreements, the total of Sirtex HoldCo Shares held by the Natixis which was acquired by the Natixis under the Natixis's Subscription (the "Natixis Shares") are treated as part of the existing ownership interests of the Group in Grand Pharma Sphere for the purpose of applying the equity method of accounting as the terms of the TRS Agreement are such that it is the Company that has access to the returns associated with an ownership interest in the Natixis's shares currently held by the Natixis. In such circumstances, the proportion of ownership interest in Grand Pharma Sphere allocated to the Group is determined by taking into account the Shares held by the Natixis that currently give the Group access to the returns. The Group's effective interests in Grand Pharma Sphere, has been increased by 7.69%.

Hence, the Group has, in substance, an existing ownership interest in respect of the 84,704,650 Sirtex HoldCo Shares as a result of the TRS transaction. A corresponding liability of USD100,000,000, which is equivalent to HK$777,256,000, representing the potential future payments was recognised at initial recognition of these ownership interests, which is disclosed under "Bank and other borrowings" of consolidated statement of financial position.

(f) Revolmmune Therapeutics Co., Ltd. ("Revolmmune") was an associate of Grand Pharm (China). The Company had subscribed for approximately 9.68% of issued share capital of the Revolmmune pursuant to an agreement signed on 13 July 2020, and are accounted for the investment in an associate.

As at 31 December 2021, the Group's equity interest in Revolmmune had decreased from 9.68% to 8.91%.

The Group is able to exercise significant influence over Revolmmune because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(g) Nanjing Fuhan Enterprise Management Partnership (Limited Partnership) ("Nanjing Fuhan") was an associate of the Company and Nanjing Fuhan was establish with Xudong Haipu which was another associate of the Company. The Company had held 51% of issued share capital of the Nanjing Fuhan as at 31 December 2020.

Even the Company was holding 51% of shares of Nanjing Fuhan, since the resolutions requires over 50% of the total number of directors (2 directors in total) to pass, where the Company only entitled to appoint 1 director on the board meeting, the Company does not have control over the associate.

(h) Nanjing Kainite Medical Technology Co., Ltd. ("Nanjing Kainite") was an associate of Grand Pharm (China). The Company had subscribed for approximately 29.17% of issued share capital of the Nanjing Kainite on 27 July 2020. Pursuant to an agreement, the Company will inject and acquire to 100% equity interest of capital into Nanjing Kainite in phases if the conditions are met, and are accounted for the investment in an associate.

As at 31 December 2021, the Group's equity interest in Nanjing Kainite had increased from 29.17% to 29.27%.

The Group is able to exercise significant influence over Nanjing Kainite because it has the power to appoint one out of the three directors of that company under the shareholders agreement.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(i) OncoSec Medical Incorporated ("OncoSec") was an associate of Grand Decade Developments Limited ("Grand Decade").

The Company had acquired approximately of 43.95% of the issued shares capital of the OncoSec at aggregate consideration for approximately HK$193,929,000 which are settled by cash. The completion of the acquisition took place on 7 February 2020. Details of the acquisition of the OncoSec are disclosed in the announcement of the Company dated 10 October 2019, 26 November 2019 and 7 February 2020.

Since OncoSec has announced offering of common stock of an aggregate 4,608,589 shares of USD3.25 per share on 16 August 2020, the Company had acquired 1,999,000 of new placing shares at aggregate consideration of approximately HK$50,396,000. Furthermore, OncoSec has announced offering of common stock of an aggregate 7,711,284 shares of USD5.45 per share on 21 January 2021. The Group had acquired 3,389,198 of new placing shares at aggregate consideration approximately HK$144,075,000. And according to the anti-dilution terms of stock purchase agreement on 19 October 2019, the Group has the right to acquire further shares when certain share options issued by OncoSec were exercised, and the Group had acquired 1,409,838 shares of USD3.45 per share on 16 April 2021 at aggregate consideration of approximately HK$37,939,000.

As at 31 December 2021, the Group's equity interest in OncoSec had decreased from 43.38% to 42.71%.

The Group is able to exercise significant influence over OncoSec because it has the power to appoint three out of the nine directors of that company under the shareholders agreement.

(j) Xudong Haipu is wholly foreign owned enterprises.

(k) These companies are wholly-domestic owned enterprises.

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

21. GOODWILL

	HK$'000
As at 1 January 2020	480,321
Exchange realignment	25,253
As at 31 December 2020 and 1 January 2021	505,574
Arising on acquisition of a subsidiary	75,912
Exchange realignment	15,260
As at 31 December 2021	**596,746**

21. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

— Zhejiang Jianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")

— Wuhan Kernel Bio-tech Co., Ltd. ("Wuhan Kernel")

— Hubei Wellness Pharmaceutical Co., Ltd. ("Hubei Wellness")

— Beijing Rui Yao Technology Limited ("Beijing Rui Yao")

— Beijing Jiu He Pharmaceutical Limited ("Jiu He")

— Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming")

— Xi'an Beilin Pharmaceutical Co., Ltd. ("Xi'an Beilin")

— Cangzhou Huachen BioTech Co., Ltd ("Huachen BioTech")

— Beijing Puer Weiye Biotechnology Co., Ltd ("Puer Weiye")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2021	2020
	HK$'000	HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**17,146**	16,597
Hubei Wellness	**24,738**	23,945
Beijing Rui Yao	**26,419**	25,572
Jiu He	**196,902**	190,589
Tianjin Jingming	**66,708**	64,569
Xi'an Beilin	**133,977**	129,358
Huachen BioTech (note 40)	**64,815**	–
Puer Weiye (note 40)	**11,097**	–
	596,746	505,574

21. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes:

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2020: 18%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2% growth rate per annum (2020: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 14% (2020: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2% growth rate per annum (2020: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14% (2020: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2% growth rate per annum (2020: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14% (2020: 18%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2% growth rate per annum (2020: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Jiu He

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14% (2020: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2% growth rate per annum (2020: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets (note 23) are allocated, no impairment loss was recognised.

21. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes: *(Continued)*

Tianjin Jingming

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2020: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2% growth rate per annum (2020: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets (note 23) are allocated, no impairment loss was recognised.

Xi'an Beilin

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14% (2020: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2% growth rate per annum (2020: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets (note 23) are allocated, no impairment loss was recognised.

