先聲藥業集團有限公司
Simcere Pharmaceutical Group Limited

(Incorporated in Hong Kong with limited liability)
Stock Code: 2096

ANNUAL REPORT 2021

Providing Today's Patients with
MEDICINES
of the Future

CONTENTS

CORPORATE INFORMATION

Executive Directors

Mr. REN Jinsheng *(Chairman and Chief Executive Officer)*
Mr. ZHANG Cheng[(1)]
Mr. WAN Yushan
Mr. TANG Renhong

Non-executive Director

Mr. ZHAO John Huan

Independent non-executive Directors

Mr. SONG Ruilin
Mr. WANG Jianguo
Mr. WANG Xinhua

Audit committee

Mr. WANG Xinhua *(Chairman)*
Mr. SONG Ruilin
Mr. WANG Jianguo

Remuneration and appraisal committee

Mr. WANG Jianguo *(Chairman)*
Mr. WANG Xinhua
Mr. REN Jinsheng

Nomination committee

Mr. SONG Ruilin *(Chairman)*
Mr. WANG Jianguo
Mr. REN Jinsheng

Strategy committee

Mr. REN Jinsheng *(Chairman)*
Mr. ZHAO John Huan
Mr. WANG Jianguo

Joint company secretaries

Mr. BAO Jun
Ms. MAK Po Man Cherie *(Member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute UK (formerly The Institute of Chartered Secretaries and Administrators))*
Ms. FENG Jie *(Resigned on June 30, 2021)*

Authorized representatives

Mr. BAO Jun
Mr. WAN Yushan

Hong Kong share registrar

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

Registered office

43/F, AIA Tower
183 Electric Road
North Point
Hong Kong

Headquarters and principal place of business in the PRC

No. 699-18, Xuanwu Road
Xuanwu District, Nanjing
Jiangsu
PRC

Company's website

http://www.simcere.com

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2096

Note:

(1) Mr. ZHANG Cheng resigned as an executive Director and the chief operating officer of the Company with effect from March 31, 2021.

CORPORATE INFORMATION

Principal banks

Bank of China Limited Nanjing Jiangbei New District Branch
No. 30, Wende Road
Pukou District, Nanjing
Jiangsu PRC

China Merchants Bank Co., Ltd., Nanjing Jiefang Road Sub-Branch
No. 53, Jiefang Road
Qinhuai District, Nanjing
Jiangsu PRC

Auditor

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance
8/F Prince's Building
10 Chater Road
Central, Hong Kong

Legal adviser

Tian Yuan Law Firm LLP
Suites 3304–3309
33/F, Jardine House
One Connaught Place
Central, Hong Kong

Compliance adviser

China Galaxy International Securities (Hong Kong) Co., Limited
20th Floor, Wing On Centre
111 Connaught Road Central
Sheung Wan
Hong Kong

COMPANY OVERVIEW

Business Highlights

The Group has achieved remarkable results in innovation-oriented transformation, and has become a pharmaceutical company focused on innovative pharmaceutical business. For the year ended December 31, 2021, revenue from innovative pharmaceuticals was approximately RMB3.120 billion, increased by approximately 53.8% compared to the same period last year. Revenue from innovative pharmaceuticals hits a record high, contributing 62.4% of the total revenue for the same period (32.9% and 45.1% for 2019 and 2020, respectively).

The Group's encouraging commercialization achievements are evidenced by the significant growth of sales revenue from self-developed innovative pharmaceutical, Sanbexin®, which fueled an increase by 119.3% in the revenue from the central nervous system business to RMB1.543 billion. A cooperative innovative pharmaceutical, ENWEIDA®, was approved for marketing in November 2021, bringing new opportunities for business growth.

The Group's clinical team has been consistently strengthened and is conducting 20 registration clinical studies for 17 potential innovative pharmaceuticals. Among them, a conditional application of Trilaciclib Hydrochloride for Injection has been submitted and included in the priority review as at the end of 2021. The progress of phase III pivotal clinical trial of Sanbexin sublingual tablets was beyond expectations, and all enrollment plans are expected to be completed in the first half of 2022.

The Group attaches great importance and devotes to innovative pharmaceutical R&D. Guided by clinical value, the Group adheres to differentiated strategy, and strengthens the layout of innovative targets and product portfolio in the strategically focused areas. For the year ended December 31, 2021, the Group has added 6 registered clinical trials for phase III, 2 trials for phase II, 3 trails for phase I, and obtained 12 Clinical Trial Approvals for drugs. The Group has completed the first patient in ("**FPI**") for 11 trials.

COMPANY OVERVIEW

Financial Highlights

For the year ended December 31, 2021, the Group recorded the following financial results:

- Revenue of approximately RMB5,000 million, representing an increase of approximately 10.9% compared to the year ended December 31, 2020;

- Research and development costs of approximately RMB1,417 million, which accounted for approximately 28.3% of revenue, representing an increase of approximately 24.1% compared to the year ended December 31, 2020;

- Profit for the year of approximately RMB1,499 million, representing an increase of approximately 125.6% compared to the year ended December 31, 2020;

- Basic earnings per share of approximately RMB0.58, representing an increase of approximately 107.1% compared to the year ended December 31, 2020.

COMPANY OVERVIEW

Simcere Pharmaceutical Group Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**" or "**us**") is an innovation, R&D-driven pharmaceutical company with capabilities in R&D, production and professional marketing.

The Group focuses on three therapeutic areas including oncology, central nervous system and autoimmune with forward-looking layout of disease areas that may have significant clinical needs in the future. In these three major areas, the Group has five innovative pharmaceuticals approved for marketing and sale (including an imported innovative pharmaceutical). As of December 31, 2021, the Group has over 10 products recommended in more than 40 guidelines and pathways issued by government authorities or prestigious professional associations, and has over 40 products included in the National Reimbursement Drug List (the "**NRDL**").

The Group pays high attention to the building of innovative pharmaceutical R&D capability and has realized functions covering the whole process from drug discovery, pre-clinical development, clinical trial to registration, and has established a State Key Laboratory of Translational Medicine and Innovative Drug Development. The Group establishes R&D innovative centers in Shanghai, Nanjing and Boston, and another innovative center is under preparation in Beijing. The Group has nearly 60 innovative pharmaceuticals in its R&D pipelines, and is conducting 20 registration clinical studies for 17 potential innovative pharmaceuticals. As of December 31, 2021, the Group had a R&D team of approximately 950 persons in total.

The Group has leading commercial capabilities with nationwide sales and distribution network. As innovative pharmaceuticals continue to be approved for marketing, the Group has constantly enhanced training and improved the professional academic promotion capabilities of its marketing team, so as to ensure the speed and efficiency of commercial promotion and to increase product coverage. As of December 31, 2021, the Group had a total of nearly 4,000 salespersons spanning across 31 provinces, municipalities and autonomous regions in China, covering over 2,700 Class III hospitals, approximately 17,000 other hospitals and medical institutions, as well as more than 200 large-scale national or regional pharmacy chains.

The Group establishes world-class manufacturing infrastructures and quality control standards, and has continuously improved its manufacturing capabilities of pharmaceuticals. The Group has put into use of 5 PRC GMP certified production facilities for the manufacturing of its pharmaceutical products, and has received EU GMP certification or passed the U.S. Food and Drug Administration ("**FDA**") inspection for some of its production workshops.

Driven by both independent and collective R&D efforts, the Group continuously develops the products with urgent patient demand and significant market potential, striving to achieve the corporate mission of "providing today's patients with medicines of the future".

Major Products

Central Nervous System Products
Sanbexin® (Edaravone and Dexborneol Concentrated Solution for Injection)

Oncology Products
Endostar® (Recombinant Human Endostatin Injection) ENWEIDA® (Envafolimab Injection)

Autoimmune Products
Iremod® (Iguratimod Tablets) ANTINE® (Diclofenac Sodium Sustained Release Capsules/Gel) Orencia® (Abatacept Injection)

Other Products
Softan® (Rosuvastatin Calcium Tablets) ZAILIN® (Amoxicillin Granules/Dispersible Tablets/Capsules)

CHAIRMAN'S STATEMENT

Dear Shareholders,

In recent years, China's innovative drug development has attracted more and more talents and capital, together with the huge unsatisfied market demand and the development of drug regulation and health insurance policies, these factors have become the four engines of development of China's biopharmaceutical industry. We believe that in the medium to long term, China's biopharmaceutical industry is full of opportunities with strong momentum.

We believe that for evaluating innovative pharmaceutical companies, the first is the percentage of innovative drug revenue, indicating the scale of innovative drug business, the second is the annual growth rate of innovative drug business, and the third is the intensity of investment in innovative drug research and development. In 2021, the Group's innovative drug revenue accounted for more than 60% of the total for the first time. It is expected that the Group will continue to increase the percentage of innovative drug revenue to 80% in the next few years, ensuring a 30%~50% annual growth rate of innovative drug revenue, while insisting on highly intensive and sustainable investment in R&D.

In 2021, Simcere made great progress in the R&D and marketing of innovative pharmaceuticals. Throughout the first year after its launch, our innovative drug, Sanbexin®, has been well-received by clinical experts and patients due to its excellent efficacy and safety. ENWEIDA® is a partnered product and has been approved for market, becoming the world's first subcutaneous PD-(L)1 product. The Group has effectively promoted clinical development and registration for Trilaciclib for Injection, which was included in the NDA priority review within only 15 months from contract signing, and is expected to benefit Chinese patients in 2022. Our pipeline of innovative pharmaceuticals has been continuously enriched, and more preclinical candidate compounds have entered clinical stage ahead of the schedule with encouraging progress.

In 2022, the Group's "focus on efficiency and adherence to differentiation" is the key to realizing the Group's innovation transformation. We will take steps in differentiated innovation. We shall pay attention to explicit operational performance, and also attach great importance to inexplicit performance like organizational capacity, talent pool and process optimization. The cornerstone of original innovation will be consolidated to strengthen our core competitiveness in terms of strategy execution, establishment of innovative pharmaceutical projects, clinical project advancement and commercialization. We will enter a new phase of growth and make unrelenting efforts to help patients and provide today's patients with medicines of the future.

REN Jinsheng
Chairman and Chief Executive Officer
March 24, 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

China has a large patient base with significant unsatisfied clinical needs, which has promoted the rapid development of the pharmaceutical market in recent years. Since 2016, the acceleration of pharmaceutical review and approval in China, the extended coverage of the NRDL and more investment from the capital market drove the booming development of the R&D of innovative pharmaceuticals. At the same time, there are general phenomena of followed innovation, the repeated R&D of popular targets and the serious homogenization of clinical trials of new pharmaceuticals. In 2021, the regulatory authorities issued the Guiding Principles for Anti-tumor Drugs-Oriented Clinical Research and Development by Clinical Value, which put forward the vigorous requirements for differentiated innovation as the source of evaluation to guide innovative pharmaceutical enterprises to avoid low-level duplication and develop products with the practical value of clinical innovation based on actual needs. Both pharmaceutical enterprises and innovative biotechnology corporations shall further prove their own capability on the two pivotal elements of registration for marketing and commercialization if they are willing to demonstrate innovation value. Since the development of innovative pharmaceuticals in China has entered the era of 2.0, innovative enterprises must adhere to being patient-oriented, keeping in line with the forward-looking differentiation in the pursuit of high-quality development, so as to develop the ability of professional and mature innovative drugs R&D and commercialization, thus attaining an advantageous position in competition and cooperation, and promoting a steady development of the enterprise.

Key Milestones

During the year ended December 31, 2021 (the "**Reporting Period**"), the Group made a series of advances in respect of its product candidates and business operations, including the following key milestones and achievements:

January 18, 2021	Trilaciclib Hydrochloride for Injection obtained the Clinical Trial Approval issued by the Center for Drug Evaluation (the "**CDE**") of National Medical Products Administration of China (the "**NMPA**"), which is designed for preventing chemotherapy-induced myelosuppression in patients with small cell lung cancer. On April 9, 2021 and June 10, 2021, the pharmaceutical product obtained another two phase III Clinical Trial Approvals issued by the NMPA for two indications: metastatic colorectal cancer and triple negative breast cancer, respectively.
February 9, 2021	Sevacizumab obtained the Clinical Trial Approval issued by the NMPA for treatment of malignant solid tumors.
February 16, 2021	Data from the result of phase III TASTE clinical study relating to Sanbexin® (edaravone and dexborneol concentrated solution for injection) was published in STROKE, a leading international authoritative medicine journal.
March 18, 2021	New indications of Endostar® (recombinant human endostatin injection) obtained the Clinical Trial Approval issued by the NMPA to conduct a phase III clinical study of Endostar® intrapleural injection for the treatment of malignant thoracoabdominal effusions.
March 29, 2021	The Group entered into an exclusive license agreement with Kazia Therapeutics, to introduce the right to develop and commercialize SIM0395 (PI3K/mTOR) for all indications in Greater China. On December 6, 2021, SIM0395 obtained the Clinical Trial Approval issued by the NMPA, which is designed for glioblastoma ("**GBM**"), including patients with new diagnosis and recurrence.

April 12, 2021	SIM0307 (AQP4) obtained the Clinical Trial Approval issued by the NMPA, which is designed for the treatment of acute severe ischaemic stroke complicated by cerebral oedema.
June 17, 2021	Lenvatinib mesilate capsules obtained the Clinical Trial Approval issued by the NMPA, which is used in a multi-center phase Ib/II clinical study for evaluation on treatment of advanced solid tumors with Envafolimab in combination with Lenvatinib. On September 2, 2021, the product obtained the Clinical Trial Approval for endometrial cancer.
June 29, 2021	The Group entered into a strategic regional licensing partnership under the license agreement to develop and commercialize two medicines targeting the neurotoxicity amyloid protein N3pE (pGlu-Aβ) for treating Alzheimer's disease ("**AD**") in Greater China with Vivoryon Therapeutics, namely SIM0408 (QPCT) and SIM0409(Aβ).
July 29, 2021	The clinical trial application for an open-label, multiple-cohorts and multi-institutional phase II clinical study on the efficacy and safety of Sevacizumab combination with Envafolimab with or without chemotherapy for the treatment of patients with advanced solid tumors obtained the Clinical Trial Approval issued by the NMPA.
November 17, 2021	The Group entered into a technology transfer agreement with Shanghai Institute of Materia Medica, Chinese Academy of Sciences ("**SIMM**"), etc., to obtain development, production and commercialization rights on an exclusive basis of the anti-novel coronavirus ("**SARS-CoV-2**") drug candidate SIM0417 (3CL) series worldwide.
November 25, 2021	ENWEIDA® (Envafolimab Injection), a single domain antibody against recombinant humanized PD-L1 and a protein fused with Fc, developed by the Group in collaboration with 3D Medicines (Beijing) Co., Ltd. ("**3D (Beijing) Medicines**") and Jiangsu Alphamab Biopharmaceuticals Co., Ltd. ("**Jiangsu Alphamab**"), has formally obtained the conditional approval for marketing in China by the NMPA.
November 29, 2021	The NMPA accepted the application for registration and marketing authorization for the overseas-manufactured drug of Trilaciclib Hydrochloride for Injection, which is intended for preventive use in the patients with extensive small cell lung cancer ("**ES-SCLC**") treated with platinum-containing drugs in combination with etoposide regimens to reduce the incidence of chemotherapy-induced myelosuppression. On December 22, 2021, the CDE officially included Trilaciclib Hydrochloride for Injection into the Priority Review Drug Species Designation.
December 6, 2021	SIM0235, a humanized antitumor necrosis factor receptor 2 ("**TNFR2**") monoclonal antibody independently developed by the Group, has obtained the Clinical Trial Approval issued by the NMPA, which is intended to be used for clinical trials of relapsed or refractory advanced solid tumors and cutaneous T-cell lymphoma ("**CTCL**").
December 15, 2021	The Group and Avilex Pharma ApS ("**Avilex**"), a Danish biotechnology company, announced to develop, manufacture and commercialize a drug candidate SIM0419 (PSD-95) for all indications in Greater China. SIM0419 is a dipeptide candidate drug for the treatment of numerous neurological diseases such as Acute Ischemic Stroke ("**AIS**") and subarachnoid hemorrhage ("**SAH**").

December 27, 2021	SIM0270, an oral brainpenetration selective estrogen receptor down-regulator ("**SERD**") inhibitor self-developed by the Company, has obtained the Clinical Trial Approval issued by the NMPA, and is proposed for a clinical trial for the treatment of ER-positive, HER-2 negative breast cancer.

Following the Reporting Period and up to the date of this report, the Group completed the following milestones:

January 29, 2022	SIM0235 (TNFR2) has obtained the Investigational New Drug ("**IND**") approval issued by the U.S. FDA, which is intended to be used for clinical trials of advanced solid tumors and CTCL.
February 23, 2022	The Group announced that the primary endpoint had been achieved in a randomized, double-blind, placebo-controlled, multi-center phase III clinical study (TRACES study) evaluating safety, efficacy and pharmacokinetics of Trilaciclib Hydrochloride for Injection in ES-SCLC patients who are receiving carboplatin in combination with etoposide or topotecan treatment, which has met the primary endpoint in efficacy.
February 24, 2022	SIM0408 (QPCT) obtained the Clinical Trial Approval issued by the NMPA, and is proposed for the treatment of mild cognitive impairment ("**MCI**") and dementia at mild stage caused by Alzheimer's disease.
March 18, 2022	The Group entered into a cooperation agreement with Lynk Pharmaceuticals Co., Ltd., pursuant to which, the Group has obtained the exclusive commercialization right of a selective JAK1 inhibitor for rheumatoid arthritis and ankylosing spondylitis indications in China.
March 21, 2022	SIM0272 (SCR-6920), the anti-tumor oral protein arginine methyltransferase 5 ("**PRMT5**") inhibitor self-developed by the Group has obtained the Clinical Trial Approval issued by the NMPA, which is intended to be used in the clinical trial for the treatment of advanced malignant tumors.
March 28,2022	SIM0417, the Group's 3CL oral drug, candidate had obtained the permission from NMPA to conduct clinical trials.

For details of each of the above, please refer to the announcements of the Company published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company.

Revenue

For the year ended December 31, 2021, the revenue of the Group was approximately RMB5.000 billion. In particular, the revenue from innovative pharmaceuticals has become the main source of revenue for the Group, amounted to approximately RMB3.120 billion, representing a significant increase of approximately 53.8%, compared to the revenue of RMB2.029 billion from innovative pharmaceuticals for the same period of 2020. The revenue from innovative pharmaceuticals hit a record high, contributing 62.4% of the total revenue for the same period to set a historic high (32.9% and 45.1% for 2019 and 2020, respectively).

The Group's main revenue concentrated on three major strategically focused areas: oncology, central nervous system and autoimmune. The Group generates revenue from sales of pharmaceutical products and promotion service. The increase of the Group's total revenue during 2021 was mainly due to the rapid increase in revenue from an innovative pharmaceutical, Sanbexin® (Edaravone and Dexborneol Concentrated Solution for Injection).

MANAGEMENT DISCUSSION AND ANALYSIS

Central Nervous System Products

Main products in this therapeutic area include Sanbexin®. For the year ended December 31, 2021, sales revenue from the central nervous system product portfolio reached approximately RMB1,543 million, accounting for approximately 30.9% of the Group's total revenue. Besides, the Group also generated revenue from provision of promotion service.

Sanbexin® (Edaravone and Dexborneol Concentrated Solution for Injection)

Sanbexin® is a category I innovative drug developed by the Group with proprietary intellectual property right and has been approved for marketing in China in July 2020. According to Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. ("**Frost & Sullivan**"), it has been the only pharmaceutical for the treatment of stroke which has obtained the approval for sale since 2015 worldwide.

- On February 16, 2021, data from the result of phase III TASTE Trial relating to Sanbexin® was published in STROKE, a leading international authoritative medicine journal. The trial included a total of approximately 1,200 acute ischemic stroke patients and was completed at 48 clinical centers in China, with randomized, double-blind, positive controlled, head-to-head comparison with edaravone monotherapy conducted. Data shows that Sanbexin® has the efficacy advantage and is fairly safe.

- On March 1, 2021, the updated NRDL was officially implemented. Sanbexin® was included in the NRDL on December 28, 2020.

- On August 27, 2021, Sanbexin® was recommended by the Specialists' Consensus on the Clinical Assessment and Treatment of Acute Cerebral Infarction Ischemic Penumbra in China. The recommended contents are: Edaravone and dexborneol concentrated solution blocks the cerebral ischemic cascade through multiple targets and has a protective effect on the ischemic penumbra, which is worthy of further clinical exploration (Level II recommendation, level B evidence).

- In September 2021, two studies of Sanbexin® were presented at the European Stroke Organization Conference ("**ESOC**"). In patients with large atherosclerosis (LAA) ischemic stroke, edaravone and dexborneol can achieve better functional outcomes than edaravone; in the rat model of global cerebral ischemia, edaravone and dexborneol concentrated solution for injection showed neuroprotective effect.

- In September 2021, a study at the scientific meeting of the American Heart Association ("**AHA**") Hypertension Council showed that in patients with a history of hypertension, edaravone and dexborneol had better functional outcomes than edaravone.

- In October 2021, a research result of the 25th World Congress of Neurology ("**WCN**") showed that edaravone and dexborneol combined with Alteplase was effective in the treatment of AIS, which could effectively improve neurological function, inhibit bleeding transformation and reduce cytokine level.

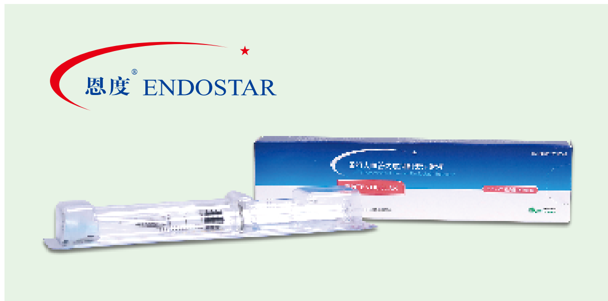
- On March 18, 2022, a study for evaluation of the efficacy and safety of Sanbexin® combined with reperfusion in the treatment of AIS patients (TASTE II) completed the FPI for the clinical trial. The study was led by Professor Wang Yongjun (王擁軍) of Beijing Hospital, Capital Medical University, with intended enrollment of more than 1,362 cases.

MANAGEMENT DISCUSSION AND ANALYSIS

Oncology Products

Main products in this therapeutic area include Endostar® (recombinant human endostatin injection), etc. For the year ended December 31, 2021, sales revenue from the oncology product portfolio reached approximately RMB1,200 million, accounting for approximately 24.0% of the Group's total revenue. Besides, the Group also generated revenue from provision of promotion service.

Endostar® (Recombinant Human Endostatin Injection)



Endostar® is the first proprietary anti-angiogenic targeted drug in China and the only endostatin approved for sale both at home and abroad. Endostar® has been included in the NRDL since 2017 and is recommended as a first-line treatment for patients with advanced non-small cell lung cancer ("**NSCLC**") by a number of oncology clinical practice guidelines issued by the National Health Commission of the PRC ("**NHC**"), Chinese Medical Association (中華醫學會) and Chinese Society of Clinical Oncology ("**CSCO**"). In September 2020, CSCO's Expert Committee on Antineoplastic Safety Management (中國臨床腫瘤學會抗腫瘤藥物安全管理專家委員會) and Expert Committee on Vascular Targeting Therapy (血管靶向治療專家委員會) published the Expert Consensus on the Clinical Application of Recombinant Human Endostatin to Treat Malignant Serous Effusion (《重組人血管內皮抑制素治療惡性漿膜腔積液臨床應用專家共識》) in Chinese Clinical Oncology. Based on the relevant translational research, clinical trial and real world study, the consensus aimed to provide guidance for the reasonable application of Endostar® in the clinical practice to treat malignant serous effusions (including malignant pleural effusions, malignant ascites and malignant pericardial effusions).

- On March 18, 2021, the Group obtained the Clinical Trial Approval issued by the NMPA for the phase III clinical trial of Endostar® on the new indication of malignant thoracoabdominal effusions, that is, a randomized, controlled and double-blind multicentre phase III clinical study of intracavitary injection with Endostar® in combination with Cisplatin versus Placebo in combination with Cisplatin for the treatment of malignant thoracoabdominal effusions (COREMAP study). The FPI for the clinical trial was completed on July 28, 2021.

- In April 2021, the Guidelines of Chinese Society of Clinical Oncology for the Diagnosis incorporated anti-angiogenesis therapy into the first-line recommended treatment of recurrent and metastatic nasopharyngeal carcinoma for the first time and recombinant human endostatin is the only recommended antiangiogenic drug.

- In June 2021, the American Society of Clinical Oncology ("**ASCO**") published 4 important research results in relation to Endostar® at its 57th annual meeting in the form of online abstract, including the combination with Nivolumab to treat non-small cell lung cancer, the combination with radiotherapy to treat nasopharyngeal carcinoma and the combination with chemotherapy to treat melanoma.

- In September 2021, 9 studies of recombinant human endostatin were selected at the 24th annual meeting of Chinese Society of Clinical Oncology and the 2021 CSCO annual meeting, and 1 study was presented at the European Society for Medical Oncology ("**ESMO**"), showing the antitumor effect of recombinant human endostatin in NSCLC, SCLC, melanoma, cervical cancer and other tumors.

ENWEIDA® (Envafolimab Injection)

ENWEIDA® is a single domain antibody against recombinant humanized PD-L1 and a protein fused with Fc. ENWEIDA® is the world's first PD-(L)1 antibody to be administered by subcutaneous injection approved for marketing. Its unique method of injection differentiates itself from other PD-(L)1 products currently on the market, with the advantages of short administration time and good safety. On March 30, 2020, the Group entered into a tripartite cooperation agreement in relation to Envafolimab with 3D (Beijing) Medicines and Jiangsu Alphamab. The above-mentioned agreement provides the Group with the exclusive right to promote Envafolimab for all oncology indications and the right of first refusal of external licensing or assignment in mainland China.

- In May 2021, the results of the world's first phase I clinical study of Envafolimab were published, which showed that subcutaneous injection of Envafolimab was an effective administration with good tolerance. With a wide range of doses and regimens, it had long-lasting antitumor activity in patients with responsive advanced solid tumors.

- In June 2021, the domestic multi-institutional phase II clinical trial was published online. Envafolimab showed good efficacy and safety for advanced solid tumors with microsatellite instability-high ("**MSI-H**") or mismatch repair gene-deficient ("**dMMR**") in phase II clinical study. As evaluated by BIRC, the overall response rate ("**ORR**") of all patients was 42.7%.

- On July 29, 2021, the Group obtained the Clinical Trial Approval issued by the NMPA for a multiple-cohort and multi-institutional phase II clinical trial on the efficacy and safety of Sevacizumab in combination with Envafolimab with or without chemotherapy for the treatment of patients with advanced solid tumors.

- On November 25, 2021, ENWEIDA® has obtained the conditional approval of marketing in China by the NMPA, applicable for treatment of adult patients with advanced solid tumors who have unresectable or metastatic MSI-H/dMMR, including those patients with advanced colorectal cancer who have experienced disease progression after being treated with fluorouracil, oxaliplatin and irinotecan previously, as well as other patients with advanced solid tumors who have experienced disease progression after previous treatment and no satisfactory treatment alternatives.

Autoimmune Products

Main products in this therapeutic area include Iremod® (Iguratimod Tablets), ANTINE® (Diclofenac Sodium Sustained Release Capsules/Gel) and Orencia® (Abatacept Injection). For the year ended December 31, 2021, sales revenue from the autoimmune product portfolio reached approximately RMB892 million, accounting for approximately 17.8% of the Group's total revenue. Besides, the Group also generated revenue from provision of promotion service.

Iremod® (Iguratimod Tablets)

Iremod® is the first iguratimod pharmaceutical product approved for marketing in the world and the only of its kind approved for marketing in mainland China, and is the only small molecule DMARD developed independently and marketed in China in the recent ten years. Iremod® has been included in the NRDL since 2017 and is recommended as the primary therapy drug for the treatment of active rheumatoid arthritis by a number of clinical practice guidelines and pathways issued by the NHC, Chinese Medical Association, Asia Pacific League of Associations for Rheumatology and the Ministry of Health, Labor and Welfare of Japan. Currently, the Group is actively promoting the indication expansion program on Sjögren's syndrome for this product. In April 2020, Iremod® was adopted in the "Primary Sjögren's Syndrome Diagnosis and Treatment Standards" (《原發性乾燥綜合徵診療規範》) issued by the Division of Rheumatology of the Chinese Medical Doctor Association (中國醫師協會風濕免疫科醫師分會).

- In March 2021, the results of the phase IV prospective real-world study on Iremod® were published online in *The Lancet Regional Health-Western Pacific*, a sub publication of The Lancet. 1,759 patients were enrolled in this study, which made up for the lack of evidence of large-sample Iguratimod in China and provided a new guiding basis for clinical safe and rational drug use.

- On April 28, 2021, the FPI for the phase II clinical research on the treatment of active primary Sjögren's syndrome with Iremod® was enrolled.

- In June 2021, two important studies on Iremod® were selected for the poster of the annual meeting of the European League Against Rheumatism ("**EULAT**").

- In November 2021, a study of iguratimod for active spinal arthritis was selected at the American College of Rheumatology ("**ACR**"), which showed iguratimod could significantly reduce the symptoms of patients with SpA in activity with great safety and tolerance as a whole.