Huachen BioTech

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 10.8% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Puer Weiye

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.3% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 2% (2020: 3%) of market share per year. The values assigned to the assumption reflect past experience and are consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

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22. PARTICULAR OF SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2021 and 2020 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2021	2020		
Grand Pharm (China) (notes (iv), (vi), (vii), (viii) & (xxvii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.18% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (notes (ii), (viii), (xvi), (xxv), (xxvi) and (xxix)	PRC/PRC	Limited liability company	**97.67% (indirect)**	87.69% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (notes (viii) and (xx))	PRC/PRC	Limited liability company	**89.60% (indirect)**	89.60% (indirect)	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Zhejiang Xianle (note xxvii)	PRC/PRC	Limited liability company	**67.00% (indirect)**	67.00% (indirect)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related Intermediates
Wuhan Kernel (notes (iii), (viii) , (xvi) and (xvii))	PRC/PRC	Limited liability company	**91.56% (indirect)**	91.56% (indirect)	Contributed capital RMB79,200,000	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.90% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC
Beijing Rui Yao (notes (x) & (xii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB23,901,750	Investment holding
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajin") (notes (viii), (x) & (xii))	PRC/PRC	Limited liability company	**71.88% (indirect)**	71.88% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the PRC

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22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2021	2020		
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB1,000,000	Treatment of sewage in the PRC
Jiuhe (note (xiii))	PRC/PRC	Limited liability company	**96.84% (indirect)**	96.84% (indirect)	Contributed capital RMB20,000,000	Manufacture and sales of capsules, pharmaceutical intermediates, tablets, granules and soft capsules in the PRC
Tianjin Jingming (note (xiv))	PRC/PRC	Limited liability company	**73.18% (indirect)**	73.18% (indirect)	Contributed capital RMB1,000,000	Research and development, manufacture and sales of ophthalmic medical devices and disposal surgical product
Zhu Hai Cardionovum Medical Device Co. Ltd. ("Zhu Hai Cardionovum") (note (xv))	PRC/PRC	Limited liability company	**77.89% (indirect)**	77.89% (indirect)	Contributed capital USD1,000,000	Development, manufacture and sales of ophthalmic medical devices
Xi'an Beilin (note (xvii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB27,800,000	Manufacture and sales of Chinese medicine and health food product
Grand Decade (note (xxii))	BVI/BVI	Limited liability company	**100% (direct)**	100% (direct)	Contributed capital HKD78,000	Investment holding
Tung Yang (note (xxiii))	Hong Kong/ Hong Kong	Limited liability company	**100% (direct)**	100% (direct)	Contributed capital USD2,944,611	Investment holding
Beijing Kun Wu International Business Limited ("Beijing Kun Wu") (note (xxv))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB18,000,000	Land holding
Huachen BioTech (note (xxx))	PRC/PRC	Limited liability Company	**77.94% (indirect)**	–	Contributed capital RMB100,000,000	Research and development, sales and technical services of amino acid products
East Ocean Medical (notes (xxvii) and (xxxi))	Hong Kong/ Hong Kong	Limited liability Company	**100% (direct)**	NA	Contributed capital USD12,000,000	Investment holding
Beijing Puer Weiye Biotechnology Co., Ltd.	PRC/PRC	Limited liability company	**99.84% (indirect)**	NA	Contributed capital RMB10,000,000	Radioactive Pharmaceutical production and trading of radioactive pharmaceutical

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22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes:

(a) Detail of subsidiaries

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010.

During the year ended 31 December 2010, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

(v) Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 22 November 2012. The effective equity interest in Hubei Wellness held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB136.40 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.06 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.

(viii) Pursuant to share transfer agreement dated on 10 October 2014, Grand Pharm (China) had increased the paid-up capital to RMB470,000,000. The Group had paid RMB285,000,000 during the year ended 2014. After the payment of additional paid-up capital, the Group further acquired approximately 0.24% equity interest in Grand Pharm (China) at the consideration of RMB1.134 million (representing approximately RMB4.725 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the equity interest held by the Group in Grand Pharm (China) was approximately 99.84%. As a result of the acquisition detail on notes (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 98.94% to 99.18%; Wuhan Grand Hoyo was increased from 62.15% to 62.30%; Hubei Fuchi was increased from 82.09% to 82.29%; Hubei Grand EBE was increased from 99.60% to 99.84%, Wuhan Kemel was increased from 80.70% to 80.90%. Hubei Wellness was increased from 99.60% to 99.84%; Huangshi Feiyun was increased from 59.76% to 59.90% and Beijing Huajin was increased from 50.80% to 50.92%.

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(ix) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Huangshi Feiyun. The effective equity interest in Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(x) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao acquisition, Grand Pharm (China) will own approximately 70.56% equity interest in Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(xi) The Group established and owned 99.84% equity interest in Fuchi Water. The effective equity interest in Fuchi Water held by the Group is 99.84% on 30 September 2014.

(xii) Pursuant to an agreement dated 11 December 2014, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 29.16% equity interest in Beijing Rui Yao on 1 January 2015. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao additional acquisition, the Group will own approximately 99.84% equity interest in Rui Yao and approximately 71.88% equity interest in Beijing Huajin indirectly through Rui Yao.

(xiii) Pursuant to an agreement dated 17 July 2015, Grand Pharm (China) entered into an agreement with Ningbo CDH Jinxiu Investment Management Company Limited (the "Ningbo CDH") to acquire 67.00% equity interest in Jiuhe on 31 July 2015 and upon completion of Jiuhe acquisition, the Group will own approximately 66.89% equity interest in Jiuhe. During the year ended 2015, a further 30.00% equity interest in Jiuhe was acquired by Grand Pharm (China). As a result, the effective equity interest in Jiuhe held by the Group was increased from 66.89% to 96.84%.

(xiv) Pursuant to an agreement dated 22 December 2014, Grand Pharm (China) entered into an agreement with Wu Liang and Fan Li Jin to acquire 73.30% equity interest in Tianjin Jingming on 1 January 2015. The effective equity interest in Tianjin Jingming held by the Group is 73.18% on 1 January 2015.

(xv) The Group established and owned 77.89% equity interest in Zhu Hai Cardionovum. The effective equity interest in Zhu Hai Cardionovum held by the Group is 77.89% on 9 October 2015.

(xvi) During the year ended 31 December 2016, the Group increase effective equity interest by 13.44% in Huang Gang Fuchi Pharmaceutical Co., Ltd. from the non-controlling interests at consideration of three subsidiaries shares of 2.59% in Wuhan Grand Hoyo; 2.11% in Wuhan Kemel and 3.47% in Hubei Grand Bio-technology Limited.

(xvii) During the year ended 31 December 2016, the Group acquired additional 1.55% and 16.05% equity interest in Wuhan Kernel from the non-controlling interests of Wuhan Kernel at a cash consideration of RMB3,000,000 and RMB20,180,000 (approximately HK$3,362,000 and HK$22,614,000). The Group recognised an decrease in non-controlling interests and decrease in other reserve of approximately HK$28,165,000 and HK$2,059,000 respectively.

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22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xviii) Pursuant to an agreement dated 29 June 2016, Grand Pharm (China) entered into an agreement with independent third parties to acquire 77.21% equity interest in Xi'an Beilin on 13 July 2016. Xi'an Beilin also owing 100%, 100% and 79% equity interest in Shenxi Xin Beilin Medical Company Limited (the "Shenxi Xin Beilin"), Xi'an Hanyuan Shiye Company Limited (the "Xi'an Hanyuan Shiye") and Xi'an Beilin Biological Technology Company Limited (the "Xi'an Beilin Biological") without any encumbrances and potential disputes, and upon completion of Xi'an Beilin acquisition, the Group will own approximately 77.09% equity interest in Xi'an Beilin and approximately 77.09%, 77.09% and 60.91% equity interest in Shenxi Xin Beilin, Xi'an Hanyuan Shiye and Xi'an Beilin Biological indirectly through Xi'an Beilin. During the year ended 31 December 2016, the Group derecognised Xi'an Beilin Biological Technology.

During the year ended 31 December 2017, Grand Pharm (China) acquire additional 22.79% equity interest in Xi'an Beilin from the non-controlling interests of Xi'an Beilin at a cash consideration of RMB131,512,000 (approximately HK$151,606,000), and upon completion of the further acquisition, the Group will own approximately 99.84% equity interest in Xi'an Beilin and approximately 99.84% and 99.84% equity interest in Shenxi Xin Beilin and Xi'an Huanyuan Shiye indirectly through Xi'an Beilin. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$113,123,000 and HK$38,484,000 respectively.