Other Products

Main products of other therapeutic areas include Softan® (Rosuvastatin Calcium Tablets) and ZAILIN® (Amoxicillin Granules/Dispersible Tablets/Capsules). For the year ended December 31, 2021, sales revenue from the said product portfolio reached approximately RMB958 million, accounting for approximately 19.2% of the Group's total revenue. Besides, the Group also generated revenue from provision of promotion service.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development

The Group pays high attention to the R&D of innovative pharmaceutical and continues to increase R&D investment year on year. During the year ended December 31, 2021, R&D investment amounted to approximately RMB1,417 million, accounting for approximately 28.3% of the revenue (the Group's R&D investment accounted for 14.2% and 25.3% in 2019 and 2020, respectively), representing an increase of approximately RMB275 million or 24.1% compared to the same period of 2020.

The Group's R&D strategy continues to focus on the three advantageous therapeutic areas: oncology, central nervous system and autoimmune with forward-looking layout of disease areas that may have clinical needs in the future, and develops products covering both small molecule chemical drugs and large molecule biologics. The Group pays high attention to the building of innovative pharmaceutical R&D ability, and establishes innovative drug R&D centers in Shanghai, Nanjing and Boston, and another innovative drug R&D center is under preparation in Beijing. As at December 31, 2021, the Group had approximately 950 R&D fellows (including approximately 120 doctors and 480 masters) in which the clinical study team had expanded rapidly to approximately 300 team members. The drug R&D of the Group has realized functions covering the whole process from drug discovery, pre-clinical development, clinical trial to registration, and a State Key Laboratory of Translational Medicine and Innovative Drug Development has been established.

As of the date of this report, the Group currently has nearly 60 innovative pharmaceutical projects in its R&D pipeline with 20 innovative product candidates in its pipeline in the stage of clinical with 7 phase III clinical trials, 5 phase II clinical trials, and 8 phase I clinical trials.

For the year ended December 31, 2021, there are additional 6 phase III clinical trials included Trilaciclib Hydrochloride for Injection (for SCLC, CRC and TNBC), Sevacizumab (for ovarian cancer), Endostar® for new indications (for thoracoabdominal effusions) and SIM0395 (glioblastoma); additional 2 phase II clinical trials included docetaxel polymeric micelles for injection (for solid tumor) and Sevacizumab in combination with Envafolimab (for solid tumor); additional 3 phase I clinical trials included SIM0307 (stroke with cerebral oedema), SIM0235 (for solid tumor) and SIM0270 (breast cancer); there were additional 7 self-developed candidate molecule PCC.

For the year ended December 31, 2021, the Group completed the FPI for 11 trials: SIM0201 (January 5, for solid tumor), SIM0295 (January 11, for gout with hyperuricemia), SIM0335 (March 30, for psoriasis), new indication of Iremod® (April 28, for Sjögren's syndrome), Trilaciclib (May 25, for small cell lung cancer), Sevacizumab (June 11, for ovarian cancer), Sanbexin sublingual tablets (June 28, for acute ischemic stroke), Endostar® for new indications (July 28, for thoracoabdominal effusions), Trilaciclib (September 24, metastatic colorectal cancer), SIM0307 (December 8, for cerebral oedema) and Envafoilmab+Sevacizumab (December 22, for solid tumor).

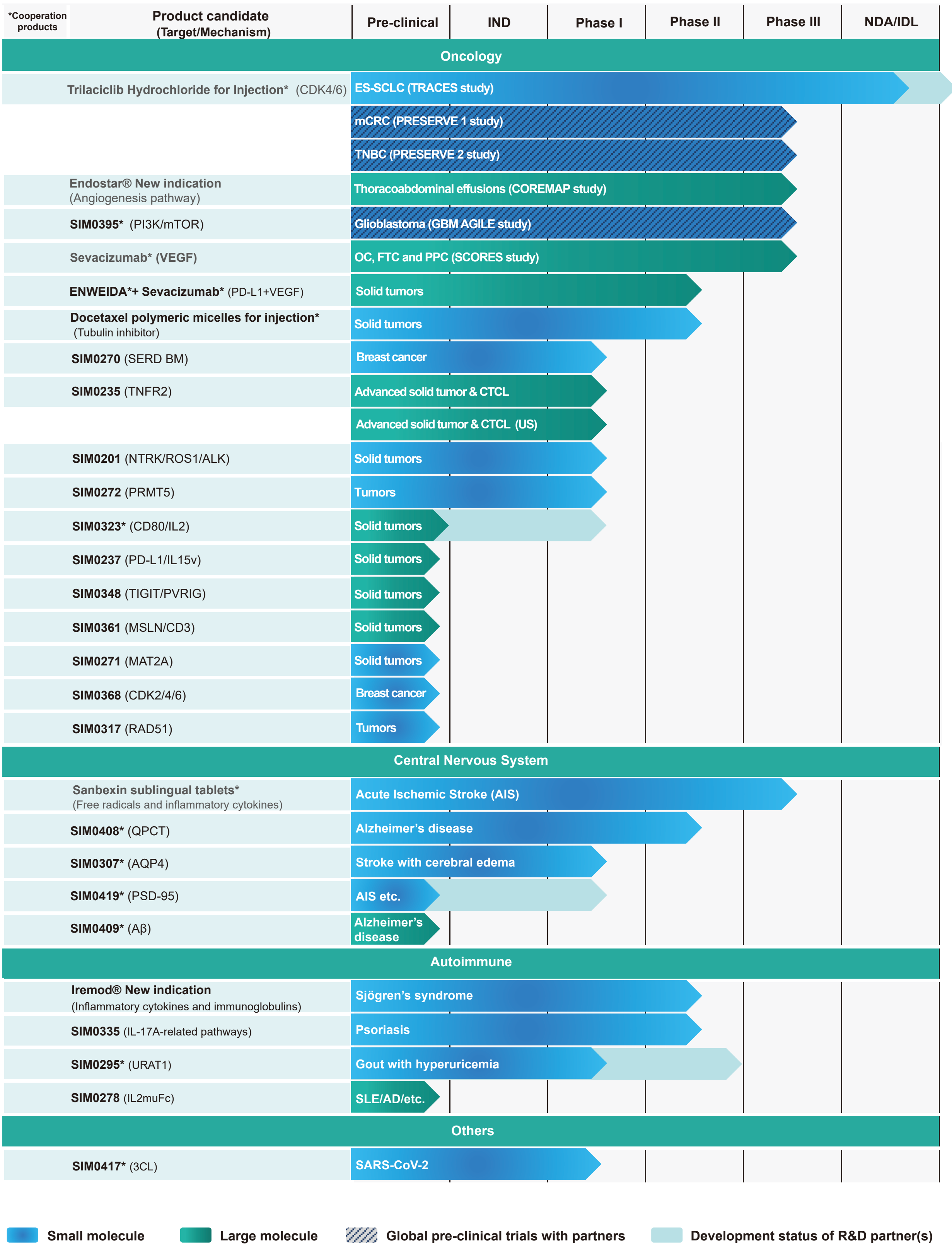


Chart The Group's Major Innovative Pharmaceutical Candidates and Their Development Status as at the Date of This Report

Meanwhile, the Group attaches great importance to the protection of intellectual property rights. For the year ended December 31, 2021, the Group had 223 new patent applications (including domestic and overseas unpublished patent applications): 210 invention patent applications, 10 utility model patent applications and 3 appearance design patent applications. As at December 31, 2021, the Group has accumulatively obtained 199 invention patents, 80 utility model patents and 20 appearance design patents.

For the year ended December 31, 2021, the Group obtained approvals for 7 generic pharmaceuticals including Celecoxib capsules (0.2g), mycophenolate mofetil capsules (0.25g), nifedipine controlled-release tablets (30mg), bendamustine hydrochloride for injection (25mg), bendamustine hydrochloride for injection (100mg), lenvatinib mesilate capsules (4mg) and amoxicillin and clavulanate potassium tablets (0.625g). Meanwhile, it obtained 5 consistency evaluation applications regarding bortezomib for injection (1.0mg), bortezomib for injection (3.5mg), pemetrexed disodium for injection (0.1g), pemetrexed disodium for injection (0.5g) and nedaplatin for injection (10mg).

Drug Candidates in the NDA Stage

Trilaciclib Hydrochloride for Injection ("**Trilaciclib**") is an effective, selective and reversible cyclin-dependent kinases 4 and 6 ("**CDK4/6**") inhibitor. This first-in-class innovative drug can transiently retard hematopoietic stem cells and progenitor cells in G1 phase of cell cycle, thereby protecting bone marrow cells from damages of cytotoxic chemotherapy. In August 2020, the Group entered into the exclusive license agreement with G1 Therapeutics to develop and commercialize Trilaciclib Hydrochloride for Injection in Greater China. On February 13, 2021, the product was approved for sale by the U.S. FDA, with the indication being preventive use in small cell lung cancer patients treated with a platinum-containing regimen in combination with etoposide-containing regimen or topotecan-containing regimen, to decrease the incidence of chemotherapy-induced myelosuppression.

- On January 18, 2021, Trilaciclib Hydrochloride for Injection obtained the Clinical Trial Approval issued by the NMPA, to conduct the phase III clinical trial for small cell lung cancer patients. On May 25, 2021, the FPI for this trial has been completed.

- On March 23, 2021, Trilaciclib Hydrochloride for Injection was recommended by the National Comprehensive Cancer Network ("**NCCN**") Guidelines.

- On April 9, 2021, the Group obtained the Clinical Trial Approval issued by the NMPA for one phase III clinical trial of the product for indications of metastatic colorectal cancer ("**mCRC**"), which were incorporated into an international multi-centre phase III clinical trial program of Trilaciclib for mCRC with FOLFOXIRI/bevacizumab (PRESERVE1 Study). On September 24, 2021, the FPI for this trial has been completed in China.

- On June 2, 2021, the product was firstly prescribed in International Medical Tourism Pilot Zone, Boao Hope City, Hainan Free Trade Port in mainland China, and initiated the real world study (Trila-CN-RWS-001 study). As of December 2021, 30 patients have been enrolled in this study.

- On June 10, 2021, the Group obtained the Clinical Trial Approval issued by the NMPA for one phase III clinical trial of the product for indications of triple negative breast cancer, which were incorporated into an international multi-centre phase III clinical trial program of Trilaciclib for triple negative breast cancer with gemcitabine and carboplatin (PRESERVE2 Study). On January 7, 2022, the FPI for this trial has been completed in China.

- On November 29, 2021, the NMPA accepted the application for registration and marketing authorization (NDA) for the overseas-manufactured drug of Trilaciclib Hydrochloride for Injection. On December 22, 2021, the CDE officially included Trilaciclib Hydrochloride for Injection into the Priority Review Drug Species Designation.

- On February 23, 2022, a randomized, double-blind, placebo-controlled, multi-center phase 3 clinical study (TRACES study) evaluating safety, efficacy and pharmacokinetics of Trilaciclib Hydrochloride for Injection in ES-SCLC patients who are receiving carboplatin in combination with etoposide or topotecan treatment, has met the primary clinical endpoint. Based on the evaluation of the topline data, Trilaciclib Hydrochloride for Injection significantly reduced the duration of severe neutropenia ("**DSN**") in the first phase compared with the placebo group. The relevant research results will be published at the academic conference in the future.

Drug Candidates in the Clinical Stage

Sanbexin sublingual tablets are the solid dosage form of edaravone dexborneol compound. Its administration of this compound inhibits inflammations, is to prevent free radicals and protect the blood-brain barrier, minimizing brain cell injury or impairment caused by AIS. Sequential therapy consisting of Sanbexin sublingual tablets and edaravone and dexborneol concentrated solution for injection is expected to enable patients to receive a timely and complete treatment. In addition, administration of sublingual tablets is less dependent on medical facility conditions or compliance of patients, which makes it more suitable for research on new indications such as other chronic central nervous system diseases.

- In December 2020, the product was approved by the CDE to conduct the phase III clinical study directly after the phase I clinical trial. On June 28, 2021, the FPI for the phase III clinical study for the treatment of AIS with Sanbexin sublingual tablets was completed. As at 31 December 2021, this clinical study has completed 519 patients in, and is planning to complete interim analysis and realize the enrollment of all patients and Database Lock in the first half of 2022.

SIM0395 (Paxalisib) is a PI3K/mTOR pathway inhibitor that can penetrate the blood-brain barrier. A phase II clinical study showed that Paxalisib showed encouraging clinical efficacy signals in patients with MGMT unmethylated glioblastoma. Paxalisib was awarded the GBM orphan drug certification by FDA in 2018 and the fast track certification by FDA, the rare childhood disease and orphan drug certification of diffuse endogenous pontine glioma (DIPG) in 2020. In March 2021, the Group entered into an exclusive license agreement with Kazia for the development and commercialization rights of SIM0395 for all indications in the Greater China region. At present, the partner Kazia is in the international multi-center key clinical trial for glioblastoma (GBM AGILE Study).

- On December 6, 2021, SIM0395 obtained the Clinical Trial Approval issued by the NMPA, which is designed for GBM, including patients with new diagnosis and recurrence.

Sevacizumab is a new-generation recombinant humanized anti-vascular endothelial growth factor (anti-VEGF) monoclonal antibody. In its pre-clinical studies, Sevacizumab has shown higher anti-tumor efficacy than bevacizumab at the same dose in multiple cancer models. In the phase I clinical trial conducted in China for the treatment of ovarian cancer, preliminary results showed a favorable safety profile and efficacy signals.

- On February 9, 2021, the NMPA issued the Clinical Trial Approval for the initiation of phase III study for the treatment of malignant solid tumors with Sevacizumab.

- On June 11, 2021, the FPI for the phase III clinical trial of Sevacizumab in combination with chemotherapy compared with placebo in combination with chemotherapy in patients with recurrent epithelial ovarian cancer, fallopian tube cancer and primary peritoneal cancer who failed to be treated with platinum chemotherapy regimen (SCORES Study) was completed.

- On July 29, 2021, the Group obtained the Clinical Trial Approval issued by the NMPA for a multiple-cohorts and multi-institutional phase II clinical trial to evaluate the safety and efficacy of Sevacizumab in combination with Envafolimab with or without chemotherapy in patients with advanced solid tumors.

Docetaxel polymeric micelles for injection The polyethylene glycol monomethyl ether-polylactic acid block copolymer (mPEG-PDLLA), an amphiphilic biocompatible biodegradable material, is used as the solubilizing carrier of docetaxel to reduce the allergy and hematotoxicity of docetaxel injection to facilitate clinical application. In September 2020, the Group reached a global cooperation with Suzhou Hightechbio Biotechnology Co., Ltd. on this product.

- On October 28, 2021, the phase II clinical trial on Docetaxel micellar polymer for injection for solid tumors was launched in China.

SIM0270 is the second-generation oral SERD with blood-brain barrier-penetrating properties independently developed by the Group. The efficacy of SIM0270 in the in vivo model is significantly better than the only SERD-type fulvestrant for intramuscular injection currently on the market in the world, and is equivalent to the efficacy of the leading compound in the clinical trial stage. It reflects a brain-to-blood ratio significantly better than competing compounds and also shows a tumor-inhibiting drug therapy far superior to fulvestrant on the brain orthotopic model of breast cancer. It is expected to be used for the treatment of breast cancer with brain metastases.

- On December 27, 2021, SIM0270 (SCR-6852 capsules) obtained the Clinical Trial Approval issued by the NMPA, which is intended for the clinical trial of ER+/HER2-breast cancer.

SIM0235 is a tumor-immune target human immunoglobulin G1 ("**IgG1**") humanized anti-tumor necrosis factor type 2 receptor ("**TNFR2**") monoclonal antibody independently developed by the Group. The preclinical pharmacodynamic model shows single-agent efficacy equivalent to PD-L1 and the potential and superior safety in combination with PD-1. SIM0235 can specifically recognize TNFR2 expressed on the cell surface and kill immunosuppressive cells such as regulatory T cells ("**Treg**") and bone marrow derived suppressor cells ("**MDSC**") with high expression of TNFR2 through Fc end functions including antibody dependent cell-mediated cytotoxicity (ADCC) and antibody dependent cell-mediated phagocytosis ("**ADCP**"). At the same time, it can also block the activation of endogenous tumor necrosis factor ("**TNF**") on TNFR2, inhibit the immunosuppressive function mediated by TNFR2 and the proliferation of related TNFR2 + immunosuppressive cells Treg and MDSC, enhance the body's killing immune response to tumor and play an anti-tumor role. In addition, SIM0235 can specifically recognize TNFR2 expressed on the surface of tumor cells and directly kill tumor cells with high expression of TNFR2 through the effector function mediated by Fc end of antibody.

- On December 6, 2021, SIM0235 (SIM1811-03 injection) obtained the Clinical Trial Approval issued by the NMPA. On March 16, 2022, the FIH for phase I clinical trial of SIM0235 was completed in China.

- On January 29, 2022, the application for IND of the drug was approved by the U.S. FDA to carry out the clinical trial of advanced solid tumor and skin CTCL.

SIM0307 is an Aquaporin-4 (AQP4) inhibitor developed based on the Aquaporin water channel theory which has been awarded the Nobel Prize. It is intended for the treatment of acute severe ischaemic stroke complicated by cerebral oedema, as a first-in-class small molecule drug with a novel mechanism of action for brain oedema therapy. The Group entered into a license agreement with Aeromics, Inc. in October 2019, pursuant to which the Group obtained a proprietary and sublicensable license for its self-funded research, development, production and commercialization of SIM0307 in the Greater China region.

- On April 12, 2021, SIM0307 obtained the Clinical Trial Approval issued by the NMPA and initiated the phase I clinical trial study in China. On December 8, 2021, the FPI for the study was completed.

SIM0408 is an oral small molecule inhibitor targeting glutamine acyl cyclase (QPCT). By inhibiting QPCT to prevent the formation of toxic N3pE starch protein. SIM0408 can play a role in the early stage of disease, which may prevent neuronal damage.

- On June 29, 2021, the Company established a strategic regional licensing partnership with Vivoryon Therapeutics N.V. ("**Vivoryon**") for the development and commercialization of SIM0408 and other drugs in Greater China. At present, the global clinical research and development of partners in the treatment of early Alzheimer's disease has entered clinical phase II, and entered phase IIb (VIVIAD Study) and phase IIa/b (VIVA-MIND study) in Europe and the United States respectively.

- On December 20, 2021, FDA has granted "Fast Track" accreditation to the candidate drug.

- On February 24, 2022, SIM0408 (Hydrochloride PQ912 tablets) has obtained the Clinical Trial Approval issued by the NMPA, which is intended for the treatment of MCI or mild dementia caused by AD and the support for the phase I and phase II clinical trial in China.

SIM0335 is an innovative small molecule drug by the Group's in-house R&D efforts, a category I drug candidate and the first of its kind in the world that controls fatty acid metabolism and works on IL-17A-related pathways, intended for the treatment of mild to moderate plaque psoriasis through topical administration.

- On March 30, 2021, the FIH for the phase I clinical trial of SIM0335 was completed. Phase I clinical results showed that the systematic exposure was low and the systematic safety risk was expected to be small.

- On March 16, 2022, phase IIa clinical trial of SIM0335 obtained the relevant ethical approval documents, and the recruitment of relevant patients was launched in China.

SIM0272 is a PRMT5 inhibitor self-administered by the Group with high PRMT5 inhibitory activity and high selectivity. PRMT5 is overexpressed in many cancers, including lung, breast, gastric, colorectal, ovarian, leukaemia and lymphoma, and is associated with progression and poor prognosis in most cancers. Preclinical pharmacokinetic studies revealed that SIM0272 tended to distribute within the tumor with an intratumoral drug concentration to plasma drug ratio of approximately 10 times that of other in study PRMT5 inhibitors and exhibits proliferation inhibitory activity against a variety of hematologic and solid tumor cells in vitro, with the potential to substantially reduce plasma exposure and target related hematologic toxic side effects while inhibiting tumors.

- On March 21, 2022, SIM0272 obtained the Clinical Trail Approval for drugs issued by the NMPA, which is intended for conducting clinical trials for advanced malignant tumors.

SIM0417 On November 17, 2021, the Group entered into a technology transfer contract with SIMM, etc., pursuant to which the Group will obtain development, production and commercialization rights on an exclusive basis of the SARS-CoV-2 drug candidate SIM0417 series worldwide.

SIM0417 can replicate 3CL, a key protease essential against SARS-CoV-2 virus, and has shown good safety, in-vivo pharmacokinetics and broad-spectrum antiviral activity in pre-clinical study: (1) No drug toxicity was found in safety pharmacology, 14 day repeated administration toxicity (GLP) toxicology and genotoxicity; (2) Lung tissue is highly exposed and human plasma protein binding rate is lower; (3) Good antiviral activity against a variety of COVID-19 variants, including wild-type, Delta and Omicron strain has been exhibited with the effect to inhibit virus replication in lung and brain tissue and protect tissue damage caused by virus infection. The research results will be published in academic journals or conferences.

- On March 28, 2022, SIM0417 had obtained the permission from NMPA to conduct clinical trials.

- On April 10, 2022, the FIH for the phase I clinical trial of SIM0417 was completed.

As of the date of this report, the Group is actively communicating with regulatory authorities and clinical researchers and effectively promoting on the clinical trials and the implementation plan of subsequent clinical studies.

Selected Drug Candidates in the Pre-clinical Stage

SIM0323 is the first-in-class CD80/IL-2 bifunctional fusion protein developed by the Group and GI Innovation, Inc. The preclinical pharmacodynamic model shows significant single-drug efficacy and the potential for combined use with other anticancer drugs, such as in PD-1 inhibitors and chemotherapeutics.

- On April 21, 2021 and June 10, 2021, the partner was approved for clinical trials by the Korean Ministry of Food and Drug Safety and the U.S. FDA to carry out phase I/II clinical trials of the drug.

- On July 28, 2021, the Group submitted the pre-IND application to the CDE.

SIM0278 is a Treg-preferred IL2 fusion protein with high bioavailability. Preclinical studies have found that SIM0278 can better target the activation function of Teff/NK cells, a larger Treg/Teff treatment window, excellent PK, PD and safety (monkey). It can develop subcutaneous injection type and is expected to have good patient compliance. It is an important cornerstone candidate drug of Treg-Centric strategy.

SIM0419 is a dimer peptide candidate drug (AVLX-144) that the Group cooperates with Avilex, a Danish biotechnology company, and is intended to be used for the treatment of a variety of neurological diseases such as AIS and SAH. The action target is PSD-95. PSD-95 can induce the production of neuroexcitotoxic substances and damage neurons by forming a complex with N-methyl-D-aspartate ("**NMDA**") receptor and neuronal nitric oxide synthase ("**nNOS**"), one of the subtypes of glutamate receptor. SIM0419, as a dimer inhibitor of PSD-95, can simultaneously bind to two PDZ domains in PSD-95 and block the interaction between PSD-95, NMDA and nNOS. Its molecular structure has been optimized to have higher affinity, higher stability and stronger neuroprotective activity.

- The partner has completed the phase I study of the molecular evaluation of safety and tolerance overseas in May 2021, and is about to enter the phase II clinical study.

SIM0348 is a self-developed TIGIT dual antibody that more potently activates T/NK cells by simultaneously targeting TIGIT and PVRIG modulating immunosuppressive signals, enhances CD8+T cell costimulatory signals, optimizes Fc function, and potently kills TIGIT+ Treg cells. Preclinical studies have shown that SIM0348 can effectively promote the killing of NK cells on human colorectal cancer cells and significantly enhance the release of IFN-γ factor of antigen-specific CD8+T cells, and its single agent in vitro activity and efficacy are significantly superior to those of Tiragolumab, achieving 1+1>2 efficacy with more superior PD-(L)1 synergy.

SIM0317 a RAD-51 inhibitor self-administered by the Group. RAD51 is an enzyme that repairs DNA double strand breaks by homologous recombination and is lowly or not expressed in normal tissues but highly expressed in some cancer cells. Downregulation of RAD51 reduces the DNA damage repair ability of tumor cells, thereby improving the efficacy of tumor treatment. SIM0317, as a new generation RAD51 inhibitor, exhibited significant and specific antiproliferative activity against human lymphoma Daudi cells in vitro, resulting in synergistic anticancer responses in lymphoma and solid tumor cell lines when combined with chemotherapeutic or DDR targeting agents.

SIM0361 is a CD3 multispecific antibody targeting MSLN based on SMART, an autonomously developed CD3 multispecific antibody platform by the Group. Mesothelin (MSLN), a glycoprotein overexpressed on the cell surface of a variety of malignancies, is a potential therapeutic target for haematological neoplasms such as acute myeloid leukaemia (AML) and several solid tumours such as mesothelioma, cholangiocarcinoma, ovarian, pancreatic, lung, breast and gastric cancers. SIM0361 is able to target both the distal and proximal membrane ends of MSLN, and is more conducive to the formation of immunological synapse and tumor cell killing by T cells, in vitro cell killing experiments and in vivo drug efficacy experiments, and all significantly outperformed the positive control antibody targeting the distal membrane end alone. Meanwhile, SIM0361 employed the design of a low affinity CD3 terminus to reduce Treg priming and T cell depletion, enhancing their anti-tumor effects in the solid tumor microenvironment.

SIM0271 is an autonomously developed MAT2A inhibitor by the Group, which significantly improved target selectivity and demonstrated superior proliferation inhibition activity in a variety of solid tumor cells, as well as superior tumor inhibition in in-vivo models. Moreover, benefitting from improved selectivity, SIM0271 was well tolerated in preclinical multispecies safety experiments, and elevated bilirubin levels in animals were not observed even at high dose conditions.

SIM0368 is a highly active inhibitor against CDK2/4/6 developed autonomously by the Group, which exhibited high inhibitory activity not only against CDK4/6-resistant cell lines but also against multiple breast cancer tumor cell lines, including HR positive and triple negative breast cancer cell lines. In vivo drug effect studies showed superior or comparable tumor growth inhibition with other CDK2/4/6 inhibitors in OVCAR3 SIM0368 versus CDK4/6-sensitive MCF7 xenograft tumor mouse models at equivalent doses.

Impact of Covid-19

In early 2020, in order to control the spread of COVID-19, the Chinese government adopted certain emergency measures, including extending the Lunar New Year holiday, implementing a travel ban, blocking certain roads and suspending the operation of factories and enterprises. As of the date of this report, the Chinese government has greatly relaxed these emergency measures. However, COVID-19 cases (including COVID-19 Delta and Omicron variants) have continued to increase in many cities in China. Several measures have been resumed to control the COVID-19, including travel restrictions.

Even under such circumstances, the Group expects that the COVID-19 will not have a significant impact on its business operation and financial condition, mainly due to (i) since April 2020, the number of visits of Chinese medical institutions has gradually returned to the pre-pandemic level, and the market demand for the Company's products has increased; and (ii) the COVID-19 has no prolonged effect on the Group's R&D pipeline and production plan. Therefore, the Group's adequacy of capital liquidity and working capital can meet the Company's operational needs and capital commitments.

In order to reduce the risk of cross infection of office employees caused by the COVID-19, the Group adopted a strict disease prevention plan. The measures taken by the Group include: requiring to wear masks when working, disinfecting the workplace twice a day, installing medical air purification filters in the office, measuring the temperature of employees twice a day, and arranging home office arrangements where there is an outbreak of COVID-19.

The Group will pay close attention to the development of the COVID-19 (including the subsequent outbreak caused by the new variant of the COVID-19, if any), further evaluate its impact, follow the applicable regulatory guidelines on clinical trials during the COVID-19, strive to reduce delays and interruptions, and take relevant measures to minimize the pandemic's impact.

Liquidity and Financial Resources

The Group maintained a sound financial position. As at December 31, 2021, the Group had cash and cash equivalents of approximately RMB973 million (as at December 31, 2020: approximately RMB3,270 million), and time deposits of approximately RMB1,620 million (as at December 31, 2020: nil). As at December 31, 2021, the Group had a balance of bank loans of approximately RMB1,530 million (as at December 31, 2020: approximately RMB3,068 million), of which RMB1,530 million (as at December 31, 2020: RMB1,793 million) would mature within one year. For details of the maturity profile of bank loan, currency and interest rate structure, please refer to notes 25 and 36 of the Notes to the Financial Statements. As at December 31, 2021, the gearing ratio of the Group (total liabilities divided by total assets) was approximately 36.4% (as at December 31, 2020: approximately 51.2%).

Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved. The Group expects to fund its working capital and other capital requirements from a combination of various sources, including but not limited to internal financing and external financing at reasonable market rates. In order to better control and minimize the cost of funds, the Group's treasury activities are centralized.

Most assets and liabilities of the Group were denominated in RMB, HKD and EUR. The Group manages the foreign exchange risks by closely monitoring the net exposure of foreign exchange risk to minimize the impact of foreign exchange fluctuations. The Group can apply forward foreign exchange contracts to hedge the foreign exchange risk of some assets and liabilities denominated in EUR and potential transactions with high probability, so as to reduce the risk caused by fluctuations of exchange rate.

Pledge of Group's Assets

As at December 31, 2021, the Group pledged bills receivable of approximately RMB81 million for issuance of bank acceptance bills and pledged bank deposits of approximately RMB1.58 million for issuance of letter of guarantee.

Contingent Liabilities

As at December 31, 2021, the Group had no contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Investments Held

During the year ended December 31, 2021, the Group did not have any significant investments.

Future Plans for Material Investments and Capital Assets

Save as disclosed in "Use of Proceeds from the Listing" below in this report, as at December 31, 2021, the Group did not have any other future plans for material investments and capital assets.

Material Acquisitions and Disposals

During the year ended December 31, 2021, the Group entered into the Share Purchase Agreement with Simcere Investment Group Limited ("**SIG**", formerly known as Excel Good Group Limited) and Simgene Group Limited ("**Simgene**") on April 15, 2021, pursuant to which the Company agreed to sell 100% of the total issued share capital of Simgene to SIG for a consideration of RMB104.17 million. For details, please refer to the announcement of the Company dated April 15, 2021 in respect of the connected transaction in relation to disposal of subsidiaries. Save as disclosed above, during the year ended December 31, 2021, the Group has no material acquisition or disposal of subsidiaries, associates and joint venture.

Employees and Remuneration Policy

As at December 31, 2021, the Group had a total of 6,182 full-time employees. The Group attached great importance to the recruitment, training and retention of outstanding employees, maintained a high standard in selecting and recruiting talents worldwide, and offered competitive compensation packages. The remuneration of employees mainly included basic salary, performance-based bonus and long-term incentives. Remuneration of the full time directors of the Company (the "**Directors**") and senior management who worked full time for the Company shall be determined by the Remuneration and Appraisal Committee under the board of Directors (the "**Board**") with reference to the principal duties of relevant managerial positions, the results of performance assessment, as well as the remuneration level in the market. During the year ended December 31, 2021, staff costs (including emoluments, social insurance and other benefits of the Directors) amounted to approximately RMB1,465 million. The Group established Simcere Institute, providing employees with training on a regular basis, including orientation programs and technical training for new employees, professional and management training for middle and senior management, and health and safety training across all staff.

Defined Contribution Retirement Plan

The Group only operates defined contribution pension plans. Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement plan administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the plan to fund the retirement benefits of the employees.

No forfeited contribution (by the Group on behalf of its employees who leave the scheme prior to vesting fully in such contributions) is available to be utilized by the Group to reduce the contributions payable in the future years or to reduce the Group's existing level of contributions to the defined contribution retirement plan.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

During the structural transition period of the pharmaceutical industry, the Group will integrate its own strategic layout to improve its management team and organization capacity. The Group will utilize its existing mature commercialization capacity to further increase the ratio of revenue from innovative pharmaceuticals, and greatly enhance its innovation capacity and comprehensive competitiveness with sustainable R&D investment. The Group will steadily promote internationalization to develop the global layout for clinical research of more self-developed molecules. The Group will also continuously pay attention to the development of the COVID-19 and make full efforts to promote the progress of the research and development of anti-COVID-19 pharmaceuticals. The Group will continuously strive for win-win collaboration based on innovation-driven strategies to create clinical benefits for patients, build a platform for employees, and generate benefits for shareholders.

DIRECTORS' REPORT

The board (the "**Board**") of directors ("**Directors**", and each a "**Director**") of the Company is pleased to submit this report and audited consolidated financial statements of the Group for the year ended December 31, 2021 (the "**Reporting Period**").

General Information

The Company was incorporated in Hong Kong on November 30, 2015. The shares of the Company (the "**Share(s)**") were listed on the Main Board of the Stock Exchange on October 27, 2020 (the "**Listing Date**").

Principal Business

The Company is an investment holding company. The Group primarily engages in the R&D, production and commercialization of pharmaceuticals with the State Key Laboratory of Translational Medicine and Innovative Drug Development. The Group has a diversified product portfolio in its strategically focused therapeutic areas, including, (i) oncology, (ii) central nervous system diseases and (iii) autoimmune diseases, with leading positions in their respective therapeutic segments and/or established track record.

Operating segment information of the Company for the year ended December 31, 2021 is presented in Note 4(b) to the consolidated financial statements, and a list of principal subsidiaries of the Company, together with the details of their places of incorporation and business, principal activities and issued and paid-in capital, is set out in Note 15 to the consolidated financial statements. There are no changes in the principal business of the Group during the year.

Results and Dividends

The operating results of the Group for the year ended December 31, 2021 and the financial positions of the Group and the Company as at the same date are set out on pages 90 to 94 of the consolidated financial statements and page 188 of the company-level statement of financial position.

On March 24, 2022, the Board declared the payment of final dividend of RMB0.15 per Share for the year ended December 31, 2021 to shareholders whose names are on the register of members of the Company on Tuesday, July 5, 2022. Based on the total number of Shares in issue as at December 31, 2021, the total final dividend to be paid by the Company amounts to approximately RMB394,244 thousand. For details, please refer to Note 33(b) to the consolidated financial statements. The proposed final dividend will be subject to the approval at the annual general meeting of the Company (the "**AGM**") to be held on Friday, June 24, 2022 and is expected to be distributed to shareholders on or before Friday, July 15, 2022.

Dividend Policy

For the details of the dividend policy of the Company, please refer to the "Corporate Governance Report — Dividend Policy" on page 68 of this annual report.

Business Review

A fair review of the business of the Group including an indication of likely future developments of the Group's business and an analysis of the Group's performance using financial key performance indicators during the year ended December 31, 2021 are provided in the sections headed "Company Overview", "Chairman's Statement" and "Management Discussion and Analysis" on pages 4, 7 and 8 of this annual report, which form part of this report.

Financial Summary

According to the audited consolidated financial statements, a summary of results, assets and liabilities of the Group for the past five fiscal years is presented on page 190 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

DIRECTORS' REPORT

Subsidiaries

Simnogen Biotech Ltd. ("**Simnogen Biotech**"), a limited liability company established and operated in the PRC, is held as to 51% by the Group, the financial statements of which, however, are not consolidated into that of the Group as the Group does not control its board. Therefore, Simnogen Biotech is a subsidiary of the Company by virtue of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Save as disclosed herein, particulars of the Company's subsidiaries are set out in Note 15 to the consolidated financial statements.

Property, Plant and Equipment

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

Share Capital

The Company had 2,628,290,618 ordinary shares in issue as at December 31, 2021. Details of the movements in the share capital of the Company for the year ended December 31, 2021 are set out in Note 33 to the consolidated financial statements.

Use of Proceeds from the Listing

The net proceeds from the initial public offering of the shares of the Company in October 2020 and allotment and issuance of shares pursuant to the partial exercise of the over-allotment option in November 2020, amounted in aggregate to approximately HK$3,513 million. The proposed use of the net proceeds was disclosed in the prospectus of the Company dated October 13, 2020 (the "**Prospectus**").

The following table sets out the use of net proceeds and expected utilization timeline as at December 31, 2021:

Purpose	Percentage of the total amount	Amount of net proceeds received (HK$ in million)	Amount of net proceeds utilized as at December 31, 2021 (HK$ in million)	Amount of net proceeds unutilized as at December 31, 2021 (HK$ in million)	Expected timeline for utilization
Continued research and development of the Group's selected product candidates in the Group's strategically focused therapeutic areas	60%	2,107.85	495.40	1,612.45	The actual net proceeds are expected to be fully utilized by 2027.
Reinforcement of the Group's sales and marketing capabilities	10%	351.31	284.01	67.30	The actual net proceeds are expected to be fully utilized by 2022.

Purpose	Percentage of the total amount	Amount of net proceeds received (HK$ in million)	Amount of net proceeds utilized as at December 31, 2021 (HK$ in million)	Amount of net proceeds unutilized as at December 31, 2021 (HK$ in million)	Expected timeline for utilization
Investment in companies in the pharmaceutical or biotechnology sector	10%	351.31	114.67	236.64	The actual net proceeds are expected to be fully utilized by 2023.
Repayment of certain of the Group's outstanding bank loans	10%	351.31	351.31	—	The actual net proceeds have been fully utilized in 2020.
Working capital and other general corporate purposes	10%	351.31	351.31	—	The actual net proceeds have been fully utilized in 2021.
Total	**100%**	**3,513.09**	**1,596.70**	**1,916.39**	

For more details, please refer to the section headed "Future Plans and Use of Proceeds — Use of Proceeds" of the Prospectus. On April 15, 2021, the Board resolved to reallocate the net proceeds amounted to approximately HK$325.62 million for the selected cell therapy product candidates, including CD19 CAR T-cell therapy (Indication 1), CD19 CAR T-cell therapy (Indication 2), BCMA CAR T-cell therapy and SIM0325, to the selected oncology product candidates that are currently under development, including Trilaciclib (SCLC, metastatic CRC and TNBC), SIM0395 and Docetaxel Polymeric Micellar for Injection, details of which were disclosed in the Company's announcement of change in use of proceeds dated April 15, 2021. As at December 31, 2021, the net proceeds utilized was approximately HK$1,596.70 million and the net proceeds unutilized was approximately HK$1,916.39 million. Saved as disclosed in the announcement mentioned above, the Group intends to apply the unutilised net proceeds as at December 31, 2021 in the manner and proportion set out in the Prospectus and the announcement.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2021.

Debenture Issued

The Group did not issue any debenture during the year ended December 31, 2021.

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 33 to the consolidated financial statements, respectively.

DIRECTORS' REPORT

Reserves Available for Distribution

Details of the reserves available for distribution to the shareholders by the Company as at December 31, 2021 are set out in Note 33 to the consolidated financial statements.

Major Customers and Suppliers

The Company's customers primarily consist of (i) our distributors and pharmacy chains which directly purchase pharmaceutical products from us; and (ii) other pharmaceutical manufacturers to which we provide promotion services. The Company's suppliers primarily include (i) suppliers for the raw materials of our pharmaceutical products; and (ii) manufacturers of third-party pharmaceutical products.

For the year ended December 31, 2021, revenue from the five largest customers of the Group accounted for 14.1% of its total revenues and the largest customer of the Group accounted for 3.9% of its total revenues. For the year ended December 31, 2021, purchase amount from the five largest suppliers of the Group accounted for 46.7% of its total purchase costs and the largest supplier of the Group accounted for 16.4% of its total purchase costs.

During the year ended December 31, 2021, none of the Directors, their respective close associates or any shareholder of the Company (who, to the knowledge of the Directors, owned more than 5% of the issued shares of the Company), had any interest in any of the Group's top five customers and suppliers.

Key Relationship with Stakeholders

Human resources are one of the most important assets of the Group. The Group strives to motivate its employees by providing them with a clear career path as well as comprehensive and professional training courses. In addition, the Group also offers competitive remuneration packages to its employees, including basic salary, certain benefits and other performance-based incentives.

The Group purchases imported pharmaceutical products from overseas suppliers directly and generate revenue by on-selling them to hospitals and pharmacies through distributors. Our suppliers have granted us the rights to market, promote and manage sales channels for their products in China. The Group maintains a stable and long-term relationship with its suppliers by providing them access to the growing Chinese market with steady sales growth.

The Group sells pharmaceutical products to distributors, who resell the products to hospitals and pharmacies either directly or indirectly through their sub-distributors. The Group maintains stable and long-term relationship with its distributors by providing them guidance and training.

Environmental Policies and Performance

The Group recognizes the importance of proper adoption of environmental policies which is essential to the attainability of corporate growth. The Strategy Committee of the Company is responsible for (i) making suggestions for the development of the Company's environmental, social and governance ("**ESG**") objectives and monitoring the progress of their implementation, and (ii) reviewing the development trends of the ESG industry as well as evaluating and making suggestions for major ESG-related decisions, ensuring the Company complies with relevant legal and regulatory requirements, and promoting implementation of relevant policies by various departments of the Company.

The Group strictly abides by the laws and regulations related to environmental protection in the place of operation, regularly monitors air pollutants, water pollution, harmful and harmless wastes and noise, and disposes them in accordance with the law. In order to improve the performance of energy conservation and emission reduction and the level of environmental management, the Group continues to improve the environmental management system and included indicators of energy conservation and environmental protection into the annual assessment through the formulation of performance assessment measures for energy conservation and environmental protection management, so as to promote a long-term working mechanism for energy conservation and environmental protection. The Group also carries out online publicity activities of environmental protection to fully integrate the concept of energy conservation and emission reduction into daily office.

Details of the relevant environmental policies and performance will be disclosed in the "ESG Report" of the Company which will be announced separately.

Compliance with Relevant Laws and Regulations

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

Principal Risks and Uncertainties

Save as disclosed in Note 36 to the consolidated financial statements in this annual report, summarized below are principal risks and uncertainties identified and faced by the Group which may have a material and adverse impact on the Group's business performance, financial condition, results of operations or prospects. There may be other principal risks and uncertainties in addition to those set out below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Principal Risks and Uncertainties Relating to the Industry

- We operate in a highly competitive industry, and we may not be able to compete effectively against our current and future competitors.

- Science and technology, clinical demand and market condition in the pharmaceutical industry may change continuously and rapidly, and we may not be able to sufficiently and promptly respond to such changes.

Principal Risks and Uncertainties Relating to Our Products and Product Candidates

- We may not be able to maintain the sales volumes, pricing levels and profit margins of our major products due to various factors.

- Our products may be excluded or removed from national, provincial or other government-sponsored medical insurance programs, or be included in national or provincial negative catalogs, any of which could result in decrease of demand for our relevant products.

- We may fail in tender processes to sell our products to PRC public hospitals and other medical institutions and therefore lose market share.

- We or our products may not be able to achieve or maintain widespread acceptance and positive reputation among government authorities, business partners, healthcare practitioners and patients.

- The prices of certain of our products are subject to pricing regulation, competition and other factors and therefore may decrease.

- Our products may not be produced to the necessary and consistent quality standards. Our products may also cause or be perceived to cause severe side effects, and we may face negative consequences as a result.

- We may be subject to product liability claims in connection with products sold and/or promoted by us as well as product candidates used by us in clinical trials. We may fail to successfully defend ourselves against such claims.

- Development of product candidates, in particular innovative drug candidates, is time-consuming and costly, and the outcome is uncertain. We may fail to achieve research and development milestones as planned and/or disclosed, address regulatory concerns (particularly on safety and efficacy) effectively, obtain regulatory approvals in a timely manner, conduct commercialization successfully, or achieve market acceptance as anticipated, for our product candidates.

- Even if we obtain regulatory approvals for product candidates, we will be subject to continued regulatory review. Any failure to comply with regulatory requirements or occurrence of unanticipated problems with the product candidates may subject us to penalties.

- Our products and products under research may face risks due to reliance on research and development partners.

Principal Risks and Uncertainties Relating to Third-party Products

- We have limited or no control over the quality and production process of the products manufactured by third-party pharmaceutical companies and sold and/or promoted by us. Such third-party pharmaceutical companies may fail to produce or deliver the relevant products as planned and the relevant products may be found defective or otherwise not produced to the necessary and consistent quality standards.

- The progress of third-party research and development and the impact of market policies may cause risks to our products.

Principal Risks and Uncertainties Relating to Our Operations

- We rely on third parties to monitor, support and/or conduct pre-clinical studies and clinical trials of our product candidates. If these third parties do not successfully carry out their contractual obligations or meet expected deadlines, we may not be able to obtain regulatory approvals for or commercialize our product candidates in a timely manner or at all.

- We may face significant competition in seeking appropriate collaboration partners, invest time and effort in negotiating collaboration details, obtain additional expertise and capital, incur non-recurring and other charges, or increase near and long-term expenditures, in connection with our existing and future collaboration arrangements for the development and commercialization of our product candidates. In addition, we may not be able to realize benefits from such arrangements.

- We depend on the supply of certain raw materials and pharmaceutical products, and we may encounter decrease, shortage or delay in the supply of, or increase in the price of, such raw materials and pharmaceutical products.

- If our production facilities encounter substantial disruption or other problems in manufacturing our products, our production capacity could be materially and adversely affected, and we may not be able to fulfill contractual obligations or meet market demand for our products in a timely manner or at all. If we fail to increase production capacity, we may not be able to capture the potential growth in market demand for our products, or to commercialize our product candidates.

- We may fail to maintain optimal inventory levels, which could increase our operating costs or lead to unfulfilled customer orders.

- We may fail to sell and/or promote our products and third-party products effectively due to various factors, including, among other things, inadequate promotion, sales and marketing activities, failure to attract, train and retain a sufficient number of qualified promotion, sales and marketing personnel, and failure to maintain, expand and optimize an effective distribution network.

- Our employees, distributors or third-party promoters may engage in misconduct or other improper activities, as a result of which, we may be exposed to regulatory investigations, penalties or other negative consequences.

- We may not be able to successfully complete any future acquisitions or enhance post-acquisition performance.

- Failure to adequately protect our intellectual property, or if the scope of our intellectual property fails to sufficiently protect our proprietary rights, other pharmaceutical companies could compete against us more directly. Occurrence of counterfeits of our products may also expose us to reduced sales volume of our relevant products, negative publicity, reputational damages, fines and penalties, and even litigations.

- We may become a party to litigations, legal disputes, claims or administrative proceedings, which could divert our management's attention and result in costs, liabilities and damages to our reputation.

- We could be subject to risks caused by misuse, leakage or loss of information maintained in our or our collaborators' information technology systems, including personal and medical information that we or our collaborators collected in clinical trials. Any misuse, leakage or loss of such information could result in liability and damage to us and distract the attention of our management.

- Our insurance coverage is limited and may be insufficient. If we experience uninsured losses, it could adversely affect our financial condition and results of operations.

- If our internal risk management and control system is not adequate or effective, and if it fails to detect potential risks in our business as intended, our business, financial condition and results of operations could be materially and adversely affected.

- We may lose the services of one or more of our senior management team and other key personnel, and we may not be able to locate suitable or qualified replacements in a timely manner or at all.

Principal Risks and Uncertainties Relating to Our Financial Condition

- If we experience delays in collecting payments from distributors, our cash flows and operations could be adversely affected.

- If we do not have access to sufficient funding for the implementation of our strategies and other aspects of our business, our business prospects and future growth could be adversely affected.

- Any change or discontinuation in preferential tax treatment or financial subsidies that currently are or may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.

- The fair value measurement of certain of our assets is subject to significant risks and uncertainties and the fair value change of such assets may materially and adversely affect our results of operations.

- Any significant decrease in our profitability in the future could materially and adversely affect our ability to recover our deferred tax assets.

Principal Risks and Uncertainties Relating to Regulatory Compliance

- We are subject to changing legal and regulatory requirements in the PRC. Promulgation of new laws, rules and regulations, or changes in the interpretation or implementation of existing laws, rules and regulations, may materially and adversely affect our business and profitability, or impose additional compliance burdens on us.

- Our overseas investments may be subject to laws, rules, regulations and policies, as well as changes thereof, in the PRC and the corresponding jurisdictions.

- We may be restricted from transferring our scientific data abroad and exchanging of data and materials during the collaborative development and research.

- We or our business partners may fail to successfully obtain, maintain or renew the necessary permits, licenses or certificates for the development, production, promotion, sales or distribution of our products.

- If we fail to comply with laws and regulations regarding environmental, social and governance matters, we could be subject to fines or penalties which may adversely affect our business.

Principal Risks and Uncertainties Relating to Doing Business in the PRC

- Economic, political and social conditions and government policies in the PRC, as well as the global economy, may continue to affect our business.

- Our operations are subject to the uncertainties and particularities associated with the legal system in the PRC.

- Market regulatory actions and civil claims derived therefrom against us may expose us to penalties, business constraints and reputational damages.

- The PRC government's control of foreign currency conversion and restrictions on the remittance of RMB out of the PRC may limit our foreign exchange transactions and our ability to pay dividends and meet other obligations.

- We rely on dividends paid by our subsidiaries for our cash needs, and limitations under the PRC laws on the ability of our PRC subsidiaries to distribute dividends to us could materially and adversely affect our ability to utilize such funds.

- Investors may experience difficulties in effecting service of legal process and seeking recognition and enforcement of foreign judgments in the PRC.

Principal Risks and Uncertainties Relating to COVID-19 Pandemic

- Any prolonged spread or emergence of COVID-19 pandemic in the PRC or elsewhere in the world could materially and adversely affect our business performance, financial condition and results of operations.

DIRECTORS' REPORT

The Company believes that risk management is essential to the Group's effective and efficient operations, reliable financial reporting and regulatory compliance. Senior management team of the Company assists the Board in evaluating material risk exposure of the Group, participates in formulation of appropriate risk management and internal control measures, and ensures such measures are properly implemented in the Group's daily operations. However, investors are still advised to make their own judgment or consult their own investment advisers before making any investment in the Shares.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2021 are set out in the section headed "Management Discussion and Analysis — Liquidity and Financial Resources" in this annual report and Note 25 to the consolidated financial statements.

Donations

During the Reporting Period, the Group made charitable and other donations in an aggregate amount of approximately RMB39 million.

Important Events after the Reporting Period

As at the date of this report, no important events occured after the Reporting Period which had a material impact on the Group.

Equity-Linked Agreements

2021 RSU Scheme

On May 20, 2021 (the "**Adoption Date**"), the Board adopted the 2021 restricted share unit scheme of the Company (the "**2021 RSU Scheme**" or "**Scheme**"). The purposes of the 2021 RSU Scheme are to (i) incentivize the existing and incoming directors, senior management and employees for their contribution to the Group; and (ii) attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

Effectiveness and Duration

The 2021 RSU Scheme shall be valid and effective for a period of ten years commencing from the Adoption Date, provided that (i) no RSUs shall be granted after the earlier of (a) the expiry of the term of the 2021 RSU Scheme; or (b) after the termination of the 2021 RSU Scheme pursuant to the relevant terms of the 2021 RSU Scheme Rules; and (ii) RSUs that have lapsed in accordance with the relevant terms of the 2021 RSU Scheme Rules or for any other reason can be re-granted by the Board.

Administration

The Board has the sole and absolute power to administer the 2021 RSU Scheme, including the power to (i) interpret and construe the provisions of this Scheme, (ii) determine the eligible persons (the "**Eligible Persons**") who will be granted the RSUs under this Scheme, the terms and conditions on which the RSUs are granted, and under what conditions will the granted RSUs vest pursuant to this Scheme, (iii) make such appropriate and equitable adjustments to the terms of the RSUs granted under this Scheme as it deems necessary and (iv) make such other decisions or determinations as it shall deem appropriate in the administration of this Scheme. The Board may delegate the authority to administer the 2021 RSU Scheme to a committee of the Board.

The Board's determinations under the 2021 RSU Scheme need not be uniform and may be made to any Selected Persons who are granted, or are eligible to be granted, RSUs under it. If a Director is an Eligible Person selected by the Board to be granted RSUs under the Scheme who then accepts the offer of the grant of the RSUs in accordance of the Scheme (the "**Participant**"), he may, notwithstanding his/her own interest and subject to the Articles, vote on any Board resolution concerning the 2021 RSU Scheme (other than in respect of his/her own participation in it), and may retain RSUs under it. Each Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and the Board's administration of the 2021 RSU Scheme.

Who may join

Eligible Persons who can receive RSUs under the 2021 RSU Scheme are existing or incoming employees, directors (whether executive or non-executive) and/or officers of the Company or any member of the Group. The Board may, at its discretion, select any Eligible Person for participation in the 2021 RSU Scheme as a Selected Person. Unless so selected, no Eligible Person shall be entitled to participate in the 2021 RSU Scheme. The basis of eligibility of any Selected Person for the grant of RSUs shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group or such other factors as the Board may deem appropriate.

Maximum number of Shares

The maximum number of RSUs that may be granted under the 2021 RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the 2021 RSU Scheme Rules) shall be 137,296,927 Shares, representing approximately 5.26% of the total issued shares of the Company as at the Adoption Date.

Further details of the 2021 RSU Scheme are set out in the announcement of the Company dated May 20, 2021 and Note 32 to the consolidated financial statements.

Details of the RSUs granted under the 2021 RSU Scheme

As disclosed in the announcement of the Company dated July 16, 2021, the Board resolved to grant an aggregate of 10,937,000 RSUs, representing 10,937,000 Shares, to an aggregate of 117 Selected Persons under the 2021 RSU Scheme at nil consideration, of which the RSUs representing 515,000 Shares had lapsed due to (i) the Selected Persons failed to accept the RSUs granted and (ii) the Selected Persons ceased to be a Selected Person due to resignation. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the grantees are third parties independent of the Company and are not connected persons of the Company.

As disclosed in the announcement of the Company dated August 27, 2021, the Board resolved to grant an aggregate of 8,712,000 RSUs to certain grantees who are connected persons of the Company (the "**Connected Grantees**") under the 2021 RSU Scheme at nil consideration. On November 1, 2021, the aforementioned grant of RSUs to the Connected Grantees was approved by the independent Shareholders at the extraordinary general meeting. All the 8,712,000 RSUs granted were accepted by the Connected Grantees.

As disclosed in the announcement of the Company dated December 23, 2021, the Board resolved to grant an aggregate of 11,841,000 RSUs, representing 11,841,000 Shares, to an aggregate of 147 Selected Persons under the 2021 RSU Scheme at nil consideration, of which the RSUs representing 34,000 Shares had lapsed due to the results performance of the Selected Persons failed to satisfy the vesting conditions of the Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the grantees are third parties independent of the Company and are not connected persons of the Company.

As of December 31, 2021, the Company granted 31,490,000 restricted share units under the 2021 RSU Scheme, representing 1.198% of the issued shares of the Company as of December 31, 2021, of which the restricted share units representing 549,000 Shares lapsed. Therefore, as at December 31, 2021, there were 30,941,000 outstanding restricted share units, representing approximately 1.177% of the issued shares of the Company as of December 31, 2021.

Details of the outstanding RSUs granted under the 2021 RSU Scheme and the movements during the Reporting Period are set out below:

Name or category of grantee	Date of grant	Number of Shares underlying the RSUs outstanding as at January 1, 2021	Number of RSUs granted during the Reporting Period	Vested during the Reporting Period	Lapsed during the Reporting Period	Number of Shares underlying the RSUs outstanding as at December 31, 2021	Vesting dates (subject to vesting conditions)	Approximate percentage of total number of Shares in issue as at December 31, 2021
Directors								
Mr. Wan Yushan	November 1, 2021	—	2,025,000	—	—	2,025,000	Note 1	0.077%
Mr. Tang Renhong	November 1, 2021	—	3,000,000	—	—	3,000,000	Note 1	0.114%
Senior management and other connected persons								
Mr. Shi Ruiwen	November 1, 2021	—	411,000	—	—	411,000	Note 1	0.016%
Mr. Cheng Xianghua	November 1, 2021	—	615,000	—	—	615,000	Note 1	0.023%
Mr. Lu Jianxue	November 1, 2021	—	615,000	—	—	615,000	Note 1	0.023%
Ms. Wang Xi	November 1, 2021	—	492,000	—	—	492,000	Note 1	0.019%
Mr. Wang Feng	November 1, 2021	—	492,000	—	—	492,000	Note 1	0.019%
Ms. Ma Yan	November 1, 2021	—	306,000	—	—	306,000	Note 1	0.012%
Ms. Chen Yanqiong	November 1, 2021	—	165,000	—	—	165,000	Note 1	0.006%
Mr. Yu Qingzhu	November 1, 2021	—	129,000	—	—	129,000	Note 1	0.005%
Ms. Chen Qianjie	November 1, 2021	—	63,000	—	—	63,000	Note 1	0.002%
Ms. Cong Yuehua	November 1, 2021	—	96,000	—	—	96,000	Note 1	0.004%
Mr. Peng Shaoping	November 1, 2021	—	225,000	—	—	225,000	Note 1	0.009%
Mr. Zhang Rong	November 1, 2021	—	78,000	—	—	78,000	Note 1	0.003%
Grantees other than Directors, senior management and connected persons								
Other employees	July 16, 2021	—	10,937,000	—	515,000	10,422,000	Note 2	0.397%
Other employees	December 23, 2021	—	11,841,000	—	34,000	11,807,000	Note 3	0.449%
Total		**—**	**31,490,000**	**—**	**549,000**	**30,941,000**		**1.177%**

Notes:

1. One third of the RSUs granted shall vest on August 27, 2022, August 27, 2023 and August 27, 2024, respectively.

2. One third of the RSUs granted shall vest on July 16, 2022, July 16, 2023 and July 16, 2024, respectively.

3. One third of the RSUs granted shall vest on December 23, 2022, December 23, 2023 and December 23, 2024, respectively.

Saved for the 2021 RSU Scheme adopted by the Company and the pre-IPO share incentive scheme adopted by Simcere Pharmaceutical Holding Limited, a controlling shareholder of the Company, as set out above and in Note 32 to the consolidated financial statements, no equity-linked agreements were entered into by the Company or subsisted during the year ended December 31, 2021.

Permitted Indemnity Provision

Pursuant to Article 166 of the articles of association of the Company (the "**Articles of Association**"), subject to the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), every Director, company secretary or other senior management member of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto. Such permitted indemnity provision is currently in force and was in force throughout the year ended December 31, 2021.

The Company has purchased Directors, company secretary and senior management's liabilities insurance on behalf of its Directors, joint company secretaries and senior management.

Directors

The directors of the Company and its subsidiaries during the Reporting Period and up to the date of this report were as follows:

Directors of the Company:	Directors of subsidiaries:	
Executive Directors:		
Mr. REN Jinsheng *(Chairman and Chief Executive Officer)*		
Mr. ZHANG Cheng[(1)]	CHEN Yanqiong	QIAN Haibo
Mr. WAN Yushan	CHEN Yunfei	REN Jinsheng
Mr. TANG Renhong	CHENG Xianghua	SHI Ruiwen
	CHU Xuexi	TANG Renhong
Non-executive Director:	CONG Yuehua	WAN Yushan
Mr. ZHAO John Huan	FENG Heng[(2)]	WANG Feng
	Kyu Don Kim	WANG Honglin
Independent non-executive Directors:	LI Zhengtao	WANG Pin
Mr. SONG Ruilin	LU Jianxue	XU Jianjian
Mr. WANG Jianguo	MA Yan	XU Yuxi
Mr. WANG Xinhua	PENG Shaoping	ZHANG Rong

Notes:

(1) Mr. ZHANG Cheng resigned as an executive Director and the chief operating officer of the Company with effect from March 31, 2021.

(2) No longer as the director of the subsidiaries of the Company during the year ended December 31, 2021 and up to March 24, 2022.