(xix) During the year ended 31 December 2017, Wuhan Kernel had increased the contributed capital to RMB79,200,000. After the payment of additional of contributed capital, Grand Pharm (China) disposed 4.9% equity interest in Wuhan Kernel to independent third party at a cash consideration of RMB12,740,000 (approximately HK$14,687,000). Upon the completion of the partial disposal, the Group will own approximately 91.56% equity interest in Wuhan Kernel indirectly. The Group recognised an increase in non-controlling interests and increase in other reserve of approximately HK$5,832,000 and HK$8,853,000 respectively.

(xx) During the year ended 31 December 2017, Grand Pharm (China) acquire additional approximately 7.32% equity interest in Hubei Fuchi from the non-controlling interests of Hubei Fuchi at a cash consideration of approximately RMB11,679,000 (approximately HK$13,463,000), and upon completion of the further acquisition, the Group will own approximately 89.60% equity interest in Hubei Fuchi. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$7,506,000 and HK$5,957,000 respectively. As a result of the acquisition, the Group's equity interest in Wuhan Grand Hoyo was increased from 59.71% to 60.80%; and Hubei Fuchi was increased from 82.29% to 89.60%.

(xxi) During the year ended 31 December 2018, the Company establish Grand Decade for the purpose of acquiring associate, Grand Pharma Sphere.

(xxii) During the year ended 31 December 2018, the Company acquire 100% equity interest in Tung Yang at aggregate consideration HK$2,004,227,000. Upon completion, Xudong Haipu becomes an associate of the Company.

(xxiii) Pursuant to an agreement dated 20 November 2019, the Group acquired additional of 24.6% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB73,724,700 (approximately HK$83,630,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 84.76%. The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$77,803,000 and HK$5,827,000 respectively.

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xxiv) During the year ended 31 December 2019, Grand Pharm (China) entered into an agreement with 北京瑞雅科國際企業管理有限公司 to acquire 100% equity interest in Beijing Kun Wu. The effective equity interest in Beijing Kun Wu held by the Group is 99.84% upon the completion of the acquisition on 1 May 2019.

(xxv) Pursuant to an agreement dated 16 July 2020, the Group acquired additional of 3.0% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB8,990,800 (approximately HK$10,102,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 87.69%.

(xxvi) The above table lists the subsidiaries of the Group, which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors result in particulars of excessive lengths.

(xxvii) These companies are foreign and domestic owned enterprises.

(xxviii) Except the companies listed in note (xxvii), all other companies incorporated and operating in PRC are wholly domestic owned enterprises.

(xxix) Pursuant to an agreement dated 31 July 2021, the Group acquired additional of 9.98% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB51,980,000 (approximately HK$63,020,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 97.67%.

(xxx) In October 2021, Hubei Grand Life Science & Technology Co., Ltd. ("Grand Life Science") of the Group entered into an equity acquisition agreement with Hebei Huayang Biological Technology Co., Ltd.*, pursuant to which Grand Life Science will acquire 80% equity interest in Cangzhou Huachen BioTech Co., Ltd.* (滄州華晨生物科技有限公司, "Huachen BioTech") at a consideration of RMB107,200,000 (equivalent to approximately HK$130,852,000) to establish a presence in the glycine industry chain and lay a foundation for the establishment of the Group's leading position in the amino acid industry.

(xxxi) East Ocean Medical became a wholly owned subsidiary of the Group in 2021. During the year ended 31 December 2021, a further 752 shares of East Ocean Medical was acquired by the Company.

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of Company	Place of incorporation/ registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profits allocated to non-controlling interests		Accumulated non-controlling interests	
		2021	2020	**2021**	2020	**2021**	2020
Wuhan Grand Hoyo	PRC/PRC	**2.33%**	12.31%	**2,765**	11,463	**12,680**	50,638
Jiuhe	PRC/PRC	**3.16%**	3.16%	**5,828**	4,860	**18,830**	17,134
Wuhan Kernel	PRC/PRC	**8.44%**	8.44%	**3,439**	4,179	**27,907**	23,976

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Notes to the Consolidated **Financial Statements**

For the year ended 31 December 2021

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Wuhan Grand Hoyo and its subsidiaries

	2021	2020
	HK$'000	HK$'000
Current assets	**587,842**	427,423
Non-current assets	**72,881**	58,891
Current liabilities	**(115,335)**	(72,856)
Non-current liabilities	**(1,034)**	(2,098)
Equity attributable to owners of the Company	**531,674**	360,722
Non-controlling interests	**12,680**	50,638
Revenue	**1,056,972**	640,376
Other revenue and income	**9,052**	9,780
Expenses	**(947,347)**	(574,938)
Profit for the year	**118,677**	75,218
Profit attributable to owners of the Company	**115,912**	63,755
Profit attributable to non-controlling interests	**2,765**	11,463
Total comprehensive income for the year	**134,158**	99,738
Total comprehensive income attributable to owners of the Company	**131,032**	84,538
Total comprehensive income attributable to non-controlling interests	**3,126**	15,200
Dividend paid to non-controlling interest	**–**	–
Net cash inflow from operating activities	**46,748**	72,947
Net cash outflow from investing activities	**(90,754)**	(39,834)
Net cash outflow from financing activities	**(1,044)**	33,919
Effect of foreign exchange rate charges	**6,866**	11,246
Net cash inflow	**(38,184)**	78,278

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Wuhan Kernel

	2021	2020
	HK$'000	HK$'000
Current assets	**193,087**	176,003
Non-current assets	**370,583**	306,837
Current liabilities	**(187,183)**	(159,574)
Non-current liabilities	**(41,868)**	(35,787)
Equity attributable to owners of the Company	**306,712**	263,503
Non-controlling interests	**27,907**	23,976
Revenue	**261,908**	215,019
Other revenue and income	**18,717**	15,168
Expenses	**(238,942)**	(179,663)
Profit for the year	**41,683**	50,524
Profit attributable to owners of the Company	**38,244**	46,345
Profit attributable to non-controlling interests	**3,439**	4,179
Total comprehensive income for the year	**45,930**	56,498
Total comprehensive income attributable to owners of the Company	**42,434**	52,090
Total comprehensive income attributable to non-controlling interests	**3,496**	4,408
Dividend paid to non-controlling interest	**(227)**	(218)
Net cash inflow from operating activities	**82,284**	117,360
Net cash outflow from investing activities	**(96,324)**	(99,435)
Net cash inflow/(outflow) from financing activities	**3,275**	(22,846)
Effect of foreign exchange rate charges	**10,112**	1,711
Net cash outflow	**(880)**	(3,428)