DIRECTORS' REPORT

Biographies of the Directors and Senior Managements

Biographical details of the Directors and the senior management of the Company are set out on pages 72 to 80 of this Annual Report.

Except as noted in the biographies, none of the Directors have held any other directorships in any listed public companies in the last three years.

Further, except as disclosed in the biographies, none of the Directors is connected with any Director, senior management, substantial shareholder or controlling shareholder of the Company and, except as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report, none of them has any interests in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed in this annual report, there are no other matters relating to the re-election of Directors at the forthcoming AGM that need to be brought to the attention of the Shareholders of the Company nor is there any information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Service Contracts and Letters of Appointment

Each of the executive Directors has entered into a service contract with the Company, while each of the non-executive Director and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years.

The above appointments are always subject to the provisions of retirement and rotation of Directors under the Articles of Association. None of the Directors proposed for re-election at the forthcoming AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

Directors' and Controlling Shareholders' Interests in Material Transactions, Arrangements and Contracts

Save as disclosed in the section headed "Continuing Connected Transactions", the section headed "Connected Transaction" and Note 35 "Material Related Party Transactions", to the consolidated financial statements in this Annual Report, no transaction, arrangement or contracts of significance (as defined in Appendix 16 of the Listing Rules) related to the business of the Company to which the Company, its holding companies or any of its subsidiaries was a party and in which a Director, an entity connected with a Director, a controlling shareholder of the Company or a subsidiary of a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted as at December 31, 2021 or at any time during the year ended December 31, 2021.

Directors' Interests in Competing Business

As disclosed in the section headed "Relationship with Our Controlling Shareholders — Delineation of Business" in the Prospectus, Simcare Jiangsu Pharmaceutical Co., Ltd. ("**Simcare Jiangsu**") was previously ultimately controlled by Mr. Ren Jinsheng, a Director of the Company. Simcare Jiangsu primarily engages in the retail business of pharmaceutical products, medical devices and healthcare products, and there is the clear delineation and no material competition between the business operated by Simcare Jiangsu and its subsidiaries and the Group. Mr. Ren Jinsheng no longer held any equity interest in Simcare Jiangsu since April 9, 2021. Save as disclosed in the Prospectus and above, during the Reporting Period, none of the Directors or their respective associates (as defined under the Listing Rules) had any interest in a business which competes or is likely to compete with the Group's business under Rules 8.10(2)(b) and 8.10(2)(c) of the Listing Rules.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Equity-linked Agreements — 2021 RSU Scheme" and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the Reporting Period, were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other corporations.

Deed of Non-Competition

The controlling shareholders of the Company have respectively acknowledged to the Company that they have honored the non-competition undertaking made to the Company under the deed of non-competition entered into on October 8, 2020 ("**Deed of Non-competition**"). The independent non-executive Directors have reviewed such compliance and confirmed that the above-mentioned parties had kept and duly performed all the undertakings under the Deed of Non-competition during the Reporting Period.

Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company, as required to be disclosed under section 543 of the Companies Ordinance, was entered into or existed during the Reporting Period.

Continuing Connected Transactions

During the year ended December 31, 2021, the Group has entered into the following transactions, which constituted continuing connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

(1) Partially-exempt Continuing Connected Transactions

As disclosed in the Prospectus and the announcement of the company dated December 23, 2021 (the "**CCT Announcement**"), the following transactions constituted partially-exempt continuing connected transactions of the Company. For further details, please refer to the section headed "Connected Transactions — Partially-exempt Continuing Connected Transactions" of the Prospectus and the CCT Announcement.

The Group has followed the pricing policies set forth in the section headed "Connected Transactions — Partially-Exempt Continuing Connected Transactions" of the Prospectus, the CCT Announcement, as well as the guidelines under the Listing Rules in determining the prices and terms of the continuing connected transactions conducted during the Reporting Period.

Property Lease and Comprehensive Services Framework Agreement

On October 8, 2020, the Company and Nanjing BioSciKin Technology Development Co., Ltd ("**Nanjing BioSciKin Technology**"), for themselves and on behalf of their respective subsidiaries, entered into a property lease and comprehensive services framework agreement (the "**Property Lease and Comprehensive Services Framework Agreement**"), pursuant to which Nanjing BioSciKin Technology agreed to (i) lease certain properties owned by it or its subsidiaries located at No. 699-18, Xuanwu Avenue, Xuanwu District, Nanjing, the PRC (the "**BioSciKin Innovation Park**") to the Group for office, laboratory and staff dormitory use and provide related property management services; and (ii) provide the Group with certain general supporting services within the BioSciKin Innovation Park, which include, among others, utilities and network support, conference supporting services, staff canteen services, accommodation services and other logistics services.

The Property Lease and Comprehensive Services Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Nanjing BioSciKin Technology is a subsidiary of State Good Group Limited which is in turn wholly owned by Mr. Ren Jinsheng through Simcere Investments Group Limited, and hence an associate of Mr. Ren Jinsheng and a connected person of the Company.

The annual cap for the (i) rents and property management services fees and (ii) general supporting fees payable under the Property Lease and Comprehensive Services Framework Agreement for the year ended December 31, 2021 is RMB56 million, while the actual transaction amount of the year ended December 31, 2021 was approximately RMB49 million.

Simcare Sales and Distribution Framework Agreement

On October 8, 2020, the Company and Simcare Jiangsu, for themselves and on behalf of their respective subsidiaries, entered into a sales and distribution framework agreement (the "**Simcare Sales and Distribution Framework Agreement**"), pursuant to which Simcare Jiangsu agreed to purchase certain pharmaceuticals provided by us for retail sales and further distribution.

The Simcare Sales and Distribution Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

During the Reporting Period, Simcare Jiangsu was a company held as to 78.4% by Nanjing Huasheng Yikang Technology Co., Ltd., a company then ultimately wholly owned by Mr. Ren Jinsheng, and hence a then associate of Mr. Ren Jinsheng, and therefore a then connected person of the Company. On April 9, 2021, Mr. Ren Jinsheng and Mr. Ren Weidong was no longer interested in any equity interest of Simcare Jiangsu, and hence Simcere Jiangsu has ceased to be a connected person of the Company.

The annual cap for the transactions under the Simcare Sales and Distribution Framework Agreement for the year ended December 31, 2021 is RMB22 million, while the actual transaction amount of the year ended December 31, 2021 was approximately RMB3 million.

Sanroad Promotion Services Framework Agreement

On October 8, 2020, Jiangsu Simcere Pharmaceutical Co., Ltd. ("**Jiangsu Simcere**") and Beijing Sanroad Biological Products Co., Ltd. ("**Beijing Sanroad**") entered into a promotion services framework agreement (the "**Sanroad Promotion Services Framework Agreement**"), pursuant to which Jiangsu Simcere agreed to (i) provide promotion services to Beijing Sanroad within the designated geographic areas in the PRC with respect to TB-PPD (purified protein derivative of tuberculin), and (ii) assist Beijing Sanroad in launching TB-PPD to the target market.

The Sanroad Promotion Services Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Beijing Sanroad is a subsidiary of Nanjing BioSciKin Technology, which is an associate of Mr. Ren Jinsheng, and therefore a connected person of the Company.

The annual cap for the transactions under the Sanroad Promotion Services Framework Agreement for the year ended December 31, 2021 is RMB110 million, while the actual transaction amount of the year ended December 31, 2021 was approximately RMB57 million.

Xianbo Property Lease and Comprehensive Services Framework Agreement

On December 23, 2021, the Company entered into a property lease and comprehensive services framework agreement (the "**Xianbo Property Lease and Comprehensive Services Framework Agreement**") with Shanghai Xianbo Biological Technology Co., Ltd. ("**Shanghai Xianbo**"), for themselves and on behalf of their respective subsidiaries, pursuant to which the Group agreed to lease certain properties to Shanghai Xianbo for office and laboratory use and provide related property management services, as well as provide Shanghai Xianbo with certain general supporting services which include, among others, network support services, conference supporting services, property maintenance services and other logistics services.

The Xianbo Property Lease and Comprehensive Services Framework Agreement is for a term of three years commencing from January 1, 2022 and ending on December 31, 2024 (both days inclusive), and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Shanghai Xianbo is controlled by Mr. Ren Jinsheng, who is one of the Directors and the controlling Shareholder. Shanghai Xianbo is an associate of Mr. Ren Jinsheng and therefore a connected person of the Company under Chapter 14A of the Listing Rules.

The annual cap for the transactions under the Xianbo Property Lease and Comprehensive Services Framework Agreement for the year ended December 31, 2022, 2023 and 2024 are RMB5.250 million, RMB5.525 million and RMB5.850 million, respectively.

Diagnostics Property Lease and Comprehensive Services Framework Agreement

On December 23, 2021, the Company entered into a property lease and comprehensive services framework agreement (the "**Diagnostics Property Lease and Comprehensive Services Framework Agreement**") with Jiangsu Simcere Medical Diagnostics Co., Ltd. ("**Jiangsu Simcere Diagnostics**"), for themselves and on behalf of their respective subsidiaries, pursuant to which the Group agreed to lease certain properties to

Jiangsu Simcere Diagnostics for office and laboratory use and provide related property management services, as well as provide Jiangsu Simcere Diagnostics with certain general supporting services which include, among others, network support services, conference supporting services, property maintenance services and other logistics services.

The Diagnostics Property Lease and Comprehensive Services Framework Agreement is for a term of three years commencing from January 1, 2022 and ending on December 31, 2024 (both days inclusive), and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Jiangsu Simcere Diagnostics is ultimately controlled by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both are substantial shareholders of the Company. Jiangsu Simcere Diagnostics is an associate of Mr. Ren Yong and Ms. Li Shimeng and therefore a connected person of the Company under Chapter 14A of the Listing Rules.

The annual cap for the transactions under the Diagnostics Property Lease and Comprehensive Services Framework Agreement for the year ended December 31, 2022, 2023 and 2024 are RMB7.000 million, RMB7.410 million and RMB7.721 million, respectively.

R&D Project Service Framework Agreement

On December 23, 2021, the Company entered into a R&D project service framework agreement (the "**R&D Project Service Framework Agreement**") with Jiangsu Simcere Diagnostics, for themselves and on behalf of their respective subsidiaries, pursuant to which Jiangsu Simcere Diagnostics agreed to provide R&D project services to the Group, including but not limited to CRO (contract research organization) services, WES (whole exome sequencing) services, CDx (companion diagnostic in vitro diagnostic reagents) service and other R&D project services.

The R&D Project Service Framework Agreement is for a term of three years commencing from January 1, 2022 and ending on December 31, 2024 (both days inclusive), and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Jiangsu Simcere Diagnostics is ultimately controlled by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both are substantial shareholders of the Company. Jiangsu Simcere Diagnostics is an associate of Mr. Ren Yong and Ms. Li Shimeng and therefore a connected person of the Company under Chapter 14A of the Listing Rules.

The annual cap for the transactions under the R&D Project Service Framework Agreement for the year ended December 31, 2022, 2023 and 2024 are RMB15.00 million, RMB16.50 million and RMB18.15 million, respectively.

In respect of the continuing connected transactions, the Company confirms that it has followed the policies and guidelines as set out in the guidance letter HKEX-GL73-14 issued by the Stock Exchange when determining the price and terms of the transactions conducted during the year ended December 31, 2021.

Save as disclosed above, none of the other related party transactions set out in the Note 35 of the financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules during the year ended December 31, 2021.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the continuing connected transactions outlined above, and confirmed that such continuing connected transactions had been entered into:

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

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Confirmations from the Company's Independent Auditor

The Auditor has performed the relevant procedures regarding the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The Auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2021:

(i) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

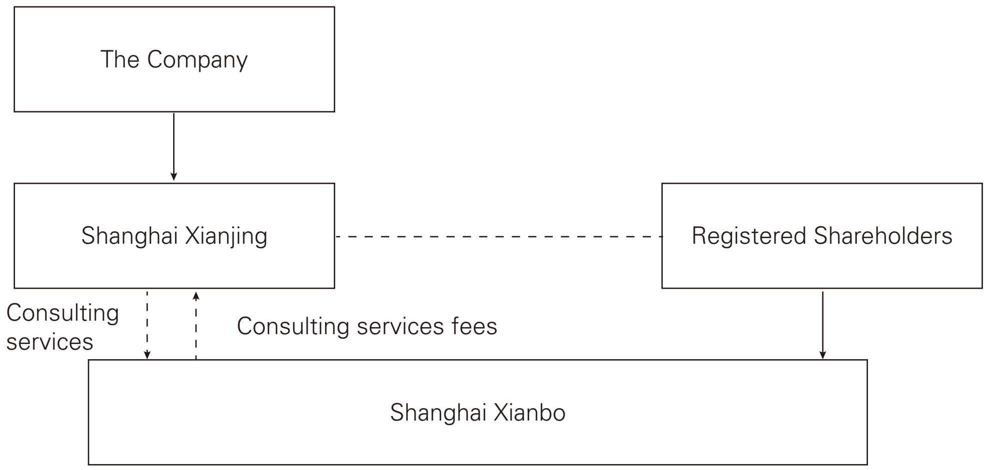
(iv) with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions have exceeded the annual caps as set by the Company.

(2) Non-exempt Continuing Connected Transactions

Contractual Arrangements

As disclosed in "Contractual Arrangements" section in the Prospectus, due to regulatory restrictions on foreign ownership in Relevant Businesses in the PRC, the Company, as foreign investors, are prohibited from holding equity interest in its Consolidated Affiliated Entity, namely Shanghai Xianbo. As a result, the Company, through its wholly-owned subsidiary, Shanghai Xianjing Biological Technology Co., Ltd. ("**Shanghai Xianjing**"), entered into the Contractual Arrangements with Shanghai Xianbo and Mr. Ren Jinsheng and Mr. Zhu Zhenfei (朱振飛) (the "**Registered Shareholders**"), which enable the Group to, among others, (i) receive substantially all of the economic benefits from its Consolidated Affiliated Entity in consideration for the services provided by Shanghai Xianjing to its Consolidated Affiliated Entity; (ii) exercise effective control over its Consolidated Affiliated Entity; and (iii) hold an exclusive option to acquire all or part of the equity interest in and/or the assets of the Consolidated Affiliated Entity when and to the extent permitted by the PRC laws and regulations.

The following simplified diagram illustrates the flow of economic benefits from the Shanghai Xianbo to the Group stipulated under the Contractual Arrangements:



Notes:

"→" denotes directly or indirectly legal and beneficial ownership in the equity interest.

"⇢" denotes contractual relationship through the Exclusive Business Cooperation Agreement.

"—" denotes the control by Shanghai Xianjing over Shanghai Xianbo through (i) powers of attorney to exercise all shareholders' rights in Shanghai Xianbo; (ii) exclusive options to acquire all or part of the equity interest and/or assets in Shanghai Xianbo; and (iii) equity pledges over the equity interest in Shanghai Xianbo.

A brief description of the specific agreements that comprise the Contractual Arrangements entered into by each of Shanghai Xianjing, Shanghai Xianbo and relevant Registered Shareholders is set out as follows:

Exclusive Business Cooperation Agreement

Shanghai Xianbo and Shanghai Xianjing entered into the exclusive business cooperation agreement on April 30, 2020 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Shanghai Xianbo agreed to engage Shanghai Xianjing as its exclusive provider of technical support, consultation, and other services, including (1) management consultation, (2) technical consultation, (3) technical service, (4) network support, (5) business support, (6) human resource support, (7) license and authorization of the use of intellectual properties, (8) rental of equipment and office properties, (9) market consultation, (10) research and development of products, (11) management consultant service in relation to the business operation of the Shanghai Xianbo and (12) other relevant services requested by Shanghai Xianbo from time to time to the extent permitted under PRC laws.

Pursuant to the Exclusive Business Cooperation Agreement, the service fee is equivalent to the total consolidated net profit of Shanghai Xianbo, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Shanghai Xianjing is entitled to adjust the level of the service fee at its sole discretion taking into account certain factors, including, among other things, difficulty and complication of such services, time commitment to such services, actual service scope and business value and the market price of the same or similar services. Shanghai Xianbo has agreed to pay the service fees to the bank account designated by Shanghai Xianjing within five business days after Shanghai Xianjing issues the payment notice. In addition, pursuant to the Exclusive Business Cooperation Agreement, as to the services provided by the third parties to Shanghai Xianbo identical or similar to the contemplated services before the date of the Exclusive Business Cooperation Agreement, Shanghai Xianbo shall immediately terminate the relevant agreements except for the prior written consent given by Shanghai Xianjing and assume any charges or liabilities due to such termination.

Entrustment Agreement and Powers of Attorney

Each of Shanghai Xianbo, the Registered Shareholders and Shanghai Xianjing entered into the shareholder's rights entrustment agreements (the "**Entrustment Agreement**") on April 30, 2020, pursuant to which, each Registered Shareholder, through the power of attorney ("**Power of Attorney**"), irrevocably and exclusively grant Shanghai Xianjing or its designee(s) (being the Directors of the Company and their successors and liquidators replacing such Directors but excluding those non-independent or who may give rise to the conflict of interests) the power to exercise all rights of the Registered Shareholders as set out in the then- valid articles of association of Shanghai Xianbo and relevant laws and regulations.

The Entrustment Agreement has an indefinite term and will be terminated in the event that (i) the Entrustment Agreement is unilaterally terminated by Shanghai Xianjing; or (ii) it is legally permissible for Shanghai Xianjing or its offshore holding companies to hold equity interest directly or indirectly in Shanghai Xianbo and Shanghai Xianjing or its designee(s) is registered to be the shareholder of Shanghai Xianbo.

Exclusive Option Agreement

Shanghai Xianjing, Shanghai Xianbo and the Registered Shareholders entered into the exclusive option agreement (the "**Exclusive Option Agreement**") on April 30, 2020, pursuant to which the Registered Shareholders jointly and severally granted Shanghai Xianjing the irrevocable and exclusive rights (the "**Exclusive Option Rights**"), provided that it is permitted under the PRC laws and regulations, to acquire the equity interest of Shanghai Xianbo from the Registered Shareholders or to acquire the assets of Shanghai Xianbo by Shanghai Xianjing or its designee(s), in whole or in part at any time and from time to time, for free or at a nominal price or the lowest price legally permissible under the PRC laws and regulations. Upon the equity interest or assets being duly transferred to Shanghai Xianjing or its designee(s) and after deducting necessary tax expenses, Shanghai Xianjing or its designee(s) shall pay the consideration within seven days to the designated bank accounts of the Registered Shareholders or Shanghai Xianbo. Shanghai Xianbo and the Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Shanghai Xianjing or its designee(s) any consideration they received within seven days in the event that Shanghai Xianjing exercises the Exclusive Option Rights to acquire the equity interest and/or assets in Shanghai Xianbo. If such return is not permissible under the PRC laws, the returned consideration shall be escrowed by Shanghai Xianjing and the Registered Shareholders and Shanghai Xianbo shall execute all escrow agreements or other documents in favor of Shanghai Xianjing.

The Registered Shareholders and Shanghai Xianbo shall procure the subsidiaries of Shanghai Xianbo subsequently established, acquired or actually controlled by them to comply with the undertakings as if they were parties to the Exclusive Option Agreement. The Exclusive Option Agreement is for an indefinite term of commencing on the date of the agreement, until it is terminated (1) by Shanghai Xianjing through giving Shanghai Xianbo and the Registered Shareholders a prior written notice of termination; or (2) upon the transfer of the entire equity interest held by the Registered Shareholders and/or the transfer of all the assets of Shanghai Xianbo to Shanghai Xianjing or its designated person. Neither Shanghai Xianbo nor the Registered Shareholders is contractually entitled to terminate the Exclusive Option Agreement with Shanghai Xianjing.

Equity Pledge Agreement

Shanghai Xianjing, Shanghai Xianbo and the Registered Shareholders entered into the equity pledge agreement (the "**Equity Pledge Agreement**") on April 30, 2020, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interest in Shanghai Xianbo to Shanghai Xianjing as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Pledge Agreement, the Registered Shareholders confirm and agree that, in the event of bankruptcy, reorganization, merger, or any change in the equity interest of Shanghai Xianbo, the Registered Shareholders will procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Shanghai Xianbo declares any dividend during the term of the pledge, Shanghai Xianjing is entitled to receive all such dividends, bonus or other income for free arising from the pledged equity interest, if any. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken to Shanghai Xianjing, among other things, not to transfer the interest in his equity interest in Shanghai Xianbo without the prior written consent of Shanghai Xianjing.

The equity pledge takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until (1) each of the Registered Shareholders has transferred all his equity interest and assets of Shanghai Xianbo in accordance with the Exclusive Option Agreement; (2) the Equity Pledge Agreement has been unilaterally terminated by Shanghai Xianjing; or (3) the performance of the Equity Pledge Agreement will violate applicable laws and regulations and Listing Rules of the Stock Exchange. The registration of the Equity Pledge Agreement as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and the PRC laws and regulations.

Reasons for Adopting the Contractual Arrangements

Foreign investment activities in the PRC now are mainly governed by the Encouraging List 2019 and the Negative List 2020 (the "**Relevant PRC Regulations**"), promulgated jointly by the MOFCOM and the NDRC, pursuant to which the industries listed therein are divided into three categories in terms of foreign investment, namely, "encouraged," "permitted," and "prohibited." According to the Relevant PRC Regulations, foreign investment is prohibited in the development and application of gene diagnostic and therapeutic technologies.

The Group engages in the R&D of CAR T-cell therapy and TCR T-cell therapy (the "**Relevant Businesses**"), which involve the development and application of gene diagnostic and therapeutic technologies, and therefore fall into the scope of the "prohibited" category. The Relevant Businesses are carried out by Shanghai Xianbo, and thus, the Company cannot directly or indirectly hold any equity interest in Shanghai Xianbo.

In order to comply with the PRC laws and regulations and maintain effective control over the Relevant Businesses, the Group, through its wholly-owned subsidiary, Shanghai Xianjing, entered into the Contractual Arrangements with Shanghai Xianbo, its Consolidated Affiliated Entity, and its Registered Shareholders (as defined below), pursuant to which Shanghai Xianjing acquired effective control over the financial and operational policies of Shanghai Xianbo and has become entitled to all the economic benefits derived from its operations. In light of the foregoing reasons, the Company believe that the Contractual Arrangements are narrowly tailored as they are used to enable the Group to conduct businesses in the field that are subject to foreign investment restrictions in the PRC.

The Directors are of the view that the Contractual Arrangements and the transactions contemplated therein have been and will be entered into in the ordinary and usual course of the Company's business on normal commercial terms or better that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Revenue and Assets subject to the Contractual Arrangements

For the year ended 31 December 2021, the revenue subject to the Contractual Arrangements amounted to RMB nil (2020: RMB nil), while the asset subject to the Contractual Arrangements as at 31 December, 2021 is not applicable due to the unwinding of the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the Consolidated Affiliated Entities will be treated as the Company's wholly owned subsidiaries, and their Directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the Company's "connected persons" as applicable under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and the Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company.

In respect of the Contractual Arrangements, the Company have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent Shareholders' approval under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Company's Shares are listed on the Stock Exchange, subject, however, to the following conditions, details of which are set out in the "Connected Transactions" section in the Prospectus:

(a) No change without independent non-executive Directors' approval;

(b) No change without independent Shareholders' approval;

(c) Economic benefits flexibility;

(d) Renewal and reproduction;

(e) Ongoing reporting and approvals.

Disposal of Relevant Businesses

On April 15, 2021, the Company, Simcere Investments Group Limited ("**SIG**", formerly known as Excel Good Group Limited) and Simgene Group Limited ("**Simgene**", together with its subsidiaries, namely, Simnova Biotherapeutics Limited, Simcere Innovation Inc., Shanghai Xianjing Biological Technology Co., Ltd. and Shanghai Xianbo Biological Technology Co., Ltd., collectively "**Simgene Group**") entered into a share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which the Company agreed to sell, and SIG agreed to purchase, 100% of the total issued share capital of Simgene (the "**Disposal**") for a consideration of RMB104.17 million. The consideration of the Disposal is determined after arm's length negotiations with reference to the inferred valuation attributed to the equity interest of Simgene's cell therapy business of RMB104.17 million based on the fair value of the cell therapy business as of January 31, 2021 as appraised by an independent valuer.

The Disposal was carried out with a view to concentrate the Company's existing resources and manpower to better focus on its business strategies and to ensure the quality and competitiveness of the Company's pipeline products.

SIG is a controlling shareholder and a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the Disposal contemplated under the Share Purchase Agreement constituted a connected transaction of the Company. As the highest applicable percentage ratio of the Disposal exceeds 0.1% but is less than 5%, the Company was subject to the reporting and announcement requirements, but was exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Disposal was completed on May 7, 2021. Upon closing of the transaction, Simgene ceased to be a subsidiary of the Company and the financial statements of Simgene Group ceased to be consolidated into the financial statements of the Company. The Contractual Arrangements were deemed as being unwound on the even day. The Company considered that there have been no significant adverse effects on the financial position and the business operation of the Group in connection with unwinding of the Contractual Arrangements. For details of the Disposal, please refer to the announcement of the Company dated April 15, 2021.

Confirmation from Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(i) the transactions carried out during the year ended December 31, 2021 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2021; and

(iii) any new contracts entered into, renewed or reproduced between the Company and the Consolidated Affiliated Entities during the year ended December 31, 2021 were fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Company and the Shareholder as a whole.

Confirmations from the Auditor

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid Contractual Arrangements:

(i) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed transactions under the Contractual Arrangements have not been approved by the Board;

(ii) nothing has come to the Auditor's attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

(iii) nothing has come the Auditor's attention that causes the Auditor to believe that any dividends or other distributions have been made by Shanghai Xianbo to the holders of its equity interest which were not otherwise subsequently assigned or transferred to the Group.

Connected Transactions

During the year ended December 31, 2021, save as disclosed in the section headed "Continuing Connected Transactions — (2) Non-exempt Continuing Connected Transactions — Contractual Arrangements — Disposal of Relevant Businesses", the Group has entered into the following transactions, which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

Grant of RSUs to Connected Grantees

To (i) recognize and reward the Connected Grantees for their contributions to the Group; (ii) encourage, motivate and retain the Connected Grantees, whose contributions are beneficial to the continual operation, development and long-term growth of the Group; and (iii) provide additional incentive for the Connected Grantees to achieve performance goals, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Connected Grantees to the Shareholders through ownership of Shares, on August 27, 2021, the Board resolved to grant an aggregate of 8,712,000 RSUs to certain Connected Grantees of the Company under the 2021 RSU Scheme at nil consideration. On November 1, 2021, the grant of RSUs to the Connected Grantees was approved by the independent Shareholders at the extraordinary general meeting. On November 12, 2021, the Company issued a total of 8,712,000 new Shares to the trustee of the 2021 RSU Scheme to hold on trust for the Connected Grantees. For details of the RSUs granted to each of the Connected Grantees, please refer to the section headed "Equity-Linked Agreements — 2021 RSU Scheme — Details of the RSUs granted under the 2021 RSU Scheme".

The Connected Grantees, being two executive Directors, certain directors and chief executives of subsidiaries of the Company and a senior management of the Company who is also an associate of an executive Director, are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules. Therefore, the grant of RSUs to the Connected Grantees under the 2021 RSU Scheme constituted connected transactions of the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated August 27, 2021, the circular of the Company dated October 11, 2021 and Note 32 to the consolidated financial statements.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at December 31, 2021, the interest or short position of the Directors or chief executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ Chief executive	Nature of interest	Number of Shares/ underlying shares interested	Approximate percentage of shareholding interest[(1)]
Mr. Ren Jinsheng[(2)]	Interest in controlled corporations/ Interest of concert parties	2,039,800,965	77.61%
Mr. Wan Yushan[(3)]	Beneficial owner	2,025,000	0.08%
Mr. Tang Renhong[(4)]	Beneficial owner	3,000,000	0.11%
Mr. ZHAO John Huan[(5)]	Interest in controlled corporations	107,065,613	4.07%

Notes:

(1) The calculation is based on the total number of 2,628,290,618 issued shares of the Company as at December 31, 2021.

(2) Mr. Ren Jinsheng, together with Simcere Investments Group Limited, P&H Holdings Group Ltd., Right Wealth Holdings Limited, Mr. Ren Yong, Ms. Li Shimeng, Mr. Ren Weidong, Ms. Ren Zhen and Ms. Peng Suqin (together, "**Ultimate Controlling Shareholders**") collectively and indirectly hold 2,039,308,965 Shares, including (i) 606,810,031 Shares and 1,196,009,986 Shares directly held by Artking Global Limited and Simcere Pharmaceutical Holding Limited, respectively, both of which are companies controlled by the Ultimate Controlling Shareholders; and (ii) 115,527,578 Shares and 120,961,370 Shares directly held by Simcere Investments Group Limited and Fortune Fountain Investment Limited, respectively, both of which are companies controlled by Mr. Ren Jinsheng. By virtue of the SFO, as the Ultimate Controlling Shareholders are deemed to be persons acting in concert under the Takeovers Code, each of them is deemed to be interested in the Shares held by each other. Mr. Ren Jinsheng is also deemed to be interested in 492,000 shares underlying the RSUs granted to his spouse, Ms. Wang Xi.

(3) Mr. Wan Yushan was interested in 2,025,000 RSUs granted to him under the 2021 RSU Scheme which entitled him to receive the aggregate of 2,025,000 Shares subject to vesting. As at December 31, 2021, no RSU granted to him was vested.

(4) Mr. Tang Renhong was interested in 3,000,000 RSUs granted to him under the 2021 RSU Scheme which entitled him to receive the aggregate of 3,000,000 Shares subject to vesting. As at December 31, 2021, no RSU granted to him was vested.

(5) Premier Praise Limited (尚嘉有限公司) (the "**Premier Praise**") directly holds 107,065,613 Shares. Premier Praise is held as to 82.22% by Hony Capital Fund V, L.P. The general partner of Hony Capital Fund V, L.P. is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan and as to 51% by two other individuals who are Independent Third Parties, respectively. Therefore, Mr. Zhao John Huan is deemed to be interested in the Shares held by Premier Praise by virtue of the SFO.

Save as isclosed above, as at December 31, 2021, so far as is known to the Directors, none of the Directors and the chief executives of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company under Divisions 7 and 8 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2021, the interests or short positions of persons (other than the Directors and chief executives of the Company) in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest(1)
Mr. Ren Yong(2)(3)	Interest in controlled corporations/ Interest of concert parties/ Founder of a discretionary trust	2,039,308,965	77.59%
Ms. Li Shimeng(2)(3)(4)	Interest in controlled corporations/ Interest of concert parties/ Interest of spouse	2,039,308,965	77.59%
P&H Holdings Group Ltd. ("**P&H Holdings**")(2)(3)	Interest in controlled corporations/ Interest of concert parties	2,039,308,965	77.59%
Mr. Ren Weidong(2)(4)	Interest in controlled corporations/ Interest of concert parties	2,039,308,965	77.59%
Right Wealth Holdings Limited ("**Right Wealth**")(2)(4)	Interest in controlled corporations/ Interest of concert parties	2,039,308,965	77.59%
Ms. Ren Zhen(2)(5)	Interest in controlled corporations/ Interest of concert parties	2,039,308,965	77.59%
Ms. Peng Suqin(2)(6)	Interest in controlled corporations/ Interest of concert parties	2,039,308,965	77.59%
Artking Global Limited	Beneficial interest	606,810,031	23.09%
("**Artking**")(7)	Interest in controlled corporations	1,196,009,986	45.51%
	Interest of concert parties	236,488,948	9.00%
Simcere Holding Limited	Interest in controlled Corporations	1,196,009,986	45.51%
("**Simcere Holding**")(8)	Interest of concert parties	843,298,979	32.09%
Excel Investments Group Limited	Interest in controlled Corporations	1,196,009,986	45.51%
("**Excel Investments**")(9)	Interest of concert parties	843,298,979	32.09%

Name of shareholder	Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest[(1)]
Simcere Pharmaceutical Holding Limited ("**SPHL**")[(10)]	Beneficial interest	1,196,009,986	45.51%
	Interest of concert parties	843,298,979	32.09%
Simcere Investments Group Limited ("**SIG**")[(2)(11)]	Beneficial interest	115,527,578	4.40%
	Interest in controlled corporation	120,961,370	4.60%
	Interest of concert parties	1,802,820,017	68.59%
Fortune Fountain Investment Limited ("**FFI**")[(12)]	Beneficial interest	120,961,370	4.60%
	Interest of concert parties	1,918,347,595	72.99%

Notes:

(1) The calculation is based on the total number of 2,628,290,618 issued shares of the Company as at December 31, 2021.

(2) The Ultimate Controlling Shareholders collectively and indirectly hold 2,039,308,965 Shares, including (i) 606,810,031 Shares and 1,196,009,986 Shares directly held by Artking and SPHL, respectively, both of which are companies controlled by the Ultimate Controlling Shareholders; and (ii) 115,527,578 Shares and 120,961,370 Shares directly held by SIG and FFI, respectively, both of which are companies controlled by Mr. Ren Jinsheng. By virtue of the SFO, as the Ultimate Controlling Shareholders are deemed to be persons acting in concert under the Takeovers Code, each of them is deemed to be interested in the Shares held by each other. Mr. Ren Jinsheng is also deemed to be interested in 492,000 shares underlying the RSUs granted to his spouse, Ms. Wang Xi.

(3) Mr. Ren Yong, son of Mr. Ren Jinsheng and spouse of Ms. Li Shimeng, is the settlor of the P&H Family Trust, which holds the entire equity interest in P&H Holdings through P&H Family Trust. Mr. Ren Yong, Ms. Li Shimeng and P&H Holdings are the Company's Ultimate Controlling Shareholders and are deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(4) Mr. Ren Weidong is the brother of Mr. Ren Jinsheng and holds the entire equity interest in Right Wealth. Mr. Ren Weidong and Right Wealth are the Company's Ultimate Controlling Shareholders and are deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(5) Ms. Ren Zhen is the sister of Mr. Ren Jinsheng. She is one of the Company's Ultimate Controlling Shareholders and is deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(6) Ms. Peng Suqin is the mother of Mr. Ren Yong. She is one of the Company's Ultimate Controlling Shareholders and is deemed to be interested in the Shares collectively held by the Company's Ultimate Controlling Shareholders.

(7) Artking directly holds 606,810,031 Shares and indirectly holds 1,432,498,934 Shares, including (i) 1,196,009,986 Shares directly held by SPHL, a controlled corporation of Artking, and (ii) an aggregate of 236,488,948 Shares directly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng and are deemed to be acting in concert with Artking under the Takeovers Code.

(8) Simcere Holding indirectly holds 2,039,308,965 Shares, including (i) 1,196,009,986 Shares directly held by SPHL, a controlled corporation of Simcere Holding, (ii) an aggregate of 843,298,979 Shares, which comprises of 606,810,031 Shares directly held by Artking, a company controlled by the Company's Ultimate Controlling Shareholders, and 236,488,948 Shares directly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng. Artking, SIG and FFI are deemed to be acting in concert with Simcere Holding under the Takeovers Code.

(9) Excel Investments indirectly holds 2,039,308,965 Shares, including (i) 1,196,009,986 Shares directly held by SPHL, a controlled corporation of Excel Investments, and (ii) an aggregate of 843,298,979 Shares, which comprises of 606,810,031 Shares directly held by Artking, a company controlled by the Company's Ultimate Controlling Shareholders, and 236,488,948 Shares directly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng. Artking, SIG and FFI are deemed to be acting in concert with Excel Investments under the Takeovers Code.

(10) SPHL directly holds 1,196,009,986 Shares and indirectly holds an aggregate of 843,298,979 Shares, including 606,810,031 Shares directly held by Artking, a company controlled by the Company's Ultimate Controlling Shareholders, and an aggregate of 236,488,948 Shares directly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng. Artking, SIG and FFI are deemed to be acting in concert with SPHL under the Takeovers Code.

(11) SIG directly holds 115,527,578 Shares and indirectly hold 1,923,781,387 Shares, including (i) 120,961,370 Shares directly held by FFI, a controlled corporation of SIG and ultimately controlled by Mr. Ren Jinsheng, and (ii) an aggregate of 1,802,820,017 Shares directly held by SPHL and Artking, both of which are deemed to be acting in concert with SIG under the Takeovers Code.

(12) FFI directly holds 120,961,370 Shares and indirectly hold an aggregate of 1,918,347,595 Shares directly held by SPHL, Artking and SIG all of which are deemed to be acting in concert with FFI under the Takeovers Code.

Save as disclosed above, as at December 31, 2021, there was no 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Sufficient Public Float

In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange has granted the Company a waiver and accepted a lower public float of 15.45% of the Company's issued share capital. During the Reporting Period and up to the date of this annual report, according to the public information obtainable by the Company and to the knowledge of the Directors, the Company has maintained the minimum public float to the extent permitted by the Stock Exchange.

Annual General Meeting

The AGM will be held on Friday, June 24, 2022. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

Closure of Register of Members

For the purpose of ascertaining the members' eligibility to attend and vote at the AGM, the Group's register of members will be closed from Tuesday, June 21, 2022 to Friday, June 24, 2022, both days inclusive, during which no transfer of share will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Group shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Group's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, June 20, 2022.

DIRECTORS' REPORT

In order to determine the entitlement of shareholders to the proposed final dividend, the register of members of the Group will be closed from Thursday, June 30, 2022, to Tuesday, July 5, 2022 (both days inclusive), during which no transfer of shares will be registered. All transfer documents together with the relevant share certificates must be lodged with the Group's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 pm on Wednesday, June 29, 2022.

Corporate Governance

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

Review by Audit Committee

The Audit Committee has reviewed the financial reporting processes, risk management and internal control systems of the Group and the consolidated financial statements of the Group for the year ended December 31, 2021, and is of the opinion that these statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosure has been made.

Auditor

The consolidated financial statements for the year ended December 31, 2021 have been audited by KPMG, which will retire at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution on the re-appointment of KPMG as the auditor of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board
Mr. REN Jinsheng *(Executive Director, Chairman and Chief Executive Officer)*

March 24, 2022

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report, for the purpose of inclusion in the annual report of the Company for the year ended December 31, 2021 (the "**Year**").

Compliance with the Corporate Governance Code

The Group is committed to maintaining and promoting stringent corporate governance. The principle of the Group's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operation are conducted in accordance with applicable laws and regulations, to enhance the transparency of the Board, and to strength accountability to all shareholders. The Group's corporate governance practices are based on the principles and code provisions prescribed in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Save as disclosed in this report, the Group has complied with the code provisions contained in the CG Code during the Year.

Corporate Governance Functions

The Board is collectively responsible for performing the corporate governance functions set out in Code Provision A.2.1 of Part 2 of the CG Code, including at least the following:

1 to develop and review the Company's policies and practices on corporate governance;

2 to review and monitor the training and continuous professional development of directors and senior management;

3 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5 to review the Company's compliance with the CG Code and disclosure in the annual report.

For the year ended December 31, 2021, the Board has reviewed the Company's policies and practices on corporate governance.

Compliance with the Model Code for Securities Transactions by Directors

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the Group's code of conduct regarding the Directors' securities transactions. Having made specific enquiry of all the Directors of the Group, all the Directors confirmed that they have strictly complied with the Model Code during the Year.

CORPORATE GOVERNANCE REPORT

The Board

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

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

Delegation of Management Functions

The major powers and functions of the Board include, but are not limited to, convening the general meetings, reporting its work at the general meetings, implementing the resolutions passed at the general meetings, considering and approving the operating plans and investment plans of the Company, formulating the Company's strategic development plans, formulating profit distribution plans and plans on making up losses, and exercising other powers and functions as conferred by the Articles of Association of the Company (the "**Articles of Association**").

All Directors have full and timely access to all the information of the Company and advices from the joint company secretaries (the "**Joint Company Secretaries**") and senior management of the Company and may,where appropriate, request to seek independent professional advice at the Company's expenses for discharging their duties to the Company.

The Board is responsible for making decisions on strategic plans, major investment decisions and other significant operational issues of the Company, while responsibilities for implementing decisions of the Board, dayto-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and tasks are subject to regular review. Prior approvals shall be obtained from the Board for any major transaction.

Composition of the Board

As at December 31, 2021, the Board comprised seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The list of members of the Board and their positions are set out below.

Executive Directors:

Mr. REN Jinsheng *(Chairman and Chief Executive Officer)*
Mr. ZHANG Cheng *(Chief Operating Officer) (Resigned on March 31, 2021)*
Mr. WAN Yushan *(Chief Financial Officer)*
Mr. TANG Renhong *(Executive Vice President)*

Non-executive Director:

Mr. ZHAO John Huan

Independent Non-executive Directors:

Mr. SONG Ruilin
Mr. WANG Jianguo
Mr. WANG Xinhua

Biography of each Director has been set out in the section headed "Biographies of Directors and Senior Management" in this annual report.

All Directors, including non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Directors of the Company.

Chairman and Chief Executive Officer

Under Code Provision C.2.1 of Part 2 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

As of December 31, 2021, the roles of Chairman and Chief Executive Officer of the Company were not separated and Mr. REN Jinsheng currently performs these two roles. Mr. REN is the founder of the Group, the Chairman of the Board and the Chief Executive Officer of the Company. He has been primarily responsible for developing overall corporate business strategies and business operation of the Group and making significant business and operational decisions of the Group. Directors consider that vesting the roles of both the Chairman of the Board and the Chief Executive Officer of the Company in Mr. REN is beneficial to the business prospects of the Group by ensuring consistent leadership to the Group as well as prompt and effective decision making and implementation. In addition, Directors believe that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) any decision to be made by the Board requires approval by at least a majority of Directors; (ii) Mr. REN and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions for the Company accordingly; (iii) the balance of power and authority is ensured by the operations of the Board, which consists of three executive Directors (including Mr. REN), one non-executive Director and three independent non-executive Directors, and has a fairly strong independence element; and (iv) the overall strategic and other key business, financial, and operational policies of the Company are made collectively after thorough discussion at both Board and senior management levels.

Independent Non-executive Directors

The Board has been complying with the Rules 3.10 (1) and 3.10 (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, according to Rule 3.10A of the Listing Rules, independent non-executive Directors must represent at least one-third of the Board. During the Year, the Company had three independent non-executive Directors, representing three-sevenths(before March 31, 2021: three-eighths) of the Board; therefore, the Company has complied with the relevant requirements.

According to Rule 3.13 of the Listing Rules, the independent non-executive Directors have made confirmations to the Company regarding their independence during the Year. Based on the confirmations of the independent non-executive Directors, the Company considers each of them to be independent during the Year.

Appointment and Re-election of Directors

Code Provision B.2.2 of the CG Code stipulates that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association.

Each of the executive Directors, Mr. REN Jinsheng , Mr. WAN Yushan and Mr. TANG Renhong, has entered into a service contract with the Company on October 8, 2020. The term of respective service contract is initially three years from the Listing Date. The service contract is subject to renewal pursuant to the Articles of Association and applicable laws, rules and regulations.

Each of the non-executive Director Mr. ZHAO John Huan and the independent non-executive Directors, Mr. SONG Ruilin, Mr. WANG Xinhua and Mr. WANG Jianguo, has entered into an appointment letter with the Company on October 8, 2020. The term of respective appointment letter is initially three years from the Listing Date. The appointment letter is subject to renewal pursuant to the Articles of Association and applicable laws, rules and regulations.

Pursuant to Article 110 of the Articles of Association, without prejudice to the power of the Company in general meeting in accordance with any of the provisions of the Articles of Association to appoint any person to be a Director, the Board shall have power, exercisable at any time and from time to time, to appoint any other person as a Director, either to fill a casual vacancy or as an addition to the Board, provided that the number of Directors so appointed shall not exceed the maximum number (if any) determined pursuant to the Articles of Association. Any Directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for reelection, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.

Pursuant to Article 111 (a) of the Articles of Association, subject to the provisions of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but greater than one-third, shall retire from office by rotation. Subject to the provisions of the Ordinance, the Listing Rules and the Articles of Association, the Directors to retire in every year shall be those who have been longest in office since their last election, and as between persons who became Directors on the same day, the Directors to retire shall (unless they otherwise agree between themselves) be determined by lot. Every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

Pursuant to Article 111 (a) of the Articles of Association, Mr. ZHAO John Huan, Mr. SONG Ruilin and Mr. WANG Jianguo will retire at the annual general meeting and, being eligible, offer themselves for re-election at the annual general meeting.

Board Meetings and General Meeting

For the year ended December 31, 2021, the Company convened a total of 6 Board meetings. At the Board meeting, the Board discussed a wide range of matters, including the Group's overall strategy, business prospects, financial and operating performance, approval of the Group's annual and interim results announcements and reports, regulatory compliance, corporate governance, and other material matters.

For the year ended December 31, 2021, the Company convened one extraordinary general meeting and one annual general meeting.

The attendance of the above meetings by each Director is as follows:

Name of the Director	No. of Board meetings attended in person/ by proxy/ convened	Attendance rate of Board meetings	No. of extraordinary general meetings attended in person/ convened	Attendance rate of extraordinary meeting	No. of annual general meetings attended in person/ convened	Attendance rate of annual general meetings
Executive Directors:						
Mr. REN Jinsheng	6/0/6	100%	1/1	100%	1/1	100%
Mr. ZHANG Cheng *(resigned on March 31, 2021)*	2/0/2	100%	N/A	N/A	N/A	N/A
Mr. WAN Yushan	6/0/6	100%	1/1	100%	1/1	100%
Mr. TANG Renhong	6/0/6	100%	1/1	100%	1/1	100%
Non-executive Director:						
Mr. ZHAO John Huan	6/0/6	100%	1/1	100%	1/1	100%
Independent non-executive Directors:						
Mr. SONG Ruilin	6/0/6	100%	1/1	100%	1/1	100%
Mr. WANG Jianguo	6/0/6	100%	1/1	100%	1/1	100%
Mr. WANG Xinhua	6/0/6	100%	1/1	100%	1/1	100%

The Company fully complies with the Code Provision C.5.1 of Part 2 of the CG Code and adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings are kept by the joint company secretaries of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is convened. Minutes of the Board meetings are open for inspection by Directors. All Directors shall obtain information related to the Board resolutions in a comprehensive and timely manner, and may seek independent professional advice at the Company's expense after making reasonable request to the Board.

Training and Continuous Professional Development of Directors

Each newly appointed director shall be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills.

During the Year, all directors have received directors' training in writing or by attending lectures. Directors' training is mainly about environmental, social and governance of listed companies.

Name of the Director	**Attending or participating in relevant seminars/reading relevant materials**
Executive Directors:	
Mr. REN Jinshen	✓
Mr. ZHANG Cheng *(resigned on March 31, 2021)*	✓
Mr. WAN Yushan	✓
Mr. TANG Renhong	✓
Non-executive Director:	
Mr. ZHAO John Huan	✓
Independent non-executive Directors:	
Mr. SONG Ruilin	✓
Mr. WANG Jianguo	✓
Mr. WANG Xinhua	✓

Committees under the Board of Directors

Audit Committee

The Group established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, review and oversee the existing and potential risks of the Group and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of 3 members, all of which are independent non-executive Directors, being Mr. WANG Xinhua, Mr. SONG Ruilin and Mr. WANG Jianguo. The chairperson of the Audit Committee is Mr. WANG Xinhua. Mr. WANG Xinhua possesses the appropriate professional qualifications and accounting and related financial management expertise.

In accordance with the written terms of reference of the Audit Committee, it should convene at least two meetings in each fiscal year.

During the Year, the Company held two meetings of the Audit Committee to: (i) review and discuss the report to the Audit Committee prepared by the auditors, KPMG, and the matters the Audit Committee should pay attention to as recommended by the auditors, including any material concerns raised to the management in relation to accounting records, financial statements or internal control systems and the management's responses; (ii) review and discuss the Report of the Risk Management and Internal Control Systems and to review the risk management and internal control systems of the Group and, if appropriate, make recommendations to the Board on the following matters: (a) to review and discuss the Report of the Risk Management and Internal Control Systems of the Group; (b) to review the effectiveness of financial controls, risk management and internal control systems of the Group; and (c) to review the adequacy of resources of the accounting and financial reporting function of the Group, staff qualifications and experience, and review staff training programmes and relevant budget; (iii) review and discuss the draft audited consolidated financial statements; the draft annual results announcement and the draft annual report of the Group for the year ended December 31, 2020 and, if appropriate, make recommendations to the Board; (iv) review and discuss the draft of letter of representation prepared by the auditors, KPMG and make recommendations to the Board; (v) consider and make recommendations to the Board on the re-appointment of KPMG as the Company's independent external auditors for a term until the conclusion of the next annual general meeting of the Company; and (vi) review and discuss the draft unaudited interim consolidated financial statements, the draft interim results announcement and the draft interim report of the Group for the six months ended June 30, 2021, and make suggestions to the Board of Directors, if appropriate.

The Audit Committee held two meetings with the external auditor without the attendance of executive Directors, to discuss the Group's annual financial results for 2020, interim financial results for 2021 and the annual audit plan.

The attendance record of members of the Audit Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/in proxy by other Directors/convened
Mr. SONG Ruilin	2/0/2
Mr. WANG Jianguo	2/0/2
Mr. WANG Xinhua	2/0/2

The Audit Committee convened a meeting on March 24, 2022 to review the annual financial results for 2021, significant internal audit matters and reappoint the external auditor. The audited annual results of the Group for the year ended December 31, 2021 have been reviewed by the Audit Committee, which is of the opinion that the preparation of the relevant financial statements complies with the applicable accounting standards and requirements and that adequate disclosures have been made. Members of the Audit Committee have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters including the review of the annual results and the consolidated financial statements of the Group for the year ended December 31, 2021.

Remuneration and Appraisal Committee

In accordance with the CG Code, the Company has established a Remuneration and Appraisal Committee (the "**Remuneration and Appraisal Committee**") with written terms of reference. The primary duties of the Remuneration and Appraisal Committee are to establish, review and make recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, assess the performance of executive directors, determine and approve the terms of the specific services contract remuneration package of each executive Director and senior management and review and approve remuneration by reference to corporate goals and objectives resolved by our Directors from time-to-time.

The Remuneration and Appraisal Committee consists of 3 members, including two independent non-executive Directors and one executive Director, being Mr. WANG Jianguo, Mr. WANG Xinhua and Mr. REN Jinsheng. The chairperson of the Remuneration and Appraisal Committee is Mr. WANG Jianguo.

During the Year, the Remuneration and Appraisal Committee convened three meetings to consider and make recommendations to the Board on the remuneration and other benefits payable by the Company to the Directors and senior management and other related matters.

The attendance record of members of the Remuneration and Appraisal Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/in proxy by other Directors/convened
Mr. WANG Jianguo	3/0/3
Mr. WANG Xinhua	3/0/3
Mr. REN Jinshen	3/0/3

Pursuant to the Code Provision E.1.5 of Part 2 of the CG Code, the following table sets out the total remuneration (excluding equity-settled share expenses) of Directors and senior management members for the year ended December 31, 2021 by remuneration band:

Group	Remuneration (RMB)	Number of Directors	Number of Members of Senior Management	Total Number of Individuals
1	0–1,000,000	4	0	4
2	1,000,001–1,500,000	0	1	1
3	1,500,001–2,000,000	1	2	3
4	2,000,001–2,500,000	1	2	3
5	4,500,001–5,000,000	1	0	1
6	5,500,001–6,000,000	0	1	1

Further details of the Directors' remuneration and the five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules are set out in notes 8 and 9 to the financial statements.

Nomination Committee

In accordance with the CG Code, the Company has established a Nomination Committee (the "**Nomination Committee**") with written terms of reference. The primary duties of the Nomination Committee are to review the structure, size and composition of our Board and senior management on a regular basis and make recommendations to our Board regarding any proposed changes to the composition of our Board and senior management, identify, select or make recommendations to our Board on the selection of individuals nominated for directorship and senior management members, ensure the diversity of our Board and senior management members, assess the independence of our independent non-executive Directors and make recommendations to our Board on relevant matters relating to the appointment, reappointment and removal of our Directors and senior management members and succession planning for our Directors and senior management members.

The Nomination Committee consists of 3 members, including two independent non-executive Directors and one executive Director, being Mr. SONG Ruilin, Mr. WANG Jianguo and Mr. REN Jinsheng. The chairperson of the Nomination Committee is Mr. SONG Ruilin.

During the Year, the Nomination Committee convened three meetings to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and make recommendations to the Board on re-election of the retiring directors.

The attendance record of members of the Nomination Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/in proxy by other Directors/convened
Mr. SONG Ruilin	3/0/3
Mr. WANG Jianguo	3/0/3
Mr. REN Jinshen	3/0/3

Strategy Committee

The Company has established a Strategy Committee with written terms of reference in compliance with the requirements under the Listing Rules.

The Strategy Committee consists of three members, including one executive Director, one non-executive Director and one independent non-executive Director, being Mr. REN Jinsheng, Mr. ZHAO John Huan and Mr. WANG Jianguo. The chairperson of the Strategy Committee is Mr. REN Jinsheng.

The primary duties of the Strategy Committee are to review and make suggestions in respect of the strategic directions, development proposals, annual operation plans, investment proposals, major investments, financing and capital injection, expansion of business and any major reorganization or restructuring proposal of the Company.

During the Year, the Strategy Committee convened two meetings to consider amending the terms of reference of the Strategy Committee by incorporating responsibilities for the environmental, social and governance matters.

The attendance record of members of the Strategy Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/in proxy by other Directors/convened
Mr. REN Jinshen	2/0/2
Mr. ZHAO John Huan	2/0/2
Mr. WANG Jianguo	2/0/2

Directors Nomination Policy

In accordance with the Company's director nomination policy, the Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorship:

- Skills, experience and expertise: The candidate should possess the skills, knowledge, experience and expertise which are relevant to the operations of the Company and its subsidiaries;

- Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board diversity policy of the Company;

- Commitment: The candidate should be able to devote sufficient time to attend Board meetings and participate in induction, trainings and other Board associated activities. In particular, if the proposed candidate will be nominated as an independent non-executive Director and will be holding his/her seventh(or more) listed company directorship, the Nomination Committee should consider the reason given by the candidate for being able to devote sufficient time to the Board and Board Committee meetings;

- Standing: The candidate must satisfy the Board and the Stock Exchange that he/she has the character,experience and integrity to serve as a Director, and is able to demonstrate a standard of competence commensurate with the relevant position as a Director;

- Independence: For the candidate who is proposed as an independent non-executive Director, he or she must satisfy all the independence requirements as set out in Rule 3.13 of the Listing Rules. Where appropriate, the Nomination Committee shall also evaluate the education, qualifications and experience of the candidates in a holistic manner to consider whether they possess appropriate professional qualifications, accounting or related financial management expertise to act as independent non-executive Directors.

The Nomination Committee will recommend to the Board for the appointment of directors (including independent non-executive Directors) in accordance with the following nomination procedures:

- If the Nomination Committee determines that additional appointment or replacement of the Director(s) is required, the Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate;

- The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by the Shareholders of the Group as a nominee for election to the Board and the appointment or reappointment of Directors and succession planning for Directors is subject to the approval of the Board;

- On making recommendation, the Nomination Committee may submit the candidate's personal profile and a proposal to the Board for consideration. In order to be a valid proposal, the proposal must clearly indicate the nominating intention and the candidate's consent to be nominated and the personal profile must incorporate and/or accompanied by the full particulars of the candidate that are required to be disclosed under the Listing Rules, including the information and/or confirmation required under Rule 13.51(2) of the Listing Rules. If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time;

- The Board shall observe its Board diversity policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the Board might nconsider relevant and applicable from time to time towards achieving Board diversity; and

- Each proposed new appointment, election or re-election of a Director shall be assessed and/or considered against the criteria and qualifications set out in the nomination policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

The Nomination Committee is responsible for monitoring the implementation of the Directors nomination policy and reviewing this policy from time to time as appropriate to ensure its effectiveness.

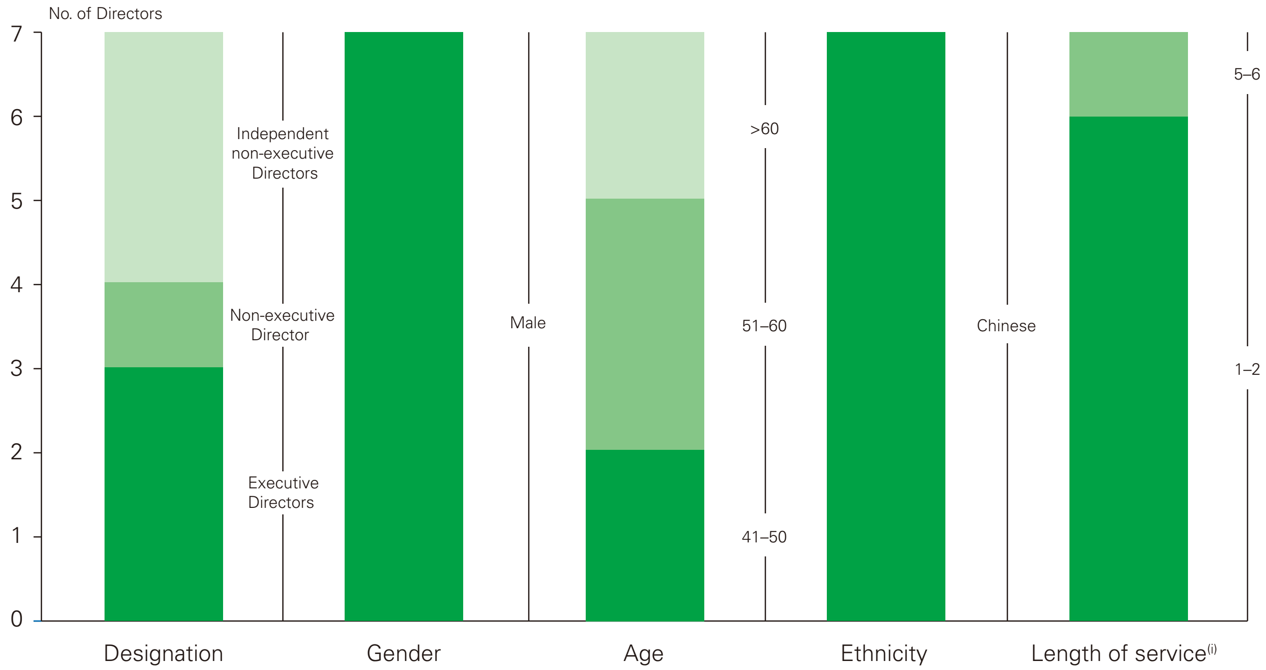
Board Diversity Policy

The Company has adopted a Board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to the Company's business growth. The selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merits and contributions that the selected candidates will bring to the Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, business operation, accounting and financial management, pharmaceutical research and development. They obtained degrees in various majors or certifications, including in economics, business administration, law, accounting and pharmacy. The Company has three independent non-executive Directors with different industry backgrounds, representing more than one-third of the Board. In addition, our Board has a wide range of age, rangng from 42 years old to 66 years old. While the Company recognizes that the gender diversity at the Board level can be improved given its current composition of all-male directors, the Company has taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to our Board and the management levels. Going forward, our Company will consider the possibility of nominating female senior management to the Board or appointing a female independent non-executive Director who has the necessary skills and experience. In particular, the Company plans to appoint a female Director by the end of 2023 and target to achieve 20% female representation in the Board within five years following the Listing, subject to Directors (i) being satisfied with the competence and experience of the relevant candidates after a comprehensive review process based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interest of our Company and our Shareholders as a whole when deliberating on the appointment. To develop a pipeline of potential female successors to the Board, our Company will (i) ensure that there is gender diversity when recruiting staff at mid to senior levels; and (ii) engage more resources in training female staff with the aim of promoting them to be members of our senior management or the Board.