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Jiu He

	2021 HK$'000	2020 HK$'000
Current assets	**422,139**	440,147
Non-current assets	**620,814**	609,411
Current liabilities	**(363,453)**	(426,474)
Non-current liabilities	**(82,713)**	(80,061)
Equity attributable to owners of the Company	**577,957**	525,889
Non-controlling interests	**18,830**	17,134
Revenue	**905,386**	781,277
Other revenue and income	**5,324**	6,512
Expenses	**(725,987)**	(633,750)
Profit for the year	**184,723**	154,039
Profit attributable to owners of the Company	**178,895**	149,179
Profit attributable to non-controlling interests	**5,828**	4,860
Total comprehensive income for the year	**203,286**	184,562
Total comprehensive income attributable to owners of the Company	**196,872**	178,739
Total comprehensive income attributable to non-controlling interests	**6,414**	5,823
Dividend paid to non-controlling interest	**(4,559)**	(5,533)
Net cash inflow from operating activities	**140,633**	171,473
Net cash outflow from investing activities	**(4,092)**	(15,531)
Net cash outflow from financing activities	**(173,119)**	(156,434)
Effect of foreign exchange rate charges	**10,797**	16,355
Net cash (outflow)/inflow	**(30,340)**	10,330

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

(c) Change in ownership interests in Wuhan Grand Ho Yo and its subsidiaries

During the year, the Group acquired 9.98% (2020: 2.92%) effective equity interests of from a non-controlling shareholder which is holding 10% (2020: 3%) interests of Wuhan Grand Ho Yo and its subsidiaries pursuant to an equity transfer agreement at a cash consideration of RMB51,980,000 (2020: RMB8,990,800) (approximately HK$63,020,000 (2020: HK$10,102,000)).

23. INTANGIBLE ASSETS

	Pharmaceutical technology	Patent, trademark and capitalised development cost	Acquired Patent rights	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost				
As at 1 January 2020	7,070	747,713	112,825	867,608
Addition	–	–	49,560	49,560
Exchange realignment	419	44,389	9,409	54,217
As at 31 December 2020 and 1 January 2021	7,489	792,102	171,794	971,385
Acquisition of subsidiaries (note 40)	–	–	50,380	50,380
Addition	–	37,058	27,739	64,797
Exchange realignment	248	26,238	3,930	30,416
As at 31 December 2021	**7,737**	**855,398**	**253,843**	**1,116,978**
Accumulated amortisation and impairment loss				
As at 1 January 2020	1,620	–	71,265	72,885
Provided for the year	355	–	11,305	11,660
Exchange realignment	113	–	4,884	4,997
As at 31 December 2020 and 1 January 2021	2,088	–	87,454	89,542
Provided for the year	381	–	16,643	17,024
Exchange realignment	75	–	573	648
As at 31 December 2021	**2,544**	**–**	**104,670**	**107,214**
Net carrying amounts				
As at 31 December 2021	**5,193**	**855,398**	**149,173**	**1,009,764**
As at 31 December 2020	5,401	792,102	84,340	881,843

The economic useful life of recognised intangible assets are as follows:

Intangible assets	Economic useful life
Pharmaceutical technology	20 years
Acquired patent rights	5 years–7 years
Patents, trademarks and capitalised development cost	indefinite useful lives

The patents and trademarks will expire in the coming two to five years and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the patents and trademarks and consider that the possibility of failing in renewal is remote and the patents and trademarks will generate net cash flows for the Group for an indefinite period. Therefore, the patents and trademarks are treated as having an indefinite useful life.

23. INTANGIBLE ASSETS *(Continued)*

The carrying amount of intangible assets were allocated to CGU as follow:

	2021	2020
	HK$'000	HK$'000
Jiuhe	**551,420**	533,740
Tianjin Jingming	**57,431**	55,590
Xi'an Beilin	**209,489**	202,772
East Ocean	**38,816**	–
Shenming Medical	**11,564**	–
	868,720	792,102

For the purposes of impairment testing, goodwill, patents and trademarks above have been allocated to the acquired cash generating units, details of impairment assessment was set out in note 21. During the years ended 31 December 2021 and 2020, the management of the Group determines that there is no impairment need of any of its CGUs containing goodwill, patents and trademarks.

24. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	ECL provision	**Total**
	HK$'000	HK$'000
As at 1 January 2020	19,872	19,872
Credited to profit or loss	3,898	3,898
Exchange realignment	1,392	1,392
As at 31 December 2020 and 1 January 2021	25,162	25,162
Arising on acquisition of subsidiaries (note 40)	69	69
Charged to profit or loss	(1,373)	(1,373)
Exchange realignment	750	750
As at 31 December 2021	**24,608**	**24,608**

As at 31 December 2021, the Group has unused tax losses of approximately HK$615,936,000 (2020: HK$213,821,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$615,936,000 (2020: HK$213,821,000) due to the unpredictability of future profit streams.

25. PREPAYMENTS

The amount represented prepayment of AUD25,000,000 (equivalent to approximately HK$139,391,000 (2020: HK$193,762,000)) and RMB82,556,000 (equivalent to approximately HK$101,072,000 (2020: HK$97,832,000)) paid to certain third party pharmaceutical institutes located in the PRC and Australia for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

In addition, amounted to HK$11,497,000 was prepaid for purchase of treasury shares.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	HK$'000	HK$'000
Listed equity security in HK (note (a))	**33,332**	34,999
Listed equity security in Australia (note (a))	**905,156**	462,067
Investment at fair value (note (b))	**174,480**	23,701
	1,112,968	520,767

Notes:

(a) Fair value was determined with reference to quoted market bid prices.

(b) As at 31 December 2021 and 2020, the Group's investment in wealth management products were designed at financial assets at fair value through profit or loss of which fair values are determined by reference to the quoted market bid prices available on the relevant PRC market.

The financial assets at fair value through profit or loss were classified as level 1 of fair value hierarchy.

27. INVENTORIES

	2021	2020
	HK$'000	HK$'000
Raw materials	**285,761**	249,803
Work-in-progress	**335,679**	364,484
Finished goods	**495,716**	341,027
	1,117,156	955,314

28. TRADE AND OTHER RECEIVABLES

	2021	2020
	HK$'000	HK$'000
Trade receivables, net	**967,703**	815,265
Bills receivables	**829,402**	692,807
Deposits and prepayments (note (a))	**638,524**	259,157
Other tax receivables	**63,528**	47,334
Other receivables, net (note (a))	**162,293**	79,597
	2,661,450	1,894,160

Notes:

(a) The increase of deposits and prepayment and other receivables amount is mainly related to the deposit payment and milestone payment of various projects including (but not limited to) Conavi Medical Inc. project, Cardio Focus Inc. project, ALK-Abelló A/S project and Formosa Pharmaceuticals, Inc. project, etc. amounted to approximately HK$199,010,000. Also it was paid approximately HK$155,490,000 to Natixis as deposit for the Grand Pharma Sphere Pte Ltd. ("Sirtex HoldCo") project.

The Group generally allows a credit period of 30–180 days (2020: 30–180 days) to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	2021	2020
	HK$'000	HK$'000
Trade receivables	**1,070,634**	922,892
Less: allowance for ECL	**(102,931)**	(107,627)
Total trade receivables	**967,703**	815,265

The ageing analysis of the trade receivables is as follows:

	2021	2020
	HK$'000	HK$'000
Within 90 days	**738,650**	631,810
91–180 days	**155,539**	106,230
181–365 days	**73,514**	77,225
	967,703	815,265

28. TRADE AND OTHER RECEIVABLES *(Continued)*

	2021	2020
	HK$'000	HK$'000
Other receivables	**208,435**	122,850
Less: allowance for ECL	**(46,142)**	(43,253)
Total other receivables	**162,293**	79,597

Allowance for ECL in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balances directly.