The Nomination Committee is responsible for ensuring the diversity of our Board. The Nomination Committee will monitor the implementation of the diversity policy and review the Board diversity policy from time to time to ensure its continued effectiveness.

The table below set forth the diversity profile of the Board as at December 31, 2021:



Note:

(i) The length of service is calculated from the date of appointment of the Director(s) by the Company to December 31, 2021.

Company Secretaries

Mr. BAO Jun, the secretary to the Board and a Joint Company Secretary of the Company and Ms. FENG Jie, a Joint Company Secretary are responsible for making recommendations and proposals to the Board on issues related to corporate governance, and ensuring that Board policies and procedures as well as applicable laws, rules and regulations are strictly followed. Ms. FENG Jie resigned on June 30, 2021.

In order to maintain sound corporate governance and to ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also appointed Ms. MAK Po Man Cherie of SWCS Corporate Services Group (Hong Kong) Limited, as the Company's Joint Company Secretaries, to assist Mr. BAO Jun in discharging the duties of a company secretary. Mr. BAO Jun has attended trainings on, among other things, laws and regulations, Listing Rules, director and Board secretaries' duties, rules on information disclosure, rules on connected transactions, notifiable transactions, equity management of securities companies, directors' and supervisors' securities dealings, disclosure of interests, market misconduct and the implementation of relevant internal policies.

Mr. BAO Jun and Ms. MAK Po Man Cherie have all confirmed that they received not less than 15 hours of relevant professional training during the year ended December 31, 2021.

Dividend Policy

The Company currently does not have a formal dividend policy or a fixed dividend distribution ratio. Our Board may declare dividends in the future after taking into account our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Ordinance, including the approval of our Shareholders.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

Liability Insurance for Directors and Senior Management

The Company has maintained insurance for all the directors and senior management members to minimum the potential risks which may occur to them during their normal performance of duties.

Responsibilities of the Directors for Financial Statements

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

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

The statement of the Company's independent auditor regarding its reporting responsibilities on the financial statements is included in the Independent Auditor's Report on pages 81 to 89 of this annual report.

Auditors' Remuneration

For the year ended December 31, 2021, the Company appointed KPMG as its independent auditors. The total fees paid/payable for audit and non-audit services provided by the Group's independent auditors for the year ended December 31, 2021, excluding disbursements made on behalf of the Company, are as follows:

Service provided	Fees paid/payable (RMB'000)
Audit service	4,000
Non-audit service[note]	241

Note: Non-audit service mainly refers to taxation advising services.

Risk Management and Internal Control

The overall objectives of the Group's risk management are to ensure that risks are controlled within an acceptable limits appropriate to the overall objectives, to ensure compliance with relevant laws and regulations, to ensure the implementation of the Group's relevant rules and regulations and major measures taken to achieve business objectives, to ensure the effectiveness of management, to improve the efficiency and effectiveness of business activities, to reduce uncertainty in achieving business objectives, to ensure that a crisis management plan is in place for subsequent management upon occurrence of various significant risks and to ensure that the Company is free of significant loss arising from catastrophic risks or human error. Our risk management system follows the principles of comprehensiveness, prudence, independence, effectiveness and timeliness to ensure the optimized use of the system.

The Group's risk management process consists of five steps: risk identification, risk assessment, risk analysis, risk control and risk reporting. Our internal audit function is performed by the compliance audit department, which reports directly to the Audit Committee. The Group has separately set an audit department directly reporting to the compliance audit department, which conducts routine random audits and special audits in accordance with the regulations of each business functions of the Company. In respect of regular random audits, the compliance audit department prepares the audit plan for the coming year on a annual basis, and carries out the relevant works as per the scheduled timetable. In addition to the regular audits, the compliance audit department also conducts special audits from time to time based on particular reports and issues identified during the regular random audits. Notices would be issued and notified, in different levels, in respect of the issues identified during the regular random audits and special audits by the compliance audit department depending on the seriousness of the incidents.

Each business entities of the Group is responsible for identifying, assessing and managing the risks within its scope of business. They will develop their respective internal control system for effective risk management and develop action plans to manage the risks catering for the risks identified and assessed.

Management is responsible for monitoring the Group's risk management and internal control activities and holds regular meetings with the business entities to ensure that key risks have been properly managed and newly identified or evolving risks have been identified. Besides, the internal control and compliance related departments will also monitor the internal operations of the Group from time to time.

The Board is responsible for examining and reviewing the adequacy and effectiveness of the Group's risk management and internal control systems, including financial monitoring, operating monitoring and compliance monitoring, the Board also is responsible for reviewing the annual report and taking advice from the Audit Committee.

The Board has reviewed the effectiveness of the risk management and internal control system for the year ended December 31, 2021 and has covered all important monitoring aspects, including financial monitoring, operational monitoring and compliance monitoring, and the Board has obtained management's confirmation on the effectiveness of the risk management and internal control system of the Company. The Board is also of the opinion that there is neither material failure of risk control, nor has it identified any major weakness in risk control. The Company has strictly complied with the requirements under the Corporate Governance Code in relation to risk management and internal control, and the Board assesses that the Company's risk management and internal control system is effective and adequate.

The Board acknowledges that it is accountable for the risk management and internal control systems and has the responsibility to review the effectiveness of such systems. These systems are designed to manage, not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance that there will be no material misrepresentation or loss.

The Company is aware of its responsibilities under the SFO and the Listing Rules with respect to the procedures and internal controls over the handling and dissemination of inside information, and the overriding principle is that if some information is determined as inside information, it should be announced as soon as reasonably practicable and handled with close regard to applicable laws and regulations.

Environmental Policies and Performance

With the recognition of the importance of environmental protection to the pursuit of long-term sustainable development, the Group has formulated various internal systems of energy conservation and emission reduction and promoted energy conservation and emission reduction measures, including put forward environmental management goals, monitor emissions, encourage staff to conserve energy and reduce consumption. The Group is committed to improving the sustainable development of the environment and will closely monitor its performance. The Group has always strictly complied with the applicable laws and regulations in the place of operation, such as the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), which have been supported and effectively implemented by employees. During the year ended December 31, 2021, the Group has not suffered any fines or other penalties for the violation of any health, safety or environmental regulations. For details, please refer to the environmental, social and governance report to be published independently by the Group.

Shareholders' Rights

According to the Articles of Association and the Companies Ordinance, Shareholders of the Company may: (i) move a requisition to move a resolution at the AGM; (ii) requisition to convene an extraordinary general meeting (the "**EGM**"); and (iii) propose a person for election as a Director at a general meeting.

Requisition to Move a Resolution at an AGM

The Company holds a general meeting as its AGM every year. In accordance with section 615 of the Companies Ordinance, a requisition to move a resolution at the AGM may be submitted by any number of Shareholders representing not less than one-fortieth (1/40th) of the total voting rights of all Shareholders having the right to vote on that resolution at the AGM, or not less than 50 Shareholders having the right to vote on that resolution at the AGM. The requisition must identify the resolution and must be signed by all the applicant. The requisition must be deposited at the Registered Office (as defined below), for the attention of the Joint Company Secretaries, not later than 6 weeks before the AGM to which the request relates, or if later, when the Notice of AGM is dispatched.

Requisition to Convene an EGM

Shareholders holding not less than one-twentieth (1/20th) of the total voting rights of all the members having a right to vote at general meetings of the Company can deposit a requisition to convene an EGM pursuant to sections 566 to 568 of the Companies Ordinance. The requisition must state the general nature of the business to be dealt with at the meeting, and must be signed by the applicant. The requisition must be deposited at our Registered Office for the attention of the Joint Company Secretaries.

Proposing a Person for Election as a Director at a General Meeting

If a Shareholder wishes to propose a person for election as a Director at a general meeting, he/she must give a written notice to that effect to the Joint Company Secretaries. The written notice must include the personal information of the person proposed for election as a Director as required by Rule 13.51(2) of the Listing Rules and be signed by such Shareholder and the person proposed for election as a Director indicating his/her willingness to be appointed or re-appointed and consent of publication of his/her personal information. Such notice shall be given within the period (or a longer period as may be determined by the Directors from time to time) commencing no earlier than the day after the despatch of the notice of such meeting and ending no later than seven days prior to the date appointed for such meeting. Such details and procedures are available in our website.

For requesting the Company to circulate to Shareholders a statement with respect to a matter mentioned in a proposed resolution or any other business to be dealt with at a general meeting, Shareholders are requested to follow the requirements and procedures as set out in section 580 of the Companies Ordinance.

Procedure in relation to Raising Enquiry and Concerns with the Board

Shareholders of the Company wishing to make any enquiry to the Board may do so in writing to the Company since verbal or anonymous ones would not generally be dealt with by the Company.

For the avoidance of doubt, Shareholder(s) must deposit the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the below address and provide their full names, contact details and identification in order to give effect to such requisition, notice or statement, or enquiry. Shareholders' information may be disclosed as required by law.

Contact details

Address:	43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong ("**Registered Office**") (for the attention of the Joint Company Secretaries)
Email:	ir@simcere.com

For any enquiry concerning our Shares, Shareholders are advised to directly check with our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. The contact details of Computershare Hong Kong Investor Services Limited are as follows:

Computershare Hong Kong Investor Services Limited

Address:	17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Tel:	+852 2862 8555
Website:	www.computershare.com/hk/contact

Communication with Shareholders and Investors Relations

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through AGMs and other EGMs. At the AGM, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

Amendments to Articles of Association

There is no change in the Articles of Association of the Company during the Year.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Company are updated as of the date of this report.

Directors

Executive Directors

Mr. REN Jinsheng (任晉生), aged 59, is the founder, an executive Director, the chairman of the Board and the chief executive officer of the Company. He is primarily responsible for the overall corporate and business strategies, business operation and making significant business and operational decisions of the Group.

With more than 30 years of industry experience, Mr. Ren has gained in-depth understanding of the pharmaceutical industry and acquired rich management experience. At the very beginning of the Group's operations, Mr. Ren became the general manager of Jiangsu Simcere at the time of its establishment in March 1995, and has subsequently been the chairman of the board and the chief executive officer of the Group. On November 19, 2019, Mr. Ren was officially appointed as the chairman of the Board, an executive Director and the chief executive officer of the Company. Mr. Ren also has been the chairman of the board of various subsidiaries within the Group, including but not limited to Jiangsu Simcere since April 2004, Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) ("**Hainan Simcere**") since April 2001, Simcere Pharmaceutical Co., Ltd. (先聲藥業有限公司) ("**Simcere Pharmaceutical**") since February 2003 and Shandong Simcere Biopharmaceutical Co., Ltd. (山東先聲生物製藥有限公司) ("**Shandong Simcere**") since July 2009. Prior to the foundation of the Group, Mr. Ren served as the manager of the new special drugs business department of Jiangsu Pharmaceutical Industry Co., Ltd. (江蘇省醫藥工業有限公司) from November 1992 to March 1995. Prior to that, Mr. Ren worked at Qidong Pharmaceutical Factory ((啟東製藥廠), now known as Gaitianli Pharmaceutical Holding Group Pharmaceutical Co., Ltd. (蓋天力醫藥控股集團製藥股份有限公司)) from February 1982 to November 1992. In addition, Mr. Ren is currently the president of the China Pharmaceutical Innovation Promotion Association (中國醫藥創新促進會) for the year from 2020 to 2021.

Mr. Ren graduated with a college diploma in traditional Chinese pharmacology from Nanjing University of Chinese Medicine (南京中醫藥大學) (formerly known as Nanjing College of Chinese Medicine (南京中醫學院)) in January 1982. He also graduated with a master's degree in business administration from Nanjing Normal University (南京師範大學) in December 1996. Mr. Ren was certified as a researcher (natural science series) and a senior economist by Jiangsu Human Resources and Social Security Department (江蘇省人力資源與社會保障廳) in January 2020 and November 2010, respectively.

Over the years, Mr. Ren has received many awards and accolades acknowledging his contributions and accomplishments in the pharmaceutical industry, examples of which are set out below:

Honor/Award	Awarding Body	Timing of granting the award
Top 10 leaders in China's pharmaceutical industry (中國醫藥行業十大領軍人物)	National Federation of Industry and Commerce Pharmaceutical Merchants Association (全國工商業聯合會醫藥商協會)	May 2016
First prize of the Science and Technology Award of Hainan Province (海南省科學技術一等獎)	The People's Government of Hainan Province (海南省人民政府)	December 2014; January 2005
Special Government Allowances (政府特殊津貼)	State Council (國務院)	March 2011
Jiangsu Innovation and Entrepreneurship Talent Award (江蘇創新創業人才獎)	Jiangsu Committee of the Communist Party of China (中共江蘇省委); The People's Government of Jiangsu Province (江蘇省人民政府)	June 2010
National Labor Medal (全國五一勞動獎章)	All-China Federation of Trade Unions (中華全國總工會)	April 2007
Second prize of National Science and Technology Progress Award (國家科學技術進步二等獎)	State Council (國務院)	November 2005

Mr. WAN Yushan (萬玉山), aged 51, is an executive Director and the chief financial officer of the Company. He is primarily responsible for the financial and legal management, formulating financial strategies and in charge of the process and information business of the Group.

Mr. Wan has over 20 years of experience with the Group where he has accumulated knowledge and skills required in the financial management of the Group. Mr. Wan joined the Group in May 2000 and has assumed various positions successively since then, including the financial controller, general manager of financial department, vice president and chief financial officer. On November 19, 2019, Mr. Wan was officially appointed as an executive Director and the chief financial officer of the Company. He has also been the director of several subsidiaries of the Company including, among others, Hainan Simcere since July 2011, Shandong Simcere since August 2017 and Simcere Pharmaceutical since July 2017.

Mr. Wan graduated with a bachelor's degree in biochemistry from Nanjing University (南京大學) in June 1992. He also graduated with a master's degree in management (majoring in accounting) from Nanjing University in June 1999. Mr. Wan was admitted as a non-practicing member of Jiangsu Institute Certified Public Accountants (江蘇省註冊會計師協會) in November 2009.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. TANG Renhong (唐任宏), aged 42, is an executive Director and the executive vice president of the Company. He is primarily responsible for the overall management of Shanghai R&D Center and management of the pre-clinical R&D of innovative pharmaceuticals of the Group.

Mr. Tang has nearly 12 years of experience in pharmaceutical research and development and management of pharmaceutical companies. Mr. Tang joined the Group acting as the vice president in May 2019. He was officially appointed as an executive Director and the vice president of the Company on November 19, 2019 and further appointed as the senior vice president and the executive vice president of the Company on June 1, 2020 and March 31, 2021, respectively. Prior to that, he served as the vice general manager of Shanghai Shengdi Pharmaceutical Co., Ltd. (上海盛迪醫藥有限公司) from September 2017 to May 2019. From September 2013 to August 2017, Mr. Tang worked as the associate director of China Innovation Center of Astrazeneca Investment (China) Co., Ltd. (阿斯利康投資（中國）有限公司). Before that, he worked at the Novo Nordisk Research Centre China (諾和諾德中國研究發展中心) from June 2009 to September 2013 with the last position there being the head of department. At the beginning of his career, he was a postdoctoral researcher at the University of California, San Francisco from April 2007 to May 2009.

Mr. Tang graduated with a bachelor's degree in biotechnology from Shanghai Jiao Tong University (上海交通大學) in July 2002. He also obtained a Ph.D. in molecular cell biology from Nanyang Technological University in April 2007.

Non-Executive Director

Mr. ZHAO John Huan (趙令歡), aged 59, joined the Group in November 2019, and is a non-executive Director of the Company. He is primarily responsible for providing strategic advice on operation and development of the Group.

Mr. Zhao is currently the chairman and CEO of Hony Capital and has gained rich knowledge of corporate management with senior management positions at a number of public companies including as a non-executive director of Legend Holdings Corporation (stock code: 3396.HK) since January 2020, a non-executive director of China Glass Holdings Limited (stock code: 3300.HK) since January 2005, a non-executive director of Lenovo Group Limited (stock code: 992.HK) since November 2011, a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. (中聯重科股份有限公司) (stock code: 1157.HK, 000157.SZ) since June 2015, an executive director and the chairman of the board of Goldstream Investment Limited (stock code: 1328.HK) since December 2018 a non-executive director of Shanghai Jin Jiang International Hotels Co., Ltd. (上海錦江國際酒店股份有限公司) (stock code: 600754.SH) since September 2015, an executive director and the chairman of the board of Best Food Holding Company Limited (stock code: 1488.HK) since August 2016, a non-executive director of ENN Ecological Holdings Co., Ltd. (新奧生態控股股份有限公司) (stock code: 600803.SH) since December 2017, and a non-executive director of Eros STX Global Corporation (stock code: ESGC.NYSE) since July 2020.

Mr. Zhao graduated with a bachelor's degree in physics from Nanjing University in July 1984. He also obtained dual master's degrees of electronic engineering and physics from Northern Illinois University in the United States in May 1990 and December 1990, respectively, and a master of business administration degree from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States in June 1996.

Independent Non-Executive Directors

Mr. SONG Ruilin (宋瑞霖), aged 59, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. Song has extensive experience in the pharmaceutical industry. Mr. Song joined the Group in November 2019. He has held positions in a number of public companies, including a non-executive director of Luye Pharma Group Ltd. (stock code:2186.HK) since March 2017, an independent director of Mediwelcome Healthcare Service and Technology Inc. (麥迪衛康健康醫療服務科技有限公司) (stock code: 2659.HK) since December 2020, an independent director of Jacobio Pharmaceuticals Group Co., Ltd. (加科思藥業集團有限公司) (stock code: 1167.HK) since December 2020, an independent director of Shanghai Henlius Biotech, Inc. (上海復宏漢霖生物技術股份有限公司) (stock code: 2696.HK) since June 2018, an independent director of Shenzhen Chipscreen Biosciences Co., Ltd (深圳微芯生物科技股份有限公司) (stock code: 688321.SH) since August 2018, an independent director of Boya Biopharmaceutical Group Co., Ltd. (博雅生物製藥集團股份有限公司) (stock code: 300294.SZ) from March 2017 to March 2021, an independent director of Tibet Aim Pharm. Inc. (西藏易明西雅醫藥科技股份有限公司) (stock code: 002826.SZ) from August 2015 to August 2021, an independent director of Shanxi Zhendong Pharmaceutical Co., Ltd. (山西振東製藥股份有限公司) (stock code: 300158.SZ) from June 2015 to June 2021, an independent director of Zhejiang Jolly Pharmaceutical Co., Ltd. (浙江佐力藥業股份有限公司) (stock code: 300181.SZ) from July 2009 to January 2014 and an independent director of Jointown Pharmaceutical Group Co., Ltd. (九州通醫藥集團股份有限公司) (stock code: 600998.SH) from November 2008 to November 2014.

Mr. Song is currently the executive president of PhIRDA (中國醫藥創新促進會) (formerly named as China Pharmaceutical Industry Research and Development Association (中國醫藥工業科研開發促進會)). Mr. Song also hold several important social positions including specially-invited expert of the Talent Pool Participating in and Discussing State Affairs of the CPPCC, consultant of Participating in and Discussing State Affairs of the Chinese Peasants and Workers Democratic Party, a member of the Biotech Advisory Panel of the Stock Exchange, vice chairman of China Alliance Rare Diseases, a honorary council member of the Chinese Medicine Society, council member of Chinese Pharmacist Association, a council member of the Bethune Charitable Foundation, a visiting researcher of Shanghai Jiaotong University. Since 2007, Mr. Song has been dedicated to the research of China's pharmaceutical policies, especially the policies for pharmaceutical innovation. Prior to that, he worked in the Legislative Affairs Office of the State Council of China, mainly engaged in the legislative review and research of health and medicine for a number of years.

Mr. Song graduated with a bachelor's degree in law from China University of Political Science and Law (中國政法大學) in July 1985. He also graduated with a degree of master of business administration from China Europe International Business School (中歐國際商學院) in November 2004 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University (中國藥科大學) in December 2018.

Mr. WANG Jianguo (汪建國), aged 61, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. Wang has over 30 years of experience in corporate management. He joined the Group in November 2019, and meanwhile, he has been an independent non-executive director of Honma Golf Limited (stock code: 6858.HK) since September 2016. Mr. Wang also has been the chairman of the board of Five Star Holdings Group Co., Ltd. (五星控股集團有限公司), the chairman of Kidswant Children Products Co., Ltd(stock code:301078.SZ) and the chairman of Huitongda Network Co., Ltd. (stock code:9878.HK) since February 2009. Before that, Mr. Wang was the vice president of the Asia-Pacific Region for Best Buy Co., Inc. (stock code: BBY.NY), an American multinational consumer electronics corporation. He founded Jiangsu Five Star Appliance Co., Ltd. (江蘇五星電器有限公司) in 1998 and was its president and the chairman of the board until February 2009. From 1992 to 1998, Mr. Wang held various positions at Jiangsu Wujiaohua Corporation (江蘇五交化總公司) with his last position there being the general manager.

Mr. Wang is currently the vice chairman of Jiangsu General Chamber of Commerce (江蘇省總商會) and was awarded the Service Industry Professional Special Contribution Award (服務業專業人才特別貢獻獎) by Jiangsu Provincial People's Government in October 2014. Mr. Wang was granted the Outstanding Achievement Award (傑出成就獎) by the China Chain Store & Franchise Association (中國連鎖經營協會) in November 2012. He was elected as the Model Worker of the National Business System (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the PRC in 2007.

Mr. Wang graduated from the Australian National University, in July 2004 with a degree of executive master of business administration. He also completed the program of Ph.D. in Business Administration in Global Finance from Arizona State University, U.S.A. in May 2018.

Mr. WANG Xinhua (王新華), aged 66, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. Wang has almost 45 years of experience in accounting and financial management. Mr. Wang joined the Group in November 2019. He has been an independent non-executive director of China Tobacco International (HK) Company Limited (stock code: 6055.HK) since December 2018, an independent director of China Petroleum Engineering Corporation (中國石油集團工程股份有限公司) (stock code: 600339.SH) since September 2017 and an independent director of Xinjiang Zhongtai Chemical Co., Ltd. (新疆中泰化學股份有限公司) (stock code: 002092.SZ) since January 2017. In addition, Mr. Wang served as an independent director of Guizhou Yibai Pharmaceutical Co., Ltd. (貴州益佰製藥股份有限公司) (stock code: 600594.SH) from September 2016 to September 2019 and Guizhou Jiulian Industrial Explosive Material Development Co., Ltd. (貴州久聯民爆器材發展股份有限公司) (stock code: 002037.SZ) (now renamed as Poly Union Chemical Holding Group Co., Ltd. (保利聯合化工控股集團股份有限公司)) from March 2016 to December 2019. Prior to that, Mr. Wang served as the chief financial officer of China Petroleum & Chemical Corporation (中國石油化工股份有限公司) (stock code: 386.HK and 600028.SH) from May 2009 to December 2015. From November 2004 to April 2009, he served as a director of the financial planning department of China Petrochemical Corporation (中國石化集團公司).

Mr. Wang graduated from Northeastern University (東北大學) in July 1996 after completing his undergraduate course in management engineering through long distance learning. He was as a senior accountant at professor level (教授級高級會計師) granted by Sinopec Group in January 2004.

Senior Management

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

Mr. Bijoyesh Mookerjee, aged 60, joined the Group and was appointed as the Oncology's Chief Medical Officer of the Company in April 2022. Mr. Bijoyesh is responsible for oncology clinical pipeline strategy and development, improving the global research capability, and advancing the Company's international development.

Mr. Bijoyesh has over 30 years of oncology clinical and medical experience in both academia and the biopharmaceutical industry. From April 2017 to January 2022, he held the roles of Vice President and Senior Global Clinical Program Leader in Oncology at Novartis Pharmaceutical Corporation ("**NPC**"). He joined NPC in May 2015 and oversaw multiple cancer programs during development, regulatory submissions and interactions, reviews, external acquisitions and clinical activities, while building partnerships with industry, academia and collaborative clinical groups internationally. He also possesses prior leadership and scientific experience in global organizations and academia, including GlaxoSmithKline Pharmaceuticals Ltd., Incyte Corporation, AstraZeneca Pharmaceuticals L.P., Thomas Jefferson University Sidney Kimmel Cancer Center, University of Maryland Greenebaum Cancer Center and The Johns Hopkins Oncology Center.

Mr. Bijoyesh Mookerjee completed medical oncology research at the National Cancer Institute, National Institutes of Health from July 1994 to June 1997. Besides, he accomplished the training of internal medicine residency at the State University of New York, Downstate Medical Center from July 1991 to June 1994, and received his bachelor of medicine & bachelor of surgery (MBBS) from Armed Forces Medical College, University of Pune in March 1987. Furthermore, he is board certified in internal medicine on November 1994 and in medical oncology on November 1997 by The American Board of Internal Medicine (ABIM).

Mr. ZHOU Gaobo (周高波), aged 43, was appointed as a chief investment officer of the Company on January 17, 2022, primarily responsible for investment business, business development management in Asian-Pacific region, strategic planning, affairs in Hong Kong and investor relations management.

Mr. Zhou has 15 years of management consultation experience in the healthcare industry. He was a Partner of McKinsey & Company from January 2014 to January 2022, and was the joint head of McKinsey's Greater China Healthcare practice from October 2019 to January 2022. Prior to this, he had taken various positions, including a consultant, an Engagement Manager and an Associate Partner at McKinsey from July 2006 to December 2013. He focused on providing management consulting services to leading pharmaceutical, biotechnology, medical devices, and life sciences investment companies on topics ranging from corporate strategies, innovative business models, digital transformation, and investment and partnerships in the context of China's healthcare reform and innovation. He also helped build the largest healthcare management consulting team in the industry in Greater China. Prior to joining McKinsey, he was involved in antibody and fusion protein drug development at Human Genome Sciences (HGSI) from July 2002 to July 2004.

Mr. Zhou graduated with a bachelor degree in genetics from Fudan University (復旦大學) in July 2000. He obtained a master of science degree in biochemistry from the University of Maryland in July 2002, as well as a master's degree in business administration from Duke University in May 2006.

Mr. Kevin Oliver, aged 53, joined the Group in March 2020 and was appointed as a senior vice president of the Company on March 31, 2021, primarily responsible for business development management in Europe and America, and alliance management.

Mr. Oliver has nearly 30 years of experience in the pharmaceutical industry, including 16 years of experience in the introduction and acquisition of business development projects. Mr. Oliver was responsible for target discovery and verification in Merck, Sharp & Dohme, Ltd. from September 1990 to March 2005. From March 2005 to December 2010, he was a negotiation manager, deputy director and senior director of Merck & Co., Inc., responsible for global business development and external research/licensing and target acquisition. From December 2010 to July 2014, he was an executive director of Merck & Co., Inc., responsible for the out-licensing and asset divestiture of global projects. Prior to joining the Group, he was responsible for global business development and licensing/M&A and alliance management in Alcon, Inc. (Novartis AG.) as the global leader of BD&L External Alliances since July 2014.

Mr. Oliver graduated with a bachelor's degree in immunology from King's College London in July 1990 and a Ph.D. in pathology from Cambridge University in September 1995.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Danny Chen, aged 54, joined the Group and was appointed as the senior vice president of the Company in February 2022. He is mainly responsible for the Group's management of translational science and research and development in neurology, as well as building and leading the R&D team of Beijing Innovation Center.

Mr. Chen had engaged in clinical pharmacology and pharmaceutical research at Purdue Pharma L.P. from September 2002 to January 2005. From January 2005 to July 2020, he had been working as head of clinical pharmacology of Pfizer Inc. (US) Neuroscience and Internal Medicine Research Unit. Before joining the Group, Mr. Chen was the senior vice president of SciNeuro Pharmaceuticals in charge of non-clinical and translational science from August 2020 to February 2022.

Danny Chen graduated with a bachelor's degree in chemistry from Whittier College in February 1995. He obtained the Ph.D. in pharmacology from Ohio State University in September 2002. He also has held academic memberships in the American Association of Clinical Pharmacology and Therapeutics from 2004 to 2020, the American Conference on Pharmacometrics from 2011 to 2020 and the American Association of Pharmaceutical Sciences from 2001 to 2005.

Mr. ZHU Tong (朱彤), aged 44, joined the Group and was appointed as senior vice president in April 2022. He is mainly responsible for marketing of innovative drug management business of the Group.

From January 2002 to January 2019, Mr. Zhu was engaged in marketing and sales management in companies, such as Sanofi (China) Investment Co.,Ltd., Beijing Novartis Pharma Ltd., and Sino-American Shanghai Squibb Pharmaceuticals Ltd. From January 2019 to March 2022, Mr. Zhu was in charge of the cardiovascular, renal and metabolic dieases business department at China Innovation Center of Astrazeneca Investment (China) Co., Ltd.

Mr. Zhu Tong graduated from Zhejiang University and obtained a bachelor's degree in pharmacy in July 2001.

Mr. CHENG Xianghua (程向華), aged 45, is a vice president of the Company. He is primarily responsible for the management of human resources, staff training and marketing of the Group.

Mr. Cheng has almost 20 years of experience with the Group where he gained rich experience in the management of the pharmaceutical industry. Mr. Cheng joined the Group in June 2000 and has held various positions within the Group since then, including the sales representative, manager, business director, general manager of business department, president assistant, and vice president, successively. Mr. Cheng has also been the chairman of the board of Oy Simcere Europe Ltd. since June 2019, a director of Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. (蕪湖先聲中人藥業有限公司) since July 2017, a director of Shanghai Simcere Pharmaceutical Co., Ltd. (上海先聲藥業有限公司) since January 2017, a director of Simcere Pharmaceutical since April 2020 and a director of Hainan Simcere since May 2020. In addition, Mr. Cheng served as a director of Xuancheng Menovo Pharmaceutical Co., Ltd. (宣城美諾華藥業有限公司) from July 2019 to September 2020.

Mr. Cheng graduated with a college diploma in pharmaceutical marketing from Anhui University of Chinese Medicine (安徽中醫藥大學) in July 1999.

Mr. QIAN Haibo (錢海波), aged 59, is a vice president of the Company. He is primarily responsible for the management of the policy affairs department and public relations department.

Mr. Qian has held senior management positions for almost 20 years within the Group. Mr. Qian joined the Group in November 1994 and served successively as a department manager, director and assistant to general manager until May 2005. In December 2005, he became the secretary to the board of the Group and served in this position during the period when the Group listed on the NYSE. He successively served as the general manager and a director of the Company from October 2018 to November 2019. He has been a vice president of the Group since January 2013, and was officially appointed as the vice president of the Company on November 19, 2019. In addition, he also has been the director of Jiangsu Simcere since February 2011. Mr. Qian has held directorships in several other companies, including Nanjing Bioheng Biotech Co., Ltd. (南京北恒生物科技有限公司) from June 2018 to March 2021, Beijing Yude Future Holdings Co., Ltd. (北京玉德未來控股有限公司) from November 2015 and Hainan Simcere BioSciKin Technology Development Co., Ltd. (海南先聲百家匯科技發展有限公司) since September 2014.

Mr. Qian graduated with a bachelor's degree in law from Nanjing Normal University in June 1986. He obtained a degree of master of business administration from Nanjing University in December 2002 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University in June 2007. Mr. Qian was certified as a senior economist at researcher level by Nanjing Office of Work Title (Professional Qualification) Work Leading Group (南京市職稱（職業資格）工作領導小組辦公室) in September 2008. Dr Qian holds a qualification certificate of national licensed pharmacist.

Mr. SHI Ruiwen (史瑞文), aged 56, joined the Group in November 2017 and was appointed as a vice president of the Company on March 31, 2021, primarily responsible for the pharmaceutical business of the Company and the management of the Hainan Research Institute.

Mr. Shi has nearly 31 years of experience in pharmaceutical research and development and production management. From March 1990 to August 1996, he served as an assistant researcher and an associate researcher in the Institute of Biomedical Engineering of Chinese Academy of Medical Sciences (中國醫學科學院生物醫學工程研究所). From August 1996 to August 1997, as a visiting scholar, he made an academic visit and research in the medical school of Kumamoto University. From August 2002 to September 2003, he served in Mannkind Corporation as a research and development scientist of the preparation and medicine administration science department. He was a senior scientist of the medicine administration system and medicine preparation development department of Bausch + Lomb Inc. from September 2003 to September 2005, and a senior scientist in the preparation and early development department of ALZA Corporation, a subsidiary of Johnson & Johnson from October 2005 to August 2007. From August 2007 to October 2017, he served as a senior scientist, a senior scientist (deputy director level) and a deputy director in the preparation and medicine administration department of Allergan Inc..

Mr. Shi joined the Group in November 2017. He served as the senior director of the pharmaceutical business department of the Group and the chief engineer of Simcere Pharmaceutical from November 2017 to December 2018. From December 2018 to August 2019, he served as the executive director of the pharmaceutical business department of the Group and the vice dean of Nanjing Research Institute (南京研究院). From August 2019 to August 2020, he served as the general manager of Simcere Pharmaceutical. Since November 2019, he has served as the vice president of the Group.

Mr. Shi graduated with a bachelor's degree and a master's degree in Polymer chemistry and Materials from Tianjin University (天津大學) in September 1987 and March 1990, respectively. Mr. Shi also obtained a Ph.D. in pharmacology from the University of British Columbia in July 2002.

Mr. WANG Feng (王峰), aged 39, joined the Group in June 2007 and was appointed as a vice president of the Company on March 31, 2021, primarily responsible for the management of the regulatory Science, intellectual property, marketing and medical departments of the Company.

Mr. Wang has nearly 15 years of experience within the Group. He joined the Group in June 2007 and held various positions in the Group, including as a product manager of the marketing department from June 2007 to September 2010, a senior product manager of marketing department from September 2010 to August 2013, a product director of marketing department from August 2013 to January 2016, a general manager of the marketing department from January 2016 to August 2017, a senior director of pharmaceutical business department of the Group from August 2017 to January 2018, a senior director of regulations science department from January 2018 to December 2018, an executive director of regulations and intellectual property department (formerly known as the regulations science department) from December 2018 to May 2019, and a vice dean of Nanjing Research Institute from May 2019 to September 2020. Mr. Wang was appointed as vice president of the Group in September 2020.

Mr. Wang graduated from China Pharmaceutical University (中國藥科大學) with a bachelor's degree in bioengineering in July 2004, a master's degree in microbiology and biochemistry in June 2007 and a Ph. D. in social management pharmacy in 2018.

Joint Company Secretaries

Mr. BAO Jun (鮑軍), aged 39, was appointed as one of the joint company secretaries of the Company on May 13, 2020, which took effect on June 10, 2020.

Mr. Bao has almost 17 years of experience with the Group. He joined the Group in July 2004 and held several positions successively within the Group, including as a project engineer of biomedicine department from July 2004 to July 2005, the business development manager from July 2007 to May 2009, the product manager from May 2009 to January 2011, the district manager and regional manager from January 2011 to July 2017, the sales director form July 2017 to May 2019 and the executive director of strategic development since May 2019. In June 2020, Mr. Bao was further appointed as the secretary to the Board of the Company.

Mr. Bao graduated with a bachelor's degree in biotechnology from Anhui Medical University (安徽醫科大學) in June 2004. He also obtained a degree of master of business administration from Nanjing University in March 2013. Mr. Bao is currently a Ph.D. candidate in biological engineering since September 2020 in Southeast University.

Ms. MAK Po Man Cherie (麥寶文) was appointed as one of the joint company secretaries of the Company on September 17, 2020, which took effect on the same day.

Ms. Mak is the vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has worked for various professional firms and listed companies in Hong Kong, with over 16 years of experience in the fields of audit, accounting, corporate finance, compliance and corporate secretarial. Ms. Mak obtained a Master of Corporate Governance degree from The Hong Kong Polytechnic University in 2017. She has been admitted as an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom in 2017, a member of the Hong Kong Institute of Certified Public Accountants in 2003 and a fellow member of the Association of Chartered Certified Accountants in 2006.

INDEPENDENT AUDITOR'S REPORT

for the year ended December 31, 2021

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Simcere Pharmaceutical Group Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 90 to 189, which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 December 31, 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 ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters

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

Revenue Recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 116 to 117.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of pharmaceutical products to the distributors and fee charged for provision of promotion service. The Group enters into framework distribution agreements with all distributors which specify the terms of sales relating to pricing, goods acceptance and return, as well as credit terms. The Group's distribution agreements do not permit sales returns except for where the products are defective, which is subject to approval by the Group's quality control team. For the promotion service, the Group renews the promotion service contracts entered into with pharmaceutical manufacturers annually which specifies the products to be promoted, the promotion period and intended activities. Revenue from the sale of pharmaceutical products is recognised at the point in time when the customer takes possession of and accepts the products. Promotion service income is recognised when the Group satisfies its promise to arrange for the pharmaceutical products to be provided by supplier to the customer.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting a sample of framework distribution agreements, purchase order and promotion service contracts with key customers to identify terms and conditions relating to goods or service acceptance and the right of return and assessing the Group's policies in respect of the timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • inspecting goods acceptance records or promotion service reconciliation records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end date had been recognised in the appropriate financial period on the basis of the terms set out in the framework distribution agreements;

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Revenue Recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 116 to 117

The Key Audit Matter	How the matter was addressed in our audit
We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	• inspecting underlying documentation like reconciliation records, the list of dispatched but not accepted products for manual journal entries and adjustments relating to revenue recorded during the year which were considered to be material or met other specific risk-based criteria; and • inspecting actual sales returns and credit notes recorded after the financial year end and evaluating whether the related adjustments to revenue had been recorded in the appropriate financial period.

Loss allowances for trade receivables

Refer to note 22 to the consolidated financial statements and the accounting policies on pages 108 to 111.

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2021, the gross amount of the Group's trade receivables totaled RMB2,017,320,000, against which a loss allowance of RMB38,188,000 for expected credit losses (ECL) was recorded. The Group's trade receivables mainly arose from sales of pharmaceutical products.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards;

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Loss allowances for trade receivables

Refer to note 22 to the consolidated financial statements and the accounting policies on pages 108 to 111.

The Key Audit Matter	How the matter was addressed in our audit
The Group measures the loss allowance at an amount equal to the lifetime ECL of the trade receivables based on estimated loss rates for each category of trade receivables grouped according to the shared credit risk characteristics. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers, current market conditions and forward-looking information. Such assessment involves significant management judgement and estimation. We identified the expected credit loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.	• assessing whether items were correctly categorised in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by the management, including the basis of segmentation of the accounts receivable based on credit risk characteristics of customers and the historical default data in management's estimated loss rates; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and • re-performing the calculation of the loss allowance as at December 31, 2021 based on the Group's credit loss allowance policies.

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Fair value measurement for investments with no quoted market prices in active markets

Refer to note 36(e) to the consolidated financial statements and the accounting policies on pages 102 to 103.

The Key Audit Matter	How the matter was addressed in our audit
The Group made investments in a wide variety of investment funds and companies in healthcare sector to broaden the access to potential R&D collaboration opportunities. Those qualified investments are accounted for as financial assets at fair value through profit or loss ("**FVPL**") or financial assets at fair value through other comprehensive income ("**FVOCI**") under IFRS 9 Financial Instruments. At December 31, 2021, the fair value of unlisted investments with no quoted market prices in active markets is RMB 1,669,780,000, which were classified under the fair value hierarchy as level 3. The fair value of these investments with no quoted market prices in active markets are determined based on valuation techniques which require significant unobservable inputs. The investment funds have been valued based on valuations performed by the investment fund managers as at December 31, 2021. Investments in companies were assessed by the management primarily based on independent valuation reports prepared by a firm of qualified external valuers or recent market transactions.	Our audit procedures to assess the fair value of investments with no quoted market prices in active markets included the following: • obtaining an understanding of and assessing the design and implementation of key internal control relating to fair value measurement for investments with no quoted market prices on active markets; • obtaining confirmations directly from the investment fund managers to confirm the existence and the valuation of the Group's investments in the funds; • comparing the net asset value of each fund as reported in the most recently available audited financial statements to the investment fund managers' original estimates of the investment valuation and assessing whether this has resulted in any material valuation adjustment; • for investment in companies, obtaining and inspecting the valuation assessment prepared by the external valuers engaged by the management and on which the assessment of the fair values of the Group's financial assets was based;

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Fair value measurement for investments with no quoted market prices in active markets

Refer to note 36(e) to the consolidated financial statements and the accounting policies on pages 102 to 103.

The Key Audit Matter	How the matter was addressed in our audit
We identified the fair value measurement for these investments at reporting date as a key audit matter because judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof.	• assessing the external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity; • with the assistance of our internal valuation specialists, on a sample basis, discussing with the external valuers, without the presence of management, and assessing their valuation methodologies in estimating the fair values of unlisted equity securities; assessing the key assumptions and critical judgements adopted and significant unobservable inputs used which impacted the valuation by comparing them with market data; • assessing whether the recent market transactions used by management to establish the fair value of investments are appropriate; and • assessing the reasonableness of the disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

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

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

Independent auditor's report to the members of Simcere Pharmaceutical Group Limited (continued)

(incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Ting Yuen.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

March 24, 2022

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

for the year ended December 31, 2021
(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Revenue	4	**4,999,718**	4,508,720
Cost of sales		**(1,079,983)**	(899,927)
Gross profit		**3,919,735**	3,608,793
Other income	5(a)	**149,510**	114,964
Other net gain	5(b)	**1,215,210**	326,924
Research and development costs		**(1,416,721)**	(1,141,996)
Selling and distribution expenses		**(2,036,705)**	(1,570,373)
Administrative and other operating expenses		**(382,485)**	(411,476)
Profit from operations		**1,448,544**	926,836
Finance income	6(a)	**68,287**	26,248
Finance costs	6(a)	**(70,848)**	(133,729)
Net finance costs		**(2,561)**	(107,481)
Share of losses of associates	16	**(43,916)**	(13,874)
Share of losses of a joint venture	17	**(270)**	(393)
Profit before taxation	6	**1,401,797**	805,088
Income tax	7	**97,124**	(140,801)
Profit for the year		**1,498,921**	664,287
Attributable to:			
Equity shareholders of the Company		**1,507,096**	669,534
Non-controlling interest		**(8,175)**	(5,247)
Profit for the year		**1,498,921**	664,287
Earnings per share	11		
Basic (RMB)		**0.58**	0.28
Diluted (RMB)		**0.58**	0.28

The notes on pages 99 to 189 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 33(b).

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended December 31, 2021

(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Profit for the year		**1,498,921**	664,287
Other comprehensive income for the year (after tax adjustments)	10		
Items that will not be reclassified to profit or loss:			
Financial assets at fair value through other comprehensive income (FVOCI) — net movement in fair value reserves (non-recycling), net of tax		**16,372**	211,287
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of entities with functional currencies other than Renminbi ("**RMB**")		**(59,356)**	(94,954)
Other comprehensive income for the year		**(42,984)**	116,333
Total comprehensive income for the year		**1,455,937**	780,620
Attributable to:			
Equity shareholders of the Company		**1,464,112**	785,867
Non-controlling interest		**(8,175)**	(5,247)
Total comprehensive income for the year		**1,455,937**	780,620

The notes on pages 99 to 189 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	**December 31, 2021 RMB'000**	December 31, 2020 RMB'000
Non-current assets			
Property, plant and equipment	12	**1,931,212**	2,127,879
Intangible assets	13	**59,691**	77,108
Goodwill	14	**172,788**	172,788
Interest in associates	16	**4,863**	211,148
Interest in a joint venture	17	**4,402**	4,672
Prepayments and deposits	23	**76,564**	113,534
Financial assets at fair value through other comprehensive income	18	**291,727**	327,655
Financial assets at fair value through profit or loss	19	**1,940,375**	1,231,701
Time deposits	24(c)	**410,000**	—
Deferred tax assets	29(b)	**289,972**	210,093
		5,181,594	4,476,578
Current assets			
Trading securities	20	**—**	3,634
Inventories	21	**235,157**	262,673
Trade and bills receivables	22	**2,398,767**	1,871,012
Prepayments, deposits and other receivables	23	**140,034**	120,557
Taxation recoverable	29(a)	**16,789**	21,335
Pledged deposits	24(b)	**1,580**	917,377
Restricted deposits	24(b)	**4,005**	3
Time deposits	24(c)	**1,210,078**	—
Cash and cash equivalents	24(a)	**973,139**	3,270,241
		4,979,549	6,466,832

The notes on pages 99 to 189 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(Expressed in Renminbi)

	Note	December 31, 2021 RMB'000	December 31, 2020 RMB'000
Current liabilities			
Bank loans	25	**1,530,085**	1,792,940
Lease liabilities	26	**31,558**	38,098
Trade and bills payables	27	**323,951**	242,077
Other payables and accruals	28	**1,162,014**	1,323,343
Taxation payable	29(a)	**16,155**	—
Provision	30	**—**	100,700
		3,063,763	3,497,158
Net current assets		**1,915,786**	2,969,674
Total assets less current liabilities		**7,097,380**	7,446,252
Non-current liabilities			
Bank loans	25	**—**	1,275,550
Lease liabilities	26	**74,239**	193,430
Deferred income	31	**417,613**	447,950
Deferred tax liabilities	29(b)	**142,771**	193,598
		634,623	2,110,528
NET ASSETS		**6,462,757**	5,335,724

The notes on pages 99 to 189 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

(Expressed in Renminbi)

	Note	December 31, 2021 RMB'000	December 31, 2020 RMB'000
CAPITAL AND RESERVES			
Share capital	33	**3,002,871**	3,002,871
Reserves	33	**3,434,126**	2,298,918
Total equity attributable to equity shareholders of the Company		**6,436,997**	5,301,789
Non-controlling interest		**25,760**	33,935
TOTAL EQUITY		**6,462,757**	5,335,724

Approved and authorised for issue by the board of directors on March 24, 2022.

Ren Jinsheng)
) *Directors*
Wan Yushan)

The notes on pages 99 to 189 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended December 31, 2021

(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2020		210	28,464	496,700	33,169	(47,101)	969,022	1,480,464	—	1,480,464
Changes in equity for 2020:										
Profit for the year		—	—	—	—	—	669,534	669,534	(5,247)	664,287
Other comprehensive income	10	—	—	—	(94,954)	211,287	—	116,333	—	116,333
Total comprehensive income		210	28,464	496,700	(61,785)	164,186	1,638,556	2,266,331	(5,247)	2,261,084
Appropriation of reserve	33(d)(ii)	—	—	40,199	—	—	(40,199)	—	—	—
Issue of ordinary shares by initial public offering and over-allotment, net of issuance costs	33(c)	3,002,661	—	—	—	—	—	3,002,661	—	3,002,661
Disposal of financial assets at fair value through other comprehensive income		—	—	—	—	(12,181)	12,181	—	—	—
Equity settled share-based transactions	32	—	32,797	—	—	—	—	32,797	—	32,797
Acquisition of a subsidiary	37	—	—	—	—	—	—	—	39,182	39,182
Balance at December 31, 2020		3,002,871	61,261	536,899	(61,785)	152,005	1,610,538	5,301,789	33,935	5,335,724

The notes on pages 99 to 189 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

for the year ended December 31, 2021

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company								
	Note	Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2021		3,002,871	61,261	536,899	(61,785)	152,005	1,610,538	5,301,789	33,935	5,335,724
Changes in equity for 2021:										
Profit for the year		–	–	–	–	–	1,507,096	1,507,096	(8,175)	1,498,921
Other comprehensive income	10	–	–	–	(59,356)	16,372	–	(42,984)	–	(42,984)
Total comprehensive income		3,002,871	61,261	536,899	(121,141)	168,377	3,117,634	6,765,901	25,760	6,791,661
Appropriation of reserve	33(d)(ii)	–	–	155,296	–	–	(155,296)	–	–	–
Disposal of financial assets at fair value through other comprehensive income		–	–	–	–	(30,927)	30,927	–	–	–
Equity settled share-based transactions	32	–	62,392	–	–	–	–	62,392	–	62,392
Appropriation of dividends	33	–	–	–	–	–	(391,296)	(391,296)	–	(391,296)
Balance at December 31, 2021		3,002,871	123,653	692,195	(121,141)	137,450	2,601,969	6,436,997	25,760	6,462,757

The notes on pages 99 to 189 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

for the year ended December 31, 2021
(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Operating activities			
Cash (used in)/generated from operations	24(d)	**(187,270)**	251,399
Tax paid	29(a)	**(14,700)**	(154,668)
Net cash (used in)/generated from operating activities		**(201,970)**	96,731
Investing activities			
Payment for the acquisition of property, plant and equipment		**(209,488)**	(352,841)
Proceeds from disposal of property, plant and equipment		**5,906**	936
Increase in asset-related government grants		**—**	9,886
Proceeds from disposal of financial assets at fair value through other comprehensive income		**55,139**	77,862
Dividends received from financial assets at fair value through profit or loss		**289,432**	64,012
Proceeds from disposal of financial assets measured at fair value through profit or loss		**392,471**	686,654
Payment for acquisition of financial assets measured at fair value through profit or loss		**(469,324)**	(103,772)
Payment for placement of time deposits		**(1,020,078)**	—
Acquisition of subsidiaries, net		**—**	1,759
Payment for acquisition of interest in associates		**(53,053)**	—
Proceeds from disposal of interest in associates		**—**	118,418
Proceeds from disposal of subsidiaries	24(g)	**97,699**	—
Proceeds from trading securities		**3,514**	51
Loans repaid by related party		**445,830**	—
Interest received		**26,449**	26,118
Net cash (used in)/generated from investing activities		**(435,503)**	529,083

The notes on pages 99 to 189 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

for the year ended December 31, 2021

(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Financing activities			
Capital element of lease rentals paid	24(e)	**(41,359)**	(37,485)
Interest element of lease rentals paid	24(e)	**(6,984)**	(9,253)
Proceeds from new bank loans	24(e)	**1,027,150**	2,056,618
Repayment of bank loans	24(e)	**(2,463,778)**	(1,789,365)
Interest paid	24(e)	**(63,864)**	(131,925)
New loans from related parties	24(e)	**—**	35,506
Repayment of loans from related parties	24(e)	**—**	(35,506)
Decrease/(increase) in pledged deposits for bank loans		**315,600**	(625,600)
Increase in cash received under share incentive scheme		**—**	(112,029)
Proceeds from issue of ordinary shares by initial public offering	33(c)	**—**	3,119,961
Share issuance costs paid	33(c)	**—**	(117,300)
Dividends paid to equity shareholders of the Company	33(b)	**(391,296)**	—
Net cash (used in)/generated from financing activities		**(1,624,531)**	2,353,622
Net (decrease)/increase in cash and cash equivalents		**(2,262,004)**	2,979,436
Cash and cash equivalents at the beginning of the year	24(a)	**3,270,241**	354,804
Effect of foreign exchange rate changes		**(35,098)**	(63,999)
Cash and cash equivalents at the end of the year	24(a)	**973,139**	3,270,241

The notes on pages 99 to 189 form part of these financial statements.

1 General Information

Simcere Pharmaceutical Group Limited (the "**Company**") was incorporated in Hong Kong on November 30, 2015 as a limited liability company with its registered office at 43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on October 27, 2020. The Company is an investment holding company. The Company and its subsidiaries (together, "the **Group**") are principally engaged in the research and development, manufacturing and sales of pharmaceutical products as well as rendering promotion service of pharmaceutical products that are not manufactured by the Group.

2 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements of the Group for the year ended December 31, 2021 comprise the Company and its subsidiaries and the Group's interest in associates and a joint venture.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies as set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

2 Significant Accounting Policies (Continued)

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 16, *Covid-19-related rent concessions beyond June 30, 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interest

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interest represents the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interest and the equity shareholders of the Company. Loans from holders of non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

2 Significant Accounting Policies (Continued)

(d) Subsidiaries and non-controlling interest (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates and a joint venture

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the consolidated statements of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statements of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and the associates or the joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

2 Significant Accounting Policies (Continued)

(e) Associates and a joint venture (Continued)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(g)).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and a joint venture, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 36(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(u)(iv)).

— fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

2 Significant Accounting Policies (Continued)

(g) Other investments in debt and equity securities (Continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other net gain in accordance with the policy set out in Note 2(u)(vi).

(h) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)):

— right-of-use assets arising from leasehold properties where the group is not the registered owner of the property interest; and

— items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see Note 2(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

2 Significant Accounting Policies (Continued)

(h) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life
Leasehold land (see Note 2(j))	over the period of leases
Plant and buildings	10–20 years or unexpired lease terms
Machinery and equipment	3–10 years
Furniture, fixtures and office equipment	3–5 years
Motor vehicles	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents properties under construction and machinery and equipment pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 2(k)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

Construction in progress is transferred to property, plant and equipment when the asset is ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation polices specified above.

No depreciation is provided in respect of construction in progress.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads. Other development expenditure is recognized as an expense in the period in which it is incurred.

Intangible assets that are acquired through business combination are stated at cost (the acquisition date fair value) less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)).

2 Significant Accounting Policies (Continued)

(i) Intangible assets (other than goodwill) (Continued)

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful life
Developed technology	10–16 years
Good Supply Practice ("**GSP**") licenses	3–5 years
Product trademarks	6–10 years

The developed technology and product trademarks of the Group are associated with different products arising from various business combinations and acquisitions from third parties. The useful lives of developed technology and product trademarks are estimated based on the remaining period of economic benefits to be derived from the respective products to be produced relying on the acquired developed technology and product trademarks. The Group estimates the period of economic benefits to be derived from the respective products based on the expected time period required for a pharmaceutical drug development from its discovery to commercialization and other factors, including the patent protection period, the historical life of similar products, the characteristics of such technologies, their update frequency and market requirement and competition. Based on such assessment, the Group considers that the maximum economic useful life of developed technology and product trademarks held by the Group is 16 years and 10 years, respectively. As the different products have different commercialization commencement dates, acquisition dates by the Group and the expected lifespan of economic benefits, the remaining useful life of the Group's developed technology and product trademarks varies at a range of 10–16 and 6–10 years, respectively.

The useful lives of GSP licenses are estimated based on the remaining valid period of the GSP licenses.

Both the period and method of amortization are reviewed annually.

2 Significant Accounting Policies (Continued)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(h) and 2(k)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2 Significant Accounting Policies (Continued)

(j) Leased assets (Continued)

(i) As a lessee (Continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group presents right-of-use assets in 'property, plant and equipment' and presents 'lease liabilities' separately in the consolidated statement of financial position.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with Note 2(u)(iii).

2 Significant Accounting Policies (Continued)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for expected credit losses (ECLs) on financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties and third parties).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 Significant Accounting Policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is twelve months past due. 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 since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognized in accordance with Note 2(u)(iv) 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 the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2 Significant Accounting Policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

— property, plant and equipment, including right-of-use assets;

— intangible assets;

— goodwill;

— interest in associates and a joint venture; and

— interest in subsidiaries in the Company’s statement of financial position.

2 Significant Accounting Policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

2 Significant Accounting Policies (Continued)

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress, costs include direct labour and appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(m) Contract liabilities

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see Note 2(u)). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(n)).

(n) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)).

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i).

2 Significant Accounting Policies (Continued)

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see Note 2(w)).

(q) Trade and other payables

Trade and other payables are initially recognized at fair value. Subsequent to initial recognition, trade and other payables are stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amount.

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to local retirement schemes pursuant to the relevant labor rules and regulations in the jurisdictions in which the Group's subsidiaries located are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(ii) Share-based payments

Restricted shares

The fair value of share-based payment awards (i.e. restricted shares) granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value of the restricted shares is measured at grant date by reference to the market price or the valuer's valuation of the underlying shares. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the restricted shares, the total estimated fair value of the restricted shares is spread over the vesting period, taking into account the probability that the restricted shares will vest.

During the vesting period, the number of restricted shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital Reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of restricted shares that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is included in the amount recognized in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

2 Significant Accounting Policies (Continued)

(r) Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

2 Significant Accounting Policies (Continued)

(s) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(t) Provisions and contingent liabilities

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognized for any expected reimbursement that would be virtually certain. The amount recognized for the reimbursement is limited to the carrying amount of the provision.

2 Significant Accounting Policies (Continued)

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of pharmaceutical products

Revenue is recognized when the customer takes possession of and accepts the products.

(ii) Promotion service income

Promotion service income is recognized when the Group satisfies its promise to arrange for the pharmaceutical products to be provided by supplier to the customer.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

2 Significant Accounting Policies (Continued)

(u) Revenue and other income (Continued)

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are presented in the consolidated statements of financial position by setting up the grant as deferred income and consequently are effectively recognized in profit or loss on a systematic basis over the useful life of the asset.

(vi) Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

(v) Translation of foreign currencies

Foreign currency transactions are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(w) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 Significant Accounting Policies (Continued)

(x) 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 a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

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

2 Significant Accounting Policies (Continued)

(y) Segment reporting (Continued)

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 products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Significant Accounting Judgements and Estimates

Key sources of estimation uncertainty

Notes 14, 18, 19, 20, 36(e) and 32 contains information about the assumptions and their risk factors relating to goodwill impairment, fair value of financial assets and fair value of restricted shares granted. Other key sources of estimation uncertainty are as follows:

(i) Impairments of non-financial assets

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(ii) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value. The Group reassesses these estimates annually.

(iii) Impairment of trade and other receivables

The Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortized cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

3 Significant Accounting Judgements and Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(iv) Depreciation and amortization

Items of property, plant and equipment and intangible assets are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortization expense for future periods are adjusted if there are significant changes from previous estimates.

(v) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognized for temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and deferred tax assets are recognized only if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 Revenue and Segment Reporting

(a) Revenue

The principal activities of the Group are research and development, manufacturing and sales of pharmaceutical products as well as rendering promotion service of pharmaceutical products that are not manufactured by the Group.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of pharmaceutical products	**4,592,371**	4,229,788
Promotion service income	**407,347**	278,932
	4,999,718	4,508,720

The Group's revenue from contracts with customers was recognized at point in time for the year ended December 31, 2021.

4 Revenue and Segment Reporting (Continued)

(a) Revenue (Continued)

(i) Disaggregation of revenue (Continued)

The Group's customer base is diversified and nil (2020: nil) customers with whom transactions have exceeded 10% of the Group's revenues for the year ended December 31, 2021. Details of concentrations of credit risk arising from the customers are set out in Note 36(a).