The Group does not hold any collateral or other credit enhancement over its trade and other receivables balances. Trade and other receivables are non-interest bearing.

The Directors considered that the residual amounts of trade and other receivables are fully recoverable and no provision for impairment.

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2021	2020
	HK$'000	HK$'000
Cash in banks	**1,752,823**	1,836,692
Cash on hand	**37**	3
	1,752,860	1,836,695

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	2021	2020
	HK$'000	HK$'000
HK$	**8,299**	87,938
USD	**111,744**	38,547
Australian dollars (the "AUD")	**3,801**	451
Euro dollars (the "EURO")	**10**	2,412
RMB	**1,629,006**	1,707,347
	1,752,860	1,836,695

As at 31 December 2021, bank deposits of approximately HK$7,645,000 (2020: HK$30,910,000) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2021, the annual effective interest rate on pledged bank deposits is 1.18% (2020: 1.14%).

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

30. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
	HK$'000	HK$'000
Unlisted equity securities (note)	**145,685**	171,164

Note:

As at 31 December 2021 and 2020, the fair value of the unlisted equity securities was arrived on the basis of valuations carried out by an independent professional valuer, details of movements are set out in note 5(b)(vi).

31. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2021	2020
	HK$'000	HK$'000
Trade payables	**549,963**	400,142
Bills payables	**184,535**	262,346
Accruals and other payables (note (a))	**1,943,515**	1,321,868
Other tax payables	**193,746**	155,096
Total	**2,871,759**	2,139,452
Contract liabilities (note (b))	**202,106**	269,049

Notes:

(a) The increase of accruals and other payables is mainly related to the increment of accrued selling and operating expenses such as salaries, marketing and promotion, research and development expenses amounted to approximately HK$322,460,000, in order to cope with the expansion of business scope.

(b) Contract liabilities in relation to sales of finished goods are expected to be settled within one year. The entire amount of contract liabilities as at 1 January 2021 is all recognised as revenue during current year.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2021	2020
	HK$'000	HK$'000
Within 90 days	**300,002**	237,868
Over 90 days	**249,961**	162,274
	549,963	400,142

The average credit period on purchases of goods is 90 days.

The bills payables are mature within 180 days from the end of the reporting period.

32. BANK AND OTHER BORROWINGS

	2021 HK$'000	2020 HK$'000
Bank borrowings (secured)	**2,849,285**	2,345,686
Other borrowing (unsecured)	**777,256**	21,330
	3,626,541	2,367,016
Carrying amount repayable:		
On demand or within one year	**2,116,471**	1,568,454
More than one year but not exceeding two years	**1,490,794**	212,355
More than two years but not more than five years	**19,276**	586,207
	3,626,541	2,367,016
Less: non-current portion	**1,510,070**	798,562
Current portion	**2,116,471**	1,568,454

As at 31 December 2021 and 2020, certain bank loans are guaranteed by China Grand Enterprises Incorporation, a related company with common controlling shareholder of the Company, and secured by the plant and machinery, buildings, right-of-use assets, interests in subsidiaries and pledged bank deposits of the Group in the PRC as detailed in note 43.

On 21 August 2020, the Group has borrowed secured bank borrowings of HK$700,000,000 that were charged at fixed interest rate of 1.4% plus HIBOR.

On 29 April 2021 and 23 June 2021, the Group has borrowed secured bank borrowings of HK$430,000,000 and USD75,000,000 (equivalent to HK$582,098,000) that were charged at fixed interest rate of 1.4% plus HIBOR and 1.6% plus HIBOR respectively.

The Group has entered into the TRS transaction with Natixis during the year ended 31 December 2021. As a result, unsecured other borrowings of USD100,000,000 (equivalent to HK$777,256,000) was raised. The Group shall pay a floating amount to Natixis, on a semi-annual basis, calculated with reference to the Equity Notional Amount at the USD-LIBOR-BBA for a designated maturity of 6 months (subject to a minimum of zero) plus a spread of 2.5% per annum (for the first two years) or 4.5% per annum (for the period after the first two years).

Except above, remaining borrowings of the Group are denominated in RMB.

As at 31 December 2021 and 2020, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of approximately HK$226,042,000 (2020: HK$1,199,842,000) that were charged at fixed interest rate 2.18% to 6.89% (2020: 2.60% to 6.89%) per annum, all other bank loans bear variable interest rates from 3.5% to 6.89% (2020: 2.85% to 6.09%) per annum.

The Group has unsecured other borrowings of approximately HK$21,330,000 from Huangshi Zhongbang City Housing Investment Co., Ltd, independent third party, as at 31 December 2020, and it was fully repaid during the year ended 31 December 2021.

33. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the current reporting periods and at the date of transition of HKFRS 16:

	As at 31 December 2021		As at 31 December 2020	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**5,728**	**6,976**	6,200	7,589
After 1 year but within 2 years	**4,392**	**5,285**	4,959	5,966
After 2 years but within 5 years	**7,163**	**8,324**	6,594	7,755
After 5 years	**1,751**	**3,086**	3,609	5,343
	13,306	**16,695**	15,162	19,064
	19,034	**23,671**	21,362	26,653
Less: total future interest expenses		**(4,637)**		(5,291)
Present value of lease obligations		**19,034**		21,362

	As at 31 December 2021 HK$'000	As at 31 December 2020 HK$'000
Current liabilities	**5,728**	6,200
Non-current liabilities	**13,306**	15,162
	19,034	21,362

The carrying amount of the lease liabilities approximate their fair value. As at 31 December 2021, the Group leased property, plant and equipment under lease liabilities with net book value approximately HK$137,274,000 (2020: HK$149,624,000).

34. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

Details of amounts due from related companies are as follows:

	Balance at 31 December	
Name of related companies (note (a)):	**2021**	2020
	HK$'000	HK$'000
Amounts due from related companies under common control of members/shareholder of the Group		
Baoding Jiufu Biochemical Company Limited	**495**	28,900
Jiangsu Grand Xinyi Pharmaceutical Company Limited	**9,748**	14,944
Huadong Medicine Co. Ltd	**2,820**	1,481
Guangdong Leiyunshang Pharmaceutical Company Limited	**–**	816
Huadong Medicine Company Limited, Medicine Branch	**–**	213
Huadong Medicine (Lishui) Company Limited	**63**	93
Shenyang Yaoda Leiyunshang Pharmaceutical Company Limited	**–**	45
Huadong Medicine (Xi'An) Bohua Pharmaceutical Company Limited	**126**	124
Huadong Medicine (Hangzhou) Biological Products Company Limited	**29**	–
Henan Grand Bio-Pharm.Co.,Ltd.	**160**	–
Grand Bay Hotel Beijing	**–**	19
Hangzhou Grand Biologic Pharmaceutical Inc	**–**	123
	13,441	46,758
Less: allowance for ECL	**(121)**	(11,322)
	13,320	35,436

Note:

(a) The name of related companies are English translation of Chinese name or words which included for identification purpose only and should not be regarded as the official English name or official translation of such Chinese name or words.

Details of impairment assessment as at 31 December 2021 are set out in note 5(b)(iv).

The Group had policy regarding impairment losses on amounts due from related parties which was based on the evaluation of collectability and on the management's judgement including the current creditworthiness and the past collection history of each related party.

Members of the shareholder of the Group have controlling interests over the related companies.

The amounts due from/(to) related companies are unsecured, interest-free and recoverable/repayable on demand.

35. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Intangible assets	Property, plant and equipment and right-of-use assets	Investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2020	130,838	31,404	9,264	171,506
Charged/(credited) to profit or loss	(655)	(1,784)	2,236	(203)
Exchange realignment	8,131	1,795	650	10,576
As at 31 December 2020 and 1 January 2021	138,314	31,415	12,150	181,879
Acquisition of subsidiaries (note 40)	–	1,317	–	1,317
Charged to profit or loss	1,587	3,987	3,410	8,984
Exchange realignment	4,195	1,016	458	5,669
As at 31 December 2021	**144,096**	**37,735**	**16,018**	**197,849**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$6,537,720,000 (2020: approximately HK$6,985,920,000) and the estimated tax liabilities of approximately HK$326,886,000 (2020: approximately HK$349,296,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

36. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

As at 31 December 2021 and 2020, the amount is unsecured, interest-free and repayable on demand.

37. DEFERRED INCOME

The movement of deferred income is set out below:

	HK$'000
As at 1 January 2020	466,613
Compensation received during the year (note (b) and (d))	14,853
Credit to profit or loss	(163,504)
Exchange realignment	23,644
As at 31 December 2020 and 1 January 2021	341,606
Acquisition of a subsidiary (note 40)	3,238
Compensation received during the year (note (b) and (d))	9,998
Credit to profit or loss	(41,151)
Exchange realignment	13,127
As at 31 December 2021	**326,818**

Notes:

(a) On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(i) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(ii) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

37. DEFERRED INCOME *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

(iii) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. During the year ended 31 December 2014, RMB58,500,000 (equivalent to approximately HK$73,629,000) was received by Grand Pharm (China).

(iv) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China). During the year ended 31 December 2014, RMB171,000,000 (equivalent to approximately HK$215,219,000) was received by Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the years ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the years ended 31 December 2012, the Group did not receive any Compensation. During the years ended 31 December 2013 and 2014, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) and RMB229,500,000 (equivalent to approximately HK$288,848,000) respectively.

During the year ended 31 December 2020, Wuhan Wuyao received one of the construction completion reports to verify partially the completion of the Relocation. Therefore, the Group recognised approximately RMB20,464,000 (equivalent to approximately HK$22,994,000) related to depreciable assets over their useful life and approximately RMB101,910,000 (equivalent to approximately HK$114,509,000) in regards to relevant loss or expenses which were unable to identified and deferred until completion of the Relocation.

37. DEFERRED INCOME *(Continued)*

Notes: *(Continued)*

(b) Wuhan Kernel entered into an agreement with The People's Government of Xiantao which provides for detailed provisions as to promote economic development of Xiantao and expand its operation scale.

During the year ended 31 December 2020, the compensation, as mutually agreed between Wuhan Kernel and The People's Government of Xiantao, amounts to RMB1,108,000 (equivalent to approximately HK$1,245,000). The compensation was recognised in the statement of profit or loss started from 31 December 2020 based on remaining years of useful lives of the land use right.

During the year ended 31 December 2021, Wuhan Kernel entered into an agreement with Xiantao Municipal Bureau of Economy and Information Technology which provides subsidies for operational expansion. The compensation, as mutually agreed between Wuhan Kernel and Xiantao Municipal Bureau of Economy and Information Technology, amounts to RMB5,800,000 (equivalent to approximately HK$6,987,000). The expansion was finished during the year then ended and the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2021 over five years.

(c) On 20 September 2019, Jiuhe entered into an agreement with Beijing Fangshan District Association for Science and Technology which provides for research and development expenditure allowance, amounting to RMB1,000,000 (equivalent to approximately HK$1,134,000). As at 31 December 2019, 2020 and 2021, the Company did not achieve all consideration and obtain the approval from the PRC Government.

(d) On 20 September 2019, Wuhan Wuyao entered into an agreement with The People's Government of Xiantao which provides for land bidding. The compensation, as mutually agreed between Wuhan Wuyao and The People's Government of Xiantao, amounts to RMB12,111,000 (equivalent to approximately HK$13,608,000). The acquisition of land right use was finished at 29 May 2020, the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2020 over useful lives of the land right use.

On 15 July 2021, Hubei Wellness entered into an agreement with The People's Government of Xiantao which provides for research and development expenditure allowance, amounting to RMB2,500,000 (equivalent to approximately HK$3,011,000). As at 31 December 2021, the Company did not achieve all consideration and obtain the approval from the PRC Government.

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38. SHARE CAPITAL

	Number of shares at		Share capital at	
	31 December 2021 '000	31 December 2020 '000	**31 December 2021 HK$'000**	31 December 2020 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
As at 1 January 2021 and 2020	**3,549,571**	3,377,571	**35,496**	33,776
Issued under subscription	**–**	172,000	**–**	1,720
As at 31 December 2021 and 2020	**3,549,571**	3,549,571	**35,496**	35,496

Notes:

As at 31 December 2021, the Company, through a trust, held 22,430,500 shares in treasury for the purpose of a share award scheme. The fair value of the purchased shares was deducted from equity as "Treasury shares" for an amount of approximately HK$143,503,000.

39. DERIVATIVE FINANCIAL INSTRUMENT

As at 31 December 2021, all of the derivative financial instruments are interest rate swaps. The Groups entered into cross currency swap contracts with banks to manage the exposure to the interest rate risk on the Groups' floating-rate borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. No hedge accounting is adopted and there is no offsetting during the year.

	Notional amount		Fair value	Maturity	Floating interest rate	Fixed interest rate	Interest period
	RMB$'000	HK$'000	HK$'000				
Liability							
RMB$/HK$ cross currency swap							
At 31 December 2021	**961,461**	**1,130,000**	**8,350**	**9 September 2021 to 4 September 2023**	**HIBOR**	**1.8%**	**Monthly**

40. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of an asset

(i) On 8 February 2021, the Group acquired 752 shares of East Ocean Medical (Hong Kong) Company Limited ("East Ocean") at a total consideration of US$12,000,000 (equivalent to HK$93,060,000).

Assets acquired at the date of acquisition

	HK$'000
Financial assets as at fair value through other comprehensive income	15,616
Intangible assets (note 23)	38,816
Prepayment	66,885
	121,317

Total consideration in respect of acquisition of a subsidiary that are not constitute business

	HK$'000
Cash consideration paid	93,060
Fair value of previously held interest in East Ocean	28,257
	121,317

This company did not operate any business prior to the acquisitions and had distribution agreement, investment in unlisted securities and prepayments for licensing agreement. Therefore, the Group considered this would be an acquisition of assets in substance and as a result the difference between purchase consideration paid and the net assets acquired would be recognised as adjustments to the carrying value of the intangible asset.

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Acquisition of an asset *(Continued)*

(ii) During the year ended 31 December 2021, the Group acquired 100% equity interest of Jiangsu Shenming Medical Technology Co., Ltd. ("**Shenming Medical**"), at a consideration of RMB8,600,000 (equivalent to approximately HK$10,546,000). Upon completion of the transaction, the Group obtained the commercialization rights of the temperature-sensitive embolic agent developed by Shenming Medical for the treatment of liver cancer and the subsequent development of gel products.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Property, plant and equipment	542
Intangible assets (note 23)	11,564
Bank balance and cash	1
Other payables	(1,561)
Total identifiable net assets acquired	10,546

Net cash outflow in respect of acquisition of a subsidiary that are not constitute business

	HK$'000
Consideration paid in cash	10,546
Less: Cash and cash equivalent balances acquired	(1)
	10,545

This company did not operate any business prior to the acquisitions and had the patent in related to the thermosensitive embolic agents for the treatment of liver cancer. Therefore, the Group considered this would be an acquisition of assets in substance and as a result the difference between purchase consideration paid and the net assets acquired would be recognized as adjustments to the carrying value of the intangible asset.

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Business Combination

(i) On 15 October 2021, the Group acquired 80% interest in Cangzhou Huachen BioTech Co., Ltd. Cangzhou Huachen BioTech Co., Ltd is principally engaged in the research and development, manufacture, sales and technical services of amino acid products. The acquisition has been accounted for as acquisition of business using the acquisition method.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Property, plant and equipment	159,344
Right of use assets (note 17)	14,999
Inventories	10,374
Trade and other receivables	19,111
Bank balances and cash	1,292
Trade and other payable	(45,856)
Deferred tax liabilities (note 35)	(1,317)
Bank and other borrowing	(72,013)
Deferred income (note 37)	(3,238)
Non-controlling interest	(16,659)
Total identifiable net assets acquired	66,037
Goodwill (note 21)	64,815
	130,852

Net cash outflow arising on acquisition

	HK$'000
Consideration paid in cash	130,852
Less: Cash and cash equivalent balances acquired	(1,292)
	129,560

Since the acquisition, Huachen Bio Tech contributed approximately HK$67,138,000 to the Group's revenue and approximately HK$12,511,000 to the consolidated profit for the year ended 31 December 2021.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been approximately HK$8,710,123,000 and approximately HK$2,364,247,000, respectively.

The non-controlling interest was recognised at the non-controlling interests' proportionate share of the recognised amounts of acquirees identifiable net assets.

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Business Combination *(Continued)*

(ii) During the year ended 31 December 2021, the Group acquired 100% equity interest of Puer Weiye at a consideration of RMB10,000,000 (equivalent to approximately HK$12,249,000). Puer Weiye is principally engaged in the radioactive pharmaceutical production and trading of radioactive pharmaceuticals. The acquisition has been accounted for as acquisition of business using the acquisition method.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Puer Weiye	
Property, plant and equipment	1,217
Deferred tax assets (note 24)	69
Inventories	35
Trade and other receivables	123
Bank balance and cash	1
Trade and other payables	(293)
Total identifiable net assets acquired	1,152
Goodwill (note 21)	11,097
	12,249

Net cash outflow in respect of acquisition of a subsidiary that are not constitute business

	HK$'000
Consideration paid in cash	12,249
Less: Bank balance and cash acquired	(1)
	12,248

Since the acquisition, Puer Weiye contributed a loss of approximately HK$75,000 to the consolidated profit for the year ended 31 December 2021.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been approximately HK$8,597,975,000 and approximately HK$2,384,071,000, respectively.

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41. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2021 HK$'000	2020 HK$'000
Non-current assets		
Interests in associates	**4,034,844**	3,000,238
Interests in subsidiaries	**3,180,598**	3,736,972
Right-of-use assets	**2,155**	3,776
Prepayment	**11,497**	–
Loan receivables	**113,190**	113,959
	7,342,284	6,854,945
Current assets		
Financial assets at fair value through profit or loss	**33,332**	34,999
Loan receivables	**–**	45,676
Other receivables	**201,385**	7,066
Cash and cash equivalents	**143,567**	98,706
	378,284	186,447
Current liabilities		
Lease liabilities	**1,672**	1,594
Financial guarantee	**107**	29
Other payable	**11,069**	4,205
Other borrowings	**777,256**	–
	790,104	5,828
Net current (liabilities)/assets	**(411,820)**	180,619
Total assets less current liabilities	**6,930,464**	7,035,564
Non-current liabilities		
Amount due to the immediate holding company	**2,331**	2,331
Financial guarantee	**501**	427
Lease liabilities	**431**	2,102
	3,263	4,860
Net assets	**6,927,201**	7,030,704
Capital and reserves attributable to owners of the Company		
Share capital	**35,496**	35,496
Reserves	**6,891,705**	6,995,208
Total equity	**6,927,201**	7,030,704

The financial statement was approved and authorised for issue by the board of directors of the Company on 17 March 2022 and are signed on its behalf by:

Tang Weikun
Director

Shao Yan
Director

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41. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

Movement of reserve of the Company

	Share premium HK$'000	Contributed surplus HK$'000	Treasury shares HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2020	5,511,107	121,273	–	330,595	5,962,975
Profit and total comprehensive income for the year	–	–	–	344,536	344,536
Total comprehensive income for the year	–	–	–	344,536	344,536
Issue under subscription	1,011,942	–	–	–	1,011,942
Dividend paid (note 13)	–	–	–	(324,245)	(324,245)
As at 31 December 2020 and 1 January 2021	6,523,049	121,273	–	350,886	6,995,208
Profit and total comprehensive income for the year	–	–	–	430,450	430,450
Total comprehensive income for the year	–	–	–	430,450	430,450
Purchase of treasury shares	–	–	(143,503)	–	(143,503)
Dividend paid (note 13)	–	–	–	(390,450)	(390,450)
As at 31 December 2021	**6,523,049**	**121,273**	**(143,503)**	**390,886**	**6,891,705**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

42. MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associates as disclosed in note 20, related companies as disclosed in note 34 and immediate holding company as disclosed in note 36 during the years ended 31 December 2021 and 2020, the Group entered into following transactions with its related parties:

	2021	2020
	HK$'000	HK$'000
Sales of goods to Yangxin Fuxin (note (i))	**6,026**	3,423
Purchases of goods from Yangxin Fuxin (note (i))	**21,330**	15,297
Sales of goods to the companies with common controlling shareholder:		
Huadong Medicine Co. Ltd and its related companies (note (ii))	**111,932**	116,469
中國遠大集團有限責任公司 and its related companies (unofficially translated as "China Grand Enterprises Incorporation" (note (ii))	**1,032**	2,875
Purchase of goods from the companies with common controlling shareholder:		
Baoding Jiufu Biochemical Company Limited (note (iii))	**133,800**	20,190
Processing services from the companies with common controlling shareholder:		
Baoding Jiufu Biochemical Company Limited (note (iii))	**532**	1,332

Notes:

(i) Transactions were conducted with terms mutually agreed with the contracting parties.

(ii) The transactions constitute continuously connected transactions under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

(iii) The transactions are connected transaction in 2020 and continuing connected transaction in 2021 respectively under Chapter 14A of the Listing Rules.

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2021 and 2020 are set out in note 32.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2021	2020
	HK$'000	HK$'000
Short-term benefits	**10,544**	7,165
Post-employment benefits	**261**	228
	10,805	7,393

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

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43. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2021 HK$'000	2020 HK$'000
Right-of-use assets (note 17)	**21,374**	–
Buildings (note 16)	**121,315**	136
Interests in subsidiaries	**134,016**	86,085
Pledged bank deposits (note 29)	**7,645**	30,910
	284,350	117,131

44. COMMITMENTS

(a) Operating lease commitment

The Group as lessor

The Group leases out certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$1,421,000 (2020: HK$736,000). The Group had future minimum lease receipts from tenants under non-cancellable operating lease which fall due as follows:

	2021 HK$'000	2020 HK$'000
Within one year	**212**	67
In the second to fifth year inclusive	**–**	52
	212	119

(b) Capital commitment

	2021 HK$'000	2020 HK$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	**180,322**	108,699

45. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2020: HK$1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2020: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately HK$82,231,000 (2020: HK$12,603,0000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

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46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cashflows will be classified in the Group's consolidated statement of cash flows from financing activities.

	Amount due to the immediate holding company	Lease liabilities	Bank and other borrowings	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2020	3,402	34,549	2,030,297	2,068,248
Accrued interest	–	2,544	112,877	115,421
Financing cash outflows	(1,207)	(24,427)	(1,900,619)	(1,926,253)
Interest paid	–	(2,544)	(112,877)	(115,421)
New leases entered	–	10,172	–	10,172
Financing cash inflows	–	–	2,141,875	2,141,875
Exchange realignment	136	1,068	95,463	96,667
As at 31 December 2020 and 1 January 2021	2,331	21,362	2,367,016	2,390,709
Accrued interest	–	2,773	90,191	92,964
Financing cash outflows	–	(5,705)	(1,615,733)	(1,621,438)
Interest paid	–	(2,773)	(90,191)	(92,964)
New leases entered	–	3,960	–	3,960
Financing cash inflows	–	–	1,981,036	1,981,036
Acquisition of subsidiaries (note 40(b))	–	–	72,013	72,013
Other borrowings under TRS transaction (note 20&32)	–	–	777,256	777,256
Exchange realignment	–	(583)	44,953	44,370
As at 31 December 2021	**2,331**	**19,034**	**3,626,541**	**3,647,906**

47. LITIGATION

With reference to the disclosure in the 2016 to 2020 annual report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "Tianjin Jingming"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2021, the court has concluded 56 cases, and Tianjin Jingming has appealed 2 cases against the judgement of first instance with aggregate compensation of approximately RMB1.69 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB30.96 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and Grand Pharm (China) had claimed the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgment by the court, the original shareholders of Tianjin Jingming should compensate to us approximately RMB8.09 million as the existing compensate and liquidated damages at the point of raising litigation. Grand Pharm (China) also has the right to raise litigation claiming the original shareholders of the Tianjin Jingming for the indemnification related to such product quality incident made by Tianjin Jingming in the future, the Directors therefore are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and after the first trial, second trial and retrial from the court, the court granted the final judgement in December 2020. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB11.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. Up to the date of this report, the Group has followed the judgement from the court and get back the RMB10 million deposited in the bank account jointly controlled by the Group and the vendors.

In June 2016, the Group has successfully applied to the court to freeze RMB20,000,000 (equivalent to approximately HK$22,414,000) assets of the original shareholders of Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company since January 2015 in order to secure the Group's pending responsibilities regarding certain litigations related to an incident as stated in a press release issued by the China National Food and Drug Administration (the "NMPA") on 14 April 2016, which is about a product quality incident related to some Ophthalmic Perfluoro propane Gases produced by Tianjin Jingming. According to the terms of the sales and purchase agreement in relation to the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for such product incident. The Group is claiming them for their responsibilities and also indemnified those related losses suffered by the Group.

47. LITIGATION *(Continued)*

(a) Writ issued in PRC by China Pharm (China) and original shareholders of Tianjin Jingming

Although such product incident is still under investigation, being taking up the social responsibilities and fulfilling related requirements, the Group had recalled all products of the related batches and also temporary suspended the production and sales of such related products. According to the terms of the Tianjin Jingming acquisition agreement, Tianjin Jingming had already fully settled the penalty of approximately RMB14,430,000 (equivalent to approximately HK$16,361,000) imposed by the NMPA. As at the date of this report, Tianjin Jingming is undertaking certain claim actions for approximately RMB16,540,000 (equivalent to approximately HK$18,762,000) given to the above incident. Given that (i) referring to the opinions from the professional organised by the NMPA, it is unable to identify the impurity that caused the product incident with the existing technology and it will need further investigation and research to find out the cause thereof; (ii) Ophthalmic Perfluoro propane Gases is not the core product of the Group, the Board considers that the suspension of the production of such product and the recall of the relevant batches by Tianjin Jingming do not have any material impact on the Group's operations or financial position; and (iii) according to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of the Tianjin Jingming should responsible for the compensation of such product incident. Hence, the Directors are of the view that the said incident and related litigations do not have material impact to the Group. For the detail information, please refer to the Group's interim report date on 20 September 2016.

On 22 August 2016, original shareholders of Tianjin Jingming filed its objection to the Rulings of Enforcement to the Wuhan Intermediate People's Court.

On 5 September 2016, the Group received the Wuhan Intermediate People's Court's dismissal to its objection.

(b) Writs issued in PRC by Tianjin Jingming and certain plaintiffs

In April and September 2016, the Group received writs issued by certain plaintiffs against Tianjin Jingming (as defendant) and demand for payment with claiming of plaintiffs legal charges.

On 17 January 2017, Tianjin Jingming received judgments dated 17 January 2017 issued by Beijing Haidian District People's Court. The court made orders to request Tianjin Jingming to provide the compensation payment with the relevant legal charges of approximately RMB3,952,000 (equivalent to approximately HK$4,619,000).

As at the date of this report, the court has concluded 56 cases, and Tianjin Jingming has appealed 2 cases with aggregate compensation of approximately RMB1.69 million. For the remaining cases, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB30.96 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and GrandPharma (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

47. LITIGATION *(Continued)*

(c) Writs issued in PRC by Grand Pharm (China)

Except the above litigation related to the product incident of Tianjin Jingming, according to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court and received the final judgement from the court in February 2018. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. The vendors subsequently applied for rehearing of the aforesaid judgement, and the matter will be reheard according to the court's judgement in December 2019, but it has reached final judgement from Hubei Higher People's Court (湖北省高級人民法院) that the appeal from the vendors has been rejected and uphold the verdict.

Save as disclosed above, as at 31 December 2021, so far as the Directors were aware, the Group was not engaged in any litigation or claims of material importance, and no litigation or claims of material importance are pending or threatened against the Group.

48. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties and motor vehicles for fixed terms of 2 years to 5 years. On the lease commencement, the Group recognised approximately HK$3,960,000 of right-of-use assets and approximately HK$3,960,000 of lease liabilities.

During the year, the Group entered into TRS transaction with Natixis and obtained interest on Grand Pharma Sphere Pte Ltd. The Group recognised approximately HK$777,256,000 of interests in associates and corresponding financial liabilities under bank and other borrowings respectively.

The Group entered in the above non-cash investing activities which are not reflected in the consolidated statement of cash flows.

49. EVENTS AFTER THE REPORTING PERIOD

On 16 February 2022, the Company entered into a equity investment agreement with ITM Isotope Technology Munich SE in Germany, pursuant to which the Company will subscribe its newly issued shares at a consideration of EUR25 million. Details of the acquisition of the ITM Isotope Technology Munich SE are disclosed in the announcement of the Company dated 16 February 2022 and 27 December 2021.

50. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to current year's presentation.

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 17 March 2022.