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for goods such that information about revenue expected to be recognized in the future is not disclosed in respect of revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an expected duration of one year or less.

(b) Segment reporting

Operating segments are identified on the basis of internal reports that the Group's most senior executive management reviews regularly in allocating resources to segments and in assessing their performances.

The Group's most senior executive management makes resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

HKFRS 8, Operating Segments, requires identification and disclosure of information about an entity's geographical areas, regardless of the entity's organization (i.e. even if the entity has a single reportable segment). The Group operates within one geographical location because primarily all of its revenue was generated in the PRC and primarily all of its non-current operating assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

5 Other Income and Other Net Gain

(a) Other income

	2021 **RMB'000**	2020 RMB'000
Government grants (Note)	**96,214**	88,647
Rental income	**17,350**	10,029
Property management income	**9,519**	4,847
Consulting and technology service income	**7,837**	3,369
Others	**18,590**	8,072
	149,510	114,964

Note:

During the year ended December 31, 2021, the Group received unconditional government grants of RMB57,687,000 (2020: RMB54,783,000) as rewards of the Group's contribution to technology innovation and regional economic development.

During the year ended December 31, 2021, the Group received conditional government grants of RMB nil (2020: RMB9,886,000) as subsidies for plant relocation and construction and recognized such grants of RMB32,477,000 (2020: RMB32,384,000) in the consolidated statements of profit or loss when related conditions were satisfied. During the year ended December 31, 2021, the Group received conditional government grants of RMB8,189,000 (2020: RMB9,620,000) as encouragement of technology research and development and recognized such type of grants of RMB6,050,000 (2020: RMB1,480,000) in the consolidated statements of profit when related conditions were satisfied.

(b) Other net gain

	2021 **RMB'000**	2020 RMB'000
Net foreign exchange gain/(loss)	**116,009**	(46,228)
Net gain/(loss) on disposal of property, plant and equipment	**2,685**	(3,361)
Net realized (loss)/gain on trading securities	**(119)**	627
Net realized and unrealized gains on financial assets at fair value through profit or loss	**382,849**	464,309
Net gain on disposal of interest in associates	**—**	8,963
Net gain arising from fair value remeasurement of interest in associates (Note 16)	**314,456**	—
Net gain on disposal of interest in subsidiaries (Note 24(g))	**399,330**	1,552
Gain arising from business combination (Note 37)	**—**	1,762
Provision for penalty (Note 30)	**—**	(100,700)
	1,215,210	326,924

6 Profit Before Taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	2021 RMB'000	2020 RMB'000
Interest income from bank deposits	**(68,287)**	(26,118)
Interest income from loans to related parties	**—**	(130)
Finance income	**(68,287)**	(26,248)
Interest expenses on bank loans	**63,864**	133,559
Interest expenses on loans from related parties	**—**	298
Interest expenses on lease liabilities	**6,984**	9,253
Less: borrowing costs capitalized as construction in progress (Note)	**—**	(9,381)
Finance costs	**70,848**	133,729
Net finance costs	**2,561**	107,481

Note:

No borrowing cost has been capitalized for the year ended December 31, 2021. The borrowing costs for the year ended December 21, 2020 was capitalized at rate 4.35%.

(b) Staff costs

	2021 RMB'000	2020 RMB'000
Salaries, wages and other benefits	**1,332,940**	1,096,326
Contributions to defined contribution retirement plans (Note)	**69,769**	28,548
Equity settled share-based payment expenses (Note 32)	**62,392**	32,797
	1,465,101	1,157,671

Note:

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement plans administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the plan to fund the retirement benefits of the employees.

The Group's contributions to the defined contribution retirement plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions. The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

6 Profit Before Taxation (Continued)

(c) Other items

	2021 RMB'000	2020 RMB'000
Cost of inventories recognized as expenses (Note i)	**763,015**	679,972
Depreciation charge		
— owned property, plant and equipment	**189,120**	158,634
— right-of-use assets	**45,270**	46,335
Amortization of intangible assets	**17,417**	17,360
Research and development costs (Note ii)	**1,416,721**	1,141,996
Provision for impairment losses on trade and other receivables	**15,828**	6,735
Auditors' remuneration		
— audit services	**4,000**	3,820
— non-audit services (Note iii)	**241**	4,520
Listing expenses	**—**	26,653

Notes:

(i) Cost of inventories recognized as expenses includes amounts relating to staff costs, depreciation and amortization expenses, provision for write-down of inventories, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

(ii) Research and development costs include amounts relating to staff costs, depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

(iii) During the year ended December 31, 2020, the Group recognized auditors' remuneration for non-audit services in respect of initial public offering of RMB4,300,000, which is also included in the listing expenses disclosed separately above.

7 Income Tax in the Consolidated Statements of Profit or Loss

(a) Taxation in the consolidated statements of profit or loss represents:

	2021 RMB'000	2020 RMB'000
Current tax		
PRC Corporate Income Tax		
Provision for the year	**17,858**	50,215
Under/(over)-provision in respect of prior years (Note 7(b))	**4,791**	(4,158)
	22,649	46,057
Overseas Corporate Income Tax		
Provision for the year	**7,294**	—
Deferred tax		
Origination and reversal of temporary differences (Note 29(b))	**(127,067)**	94,744
Total income tax	**(97,124)**	140,801

7 Income Tax in the Consolidated Statements of Profit or Loss (Continued)

(a) Taxation in the consolidated statements of profit or loss represents: (Continued)

Notes:

(i) Pursuant to the income tax rules and regulations of Hong Kong, the Company and the subsidiary in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the year ended December 31, 2021 and 2020.

(ii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax ("**CIT**") at a statutory rate of 25%, except for the following specified subsidiaries:

According to the Administrative Measures for Determination of High-Tech Enterprises (Guokefahuo [2016] No. 32), Hainan Simcere Pharmaceutical Co., Ltd. ("**Hainan Simcere**") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2020 to 2022.

Shandong Simcere Biopharmaceutical Co., Ltd. ("**Shandong Simcere**") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2020 to 2022.

Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. ("**Wuhu Simcere**") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2020 to 2022.

Simcere Pharmaceutical Co., Ltd. ("**Simcere Pharmaceutical**", formerly known as Nanjing Simcere Dongyuan Pharmaceutical Co., Ltd.) obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2018 to 2020. Simcere Pharmaceutical renewed the qualification in 2021 and was entitled to a preferential income tax rate of 15% from 2021 to 2023.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC tax resident enterprises are levied withholding tax on dividends from their PRC resident investees for intra-group earnings accumulated beginning on January 1, 2008, at 10% (unless reduced by tax treaties or similar arrangements). Undistributed earnings generated prior to 2008 are exempt from such withholding tax.

Under the arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution). The Group met the beneficial owner requirements in 2021 and 2020 and were entitled to a preferential rate of 5% since 2019.

(iii) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiaries in the United States were liable to United States federal income tax at a rate of 21% and the state income tax determined by income ranges during the year ended December 31, 2021 and 2020.

(iv) Pursuant to the income tax rules and regulations of the United Kingdom, the Group's subsidiary in the United Kingdom was liable to the United Kingdom corporation tax at a rate of 19% during the year ended December 31, 2021 and 2020.

(v) Pursuant to the income tax rules and regulations of Finland, the Group's subsidiary in Finland was liable to Finnish income tax at a rate of 20% during the year ended December 31, 2021 and 2020.

7 Income Tax in the Consolidated Statements of Profit or Loss (Continued)

(b) Reconciliation between tax (credit) expense and profit before taxation at applicable tax rates:

	2021 RMB'000	2020 RMB'000
Profit before taxation	**1,401,797**	805,088
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25%	**350,449**	201,272
Tax effect of different tax rates	**(155,513)**	(86,234)
Tax effect of non-deductible expenses (Note i)	**19,708**	32,249
Tax effect of non-taxable income (Note ii)	**(148,112)**	(5,014)
Tax effect of tax losses not recognized	**21,366**	65,904
Tax effect of temporary differences not recognized	**61**	5,851
Tax effect of bonus deduction for research and development costs	**(164,848)**	(72,472)
Tax effect of change in tax rates	**(4,426)**	3,421
Tax effect of previously unrecognized tax losses now utilized	**(9,695)**	(5,989)
Tax effect of previously unrecognized temporary differences now utilized	**(20,858)**	(4,034)
Provision of withholding tax on undistributed profits	**9,872**	10,005
Under/(over)-provision in prior years	**4,791**	(4,158)
Derecognition of deferred tax assets recognized in prior years	**81**	—
Actual tax (benefit)/expense	**(97,124)**	140,801

Notes:

(i) Tax effect of non-deductible expenses mainly represented tax effect of equity settled share-based payment expenses, losses on financial assets with capital in nature, expenses incurred by entities without assessable profits and other non-deductible expenses.

(ii) Tax effect of non-taxable income mainly represented tax effect of net realized and unrealized gains on financial assets at fair value through profit or loss, gain on disposal of interest in subsidiaries and interest income, which are not subject to Hong Kong profit tax.

8 Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments (Note) RMB'000	2021 Total RMB'000
Executive directors							
Ren Jinsheng	–	1,508	360	45	1,913	–	1,913
Wan Yushan	–	1,070	1,360	35	2,465	4,295	6,760
Zhang Cheng (appointed on November 19, 2019, resigned on March 31, 2021)	–	856	560	9	1,425	–	1,425
Tang Renhong	–	2,029	2,606	3	4,638	5,910	10,548
Non-Executive director							
Zhao John Huan	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Xinhua	360	–	–	–	360	–	360
Song Ruilin	360	–	–	–	360	–	360
Wang Jianguo	360	–	–	–	360	–	360
	1,080	5,463	4,886	92	11,521	10,205	21,726

8 Directors' Emoluments (Continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments (Note) RMB'000	2020 Total RMB'000
Executive directors							
Ren Jinsheng	—	1,494	360	16	1,870	—	1,870
Wan Yushan	—	1,074	2,962	16	4,052	1,630	5,682
Zhang Cheng	—	3,417	2,747	28	6,192	3,261	9,453
Tang Renhong	—	1,717	1,315	36	3,068	2,570	5,638
Non-Executive directors							
Zhao John Huan	—	—	—	—	—	—	—
Zhang Yi (appointed on November 19, 2019, resigned on June 1, 2020)	—	—	—	—	—	—	—
Independent non-executive directors							
Wang Xinhua	360	—	—	—	360	—	360
Song Ruilin	360	—	—	—	360	—	360
Wang Jianguo	360	—	—	—	360	—	360
	1,080	7,702	7,384	96	16,262	7,461	23,723

All the executive directors are key management personnel of the Group for the year ended December 31, 2021 and their remuneration disclosed above include those for services rendered by them as key management personnel.

Note:

These represent the estimated value of restricted shares granted to the directors under the Company's share incentive scheme. The value of these restricted shares is measured according to the Group's accounting policies for share-based payment transactions and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of restricted shares granted, are disclosed in Note 32.

Apart from the above, no transaction, arrangement or contract of significance to which the Company was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

9 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, two (2020: three) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	**9,047**	7,937
Discretionary bonuses	**5,657**	2,967
Retirement scheme contributions	**66**	31
Share-based payments	**5,136**	5,435
	19,906	16,370

The emoluments of the three (2020: two) individuals with the highest emoluments are within the following bands:

	2021 Number of individuals	2020 Number of individuals
RMB4,000,001 to RMB4,500,000	**—**	1
RMB5,000,001 to RMB5,500,000	**1**	—
RMB7,000,001 to RMB7,500,000	**2**	—
RMB12,000,001 to RMB12,500,000	**—**	1

10 Other Comprehensive Income

Tax effects relating to each component of other comprehensive income

	Exchange differences on translation of financial statements	Financial assets at fair value through other comprehensive income — net movement in fair value reserves (non-recycling)	Total
	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2020			
Before-tax amount	(94,954)	248,328	153,374
Tax benefit	—	(37,041)	(37,041)
Net-of-tax amount	(94,954)	211,287	116,333
For the year ended December 31, 2021			
Before-tax amount	**(59,356)**	**19,212**	**(40,144)**
Tax expense	**—**	**(2,840)**	**(2,840)**
Net-of-tax amount	**(59,356)**	**16,372**	**(42,984)**

11 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,507,096,000 (2020: RMB669,534,000) and the weighted average of 2,608,641,618 ordinary shares (2020: 2,392,638,339 after adjusting the share issue by initial public offering of the Company on October 27, 2020) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares at January 1	**2,608,641,618**	2,345,117,618
Effect of shares issued by initial public offering (Note 33(c)(i))	**—**	47,520,721
Effect of shares issued to Trustee (Note 33(c)(ii))	**5,844,000**	—
Effect of unvested shares under 2021 RSU Scheme (Note 32)	**(5,844,000)**	—
Weighted average number of ordinary shares at December 31	**2,608,641,618**	2,392,638,339

11 Earnings per Share (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,507,096,000 (2020: RMB669,534,000) and the weighted average of ordinary shares of 2,611,357,884 (2020: 2,392,638,339 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021	2020
Weighted average number of ordinary shares at 31 December	**2,608,641,618**	2,392,638,339
Effect of deemed issuance of shares under 2021 RSU scheme for nil consideration (Note 32)	**2,716,266**	—
Weighted average number of ordinary shares (diluted) at December 31	**2,611,357,884**	2,392,638,339

12 Property, Plant and Equipment

(a) Reconciliation of carrying amount

	Leasehold Land RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At January 1, 2020	222,596	1,160,620	661,968	88,071	32,080	281,825	2,447,160
Business combination (Note 37)	—	—	—	174	—	—	174
Additions	814	149,865	108,703	34,032	2,601	171,216	467,231
Transfers	—	192,546	170,250	23,182	635	(386,613)	—
Disposals	—	(6,630)	(37,369)	(5,156)	(3,196)	—	(52,351)
At December 31, 2020 and January 1, 2021	**223,410**	**1,496,401**	**903,552**	**140,303**	**32,120**	**66,428**	**2,862,214**
Additions	**—**	**45,387**	**86,216**	**15,490**	**1,959**	**90,577**	**239,629**
Transfers	**—**	**30,940**	**4,308**	**2,229**	**—**	**(37,477)**	**—**
Disposals	**—**	**(53,818)**	**(11,009)**	**(3,777)**	**(2,038)**	**—**	**(70,642)**
Disposals of interest in subsidiaries	**—**	**(113,550)**	**(20,642)**	**(26,205)**	**—**	**(23,777)**	**(184,174)**
At December 31, 2021	**223,410**	**1,405,360**	**962,425**	**128,040**	**32,041**	**95,751**	**2,847,027**

12 Property, Plant and Equipment (Continued)

(a) Reconciliation of carrying amount (Continued)

	Leasehold Land RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation:							
At January 1, 2020	26,476	212,630	260,370	51,286	26,658	—	577,420
Charge for the year	4,645	106,978	69,785	21,532	2,029	—	204,969
Written back on disposals	—	(4,576)	(35,545)	(4,737)	(3,196)	—	(48,054)
At December 31, 2020 and January 1, 2021	**31,121**	**315,032**	**294,610**	**68,081**	**25,491**	**—**	**734,335**
Charge for the year	**4,615**	**117,232**	**89,336**	**20,432**	**2,775**	**—**	**234,390**
Written back on disposals	**—**	**(19,426)**	**(6,676)**	**(3,215)**	**(1,683)**	**—**	**(31,000)**
Disposals of interest in subsidiaries	**—**	**(15,845)**	**(549)**	**(5,516)**	**—**	**—**	**(21,910)**
At December 31, 2021	**35,736**	**396,993**	**376,721**	**79,782**	**26,583**	**—**	**915,815**
Net book value:							
At December 31, 2020	192,289	1,181,369	608,942	72,222	6,629	66,428	2,127,879
At December 31, 2021	**187,674**	**1,008,367**	**585,704**	**48,258**	**5,458**	**95,751**	**1,931,212**

Notes:

(i) As at December 31, 2021, property certificates of certain properties and leasehold land with an aggregate net book value of RMB448,973,000 (2020: RMB495,150,000) is yet to be obtained.

(ii) Certain property, plant and equipment of the Group were pledged as security for bank loans. Details are set out as follows:

	2021 RMB'000	2020 RMB'000
Leasehold land	**–**	14,217
Plant and buildings	**–**	157,341
Aggregate carrying value of pledged property, plant and equipment	**–**	171,558

12 Property, Plant and Equipment (Continued)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2021 RMB'000	2020 RMB'000
Leasehold land	**187,674**	192,289
Plant and buildings	**103,188**	224,890
	290,862	417,179

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold land	**4,615**	4,645
Plant and buildings	**40,655**	41,690
	45,270	46,335
Interest on lease liabilities (Note 6(a))	**6,984**	9,253
Expense relating to short-term leases	**10,369**	10,581

During the year ended December 31, 2021, additions to right-of-use assets was RMB42,182,000 (2020: RMB112,020,000). The addition was mainly due to the capitalized lease payments payable under new tenancy agreements. During the year ended December 31, 2021, the right-of-use assets decreased by RMB88,837,000 due to the disposal of interest in subsidiaries, and decreased by RMB34,392,000 due to the termination of tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 24(e) and 26, respectively.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarized below.

12 Property, Plant and Equipment (Continued)

(b) Right-of-use assets (Continued)

	Lease liabilities recognised (discounted)		Potential future lease payments under extension options not included in lease liabilities (undiscounted)	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
Plant and buildings	**69,836**	128,994	**—**	—

13 Intangible Assets

	Developed technology RMB'000	GSP licenses RMB'000	Product trademarks RMB'000	Total RMB'000
Cost:				
At January 1, 2020	246,459	343	4,303	251,105
Business combination (Note 37)	60,700	—	—	60,700
At December 31, 2020 and Jan 1, 2021 and Dec 31, 2021	**307,159**	**343**	**4,303**	**311,805**
Accumulated amortization:				
At January 1, 2020	212,691	343	4,303	217,337
Charge for the year	17,360	—	—	17,360
At December 31, 2020 and January 1, 2021	**230,051**	**343**	**4,303**	**234,697**
Charge for the year	**17,417**	**—**	**—**	**17,417**
At December 31, 2021	**247,468**	**343**	**4,303**	**252,114**
Net book value:				
At December 31, 2020	77,108	—	—	77,108
At December 31, 2021	**59,691**	**—**	**—**	**59,691**

The Group's intangible assets as at December 31, 2021 represent developed technology, GSP licenses and product trademarks acquired by the Group in connection with the acquisitions of the Group's operating subsidiaries in the PRC.

The addition of the Group's intangible assets during the year ended December 31, 2020 represent developed technology acquired by the Group in connection with the acquisition of a subsidiary BCY Pharm Co., Ltd. Further details of the business combination are set out in Note 37.

The amortization charge for the year is included in "cost of sales" and "research and development costs" in the consolidated statement of profit or loss.

14 Goodwill

	2021 RMB'000	2020 RMB'000
Balance at the beginning of the year	**172,788**	142,474
Business combination (Note 37)	**—**	30,314
Balance at the end of the year	**172,788**	172,788

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating units ("**CGU**") identified according to the reportable segment. Goodwill is allocated to the Group's CGU as follows:

	2021 RMB'000	2020 RMB'000
Pharmaceutical business	**142,474**	142,474
BCY Pharm Co., Ltd. ("**BCY**")	**30,314**	30,314
	172,788	172,788

The Group performs annual impairment test on goodwill at the end of the reporting year. The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management with the final year representing a steady state in the development of the business. Cash flows beyond the period are extrapolated using zero growth rate. The key assumptions used for the value in use calculations are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("**EBITDA**") growth rate in the projection period. The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the CGU. Budgeted EBITDA growth rate in the projection period was estimated taking into account revenue, gross margins and operating expenses based on past performance and its expectation for market development.

(Expressed in Renminbi)

14 Goodwill (Continued)

Key assumptions used for value-in-use calculations:

	2021	2020
Pre-tax discount rate		
Pharmaceutical business	**15.0%**	14.7%
BCY	**25.8%**	24.0%
Budget period		
Pharmaceutical business	**5 years**	5 years
BCY	**9 years**	10 years

The estimated recoverable amount of the pharmaceutical business CGU exceeded its carrying amount as at December 31, 2021 by approximately RMB5,958,482,000 (2020: RMB6,156,820,000). The estimated recoverable amount of the BCY CGU exceeded its carrying amount as at December 31, 2021 by approximately RMB35,534,000 (2020: RMB47,499, 000).

Management performed sensitivity analysis of two key assumptions that could significantly affect the recoverable amount. The following table shows the percentage point by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for carrying amount to equal recoverable amount (in percentage point)

	2021	2020
Pharmaceutical business		
Increase in discount rate	**+14.7%**	+15.4%
Decrease in budgeted EBITDA growth rate (average of budget period)	**–20.1%**	–18.7%
BCY		
Increase in discount rate	**+3.1%**	+3.6%
Decrease in budgeted EBITDA growth rate (average of budget period)	**–3.4%**	–4.1%

The recoverable amount of the CGUs based on the value-in-use calculations was higher than the carrying amount as at December 31, 2021 and 2020. Accordingly, no impairment loss for goodwill was recognized in the consolidated statements of profit or loss. Also, based on the sensitivity analysis above, the Group concluded that a reasonably possible change in key parameters would not cause the carrying amount of the CGU to exceed its recoverable amount as at December 31, 2021 and 2020.

(Expressed in Renminbi)

15 Investments in Subsidiaries

The following list contains the particulars of subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation and business/ date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Jiangsu Simcere Pharmaceutical Technology Co., Ltd. (江蘇先聲醫藥科技有限公司) (Note (a))	The People's Republic of China ("**PRC**") August 14, 2017	United States Dollar ("**USD**") 201,500,000	100%	—	Investment holding
Simcere UK Limited	The United Kingdom December 20, 2017	Great Britain Pound ("**GBP**") 100	100%	—	Pharmaceutical related business development and cooperation
Oy Simcere Europe Ltd.	Finland September 14, 2007	Euro ("**EUR**") 2,500	100%	—	Pharmaceutical related business development and cooperation
Simcere Pharmaceutical Co., Ltd. (先聲藥業有限公司) (Note (a))	The PRC September 10, 1998	Chinese Yuan ("**RMB**") 1,380,287,820	—	100%	Manufacturing and sales of pharmaceutical products
Shanghai Xianyi Investment Management Partnership (Limited Partnership) (上海先益投資管理合夥企業（有限合夥）) (Note (b))	The PRC November 20, 2015	RMB468,000,000	—	100%	Investment holding
Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) (Note (a))	The PRC April 28, 1993	RMB221,110,900	—	100%	Manufacturing and sales of pharmaceutical products
Jiangsu Simcere Biological Pharmaceutical Co., Ltd. (江蘇先聲生物製藥有限公司) (Note (a))	The PRC July 10, 2017	RMB350,000,000	—	100%	Research and development and manufacturing of biopharmaceutical products

(Expressed in Renminbi)

15 Investments in Subsidiaries (Continued)

Company name	Place of incorporation and business/ date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. (蕪湖先聲中人藥業有限公司) (Note (a))	The PRC September 19, 2008	RMB37,000,000	—	100%	Manufacturing and sales of pharmaceutical products
Simcere (Shanghai) Pharmaceutical Co., Ltd. (先聲（上海）醫藥有限公司) (Note (a))	The PRC December 16, 2011	RMB398,350,329	—	100%	Research and development of pharmaceutical products and property management
Nanjing BioSciKin Biotechnology Development Co., Ltd. (南京百家匯生物科技發展有限公司) (Note (a))	The PRC December 13, 2018	RMB86,660,000	—	100%	Investment holding
Simcere International Limited	Hong Kong June 19, 2014	USD10,000,000	—	100%	Pharmaceutical related business development and cooperation
Simgene LLC	The United States April 19, 2019	Not applicable	—	100%	Investment holding
Simcere of America Inc.	The United States January 5, 2011	USD125	—	100%	Pharmaceutical related business development and cooperation and investment holding
Jiangsu Simcere Pharmaceutical Co., Ltd. (江蘇先聲藥業有限公司) (Note (a))	The PRC March 28, 1995	RMB568,800,000	—	100%	Sales, distribution and research and development of pharmaceutical products
Shanghai Simcere Pharmaceutical Co., Ltd. (上海先聲藥業有限公司) (Note (a))	The PRC July 20, 2000	RMB154,000,000	—	100%	Sales and distribution of pharmaceutical products

(Expressed in Renminbi)

15 Investments in Subsidiaries (Continued)

Company name	Place of incorporation and business/ date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Zigong Yirong Industrial Co., Ltd. (自貢市益榮實業有限公司) (Note (a))	The PRC September 2, 2005	RMB2,380,000	—	100%	Manufacturing of pharmaceutical ingredients
Shandong Simcere Biopharmaceutical Co., Ltd. (山東先聲生物製藥有限公司) (Note (a))	The PRC June 30, 1999	RMB30,128,150	—	100%	Manufacturing and sales of pharmaceutical products
Simcere Biology Medical Technology Co., Ltd. (先聲生物醫藥科技有限公司) (Note (a))	The PRC March 14, 2012	RMB50,000,000	—	100%	Research and development of biopharmaceutical products
BCY Pharm Co., Ltd. (江蘇博創園生物醫藥科技有限公司) (Note (a))	The PRC October 28, 2011	RMB24,500,000	—	52.14%	Research and development of biopharmaceutical products
Hainan Yaozhen Biology Medical Technology Co., Ltd. (海南耀臻生物醫藥科技有限公司 (Note (a))	The PRC December 3, 2020	RMB4,825,000	—	96.5%	Research and development of biopharmaceutical products
Simcere (Beijing) Pharmaceutical Co., Ltd (先聲（北京）醫藥有限公司 (Note (a))	The PRC April 21, 2021	RMB3,280,000	—	100%	Research and development of biopharmaceutical products
Shanghai Simcere Biology Medical Co., Ltd (上海先聲生物醫藥有限公司 (Note (a))	The PRC June 29, 2021	RMB 310,000	—	100%	Research and development of biopharmaceutical products

Notes:

(a) These entities are limited liability companies established in the PRC. The official names of these entities are in Chinese. The English translation of the company names is for identification purpose only.

(b) This entity is limited partnership established in the PRC. The official name of the entity is in Chinese. The English translation of the company name is for identification purpose only.

15 Investments in Subsidiaries (Continued)

The following table lists out the information relating to BCY Pharm Co., Ltd., the only subsidiary of the Group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	December 31, 2021 RMB'000	December 31, 2020 RMB'000
NCI percentage	47.86%	47.86%
Current assets	19,440	29,030
Non-current assets	50,814	57,102
Current liabilities	(3,785)	(1,063)
Non-current liabilities	(12,646)	(14,163)
Net assets	53,823	70,906
Carrying amount of NCI	25,760	33,935
Revenue	—	—
Loss for the period	(17,082)	(10,962)
Total comprehensive income	(17,082)	(10,962)
Loss allocated to NCI	(8,175)	(5,247)
Cash flows used in operating activities	(11,050)	(8,931)
Cash flows used in investing activities	(13)	(96)
Cash flows generated from financing activities	13,750	22,120

(Expressed in Renminbi)

16 Interest in Associates

The following list contains the particulars of the Group's associates, all of which are unlisted corporate entities whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Bioheng Therapeutics Limited ("**Bioheng Cayman**") (Note i)	Incorporated	The Cayman Islands	USD 50,000	8.4%	—	8.4%	Research and development of biopharmaceutical products
Ruichu Pharm Co., Ltd. (Note ii)	Incorporated	The PRC	RMB 1,290,000	12.5%	—	12.5%	Development and manufacturing of pharmaceutical ingredients
3D Biological Medicines (Cayman) Co., Ltd. ("**3D Medicines Cayman**") (Note iii)	Incorporated	The Cayman Islands	USD 83,088,060	9.6%	—	9.6%	Research and development of biopharmaceutical products

Notes:

(i) In April 2018, the Group acquired 20% of the equity interest in Nanjing Bioheng Biotech Co., Ltd. ("**Nanjing Bioheng**") through capital injection of RMB20,000,000.

In 2019, the proportion of the Group's equity interest in Nanjing Bioheng was diluted to 14.7% due to the new financing obtained by Nanjing Bioheng.

In March 2021, the Group entered into investment agreements with Nanjing Bioheng and Bioheng Cayman, to exchange the 14.7% of equity interest in Nanjing Bioheng with 8.4% of interest in Bioheng Cayman. The dilution of the effective interest from 14.7% to 8.4% resulted from the new financing obtained by Bioheng Cayman. In accordance with the investment agreement dated March 24, 2021, the Group no longer has right to appoint directors to the board of Bioheng Cayman. Therefore the directors of the Company are in the view that the Group lost the significant influence on Bioheng Cayman on March 24, 2021. The Group ceased to account for the equity interest in Bioheng Cayman under equity method and recognized a gain of RMB103,341,000 in the consolidated statements of profit or loss, which represented the difference between the fair value of the retained interest and the carrying amount of the investment at the date on which significant influence was lost. Since the loss of significant influence on Bioheng Cayman, the Group recognized the equity interest in Bioheng Cayman as a financial asset measured at fair value through profit or loss.

(ii) In August 2021, the Group acquired 12.5% of equity interest in Nanjing Ruichu through capital injection of RMB5,000,000. The Group has a right to appoint one director to the board of Nanjing Ruichu in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group can cast significant influence on Nanjing Ruichu and account for the equity interest in Nanjing Ruichu using the equity method.

(iii) In December 2019, the Group signed a capital injection agreement with original shareholders of 3D Biological Medicines (Shanghai) Co, Ltd. ("**3D Medicines Shanghai**") and 3D Medicines Shanghai to inject US$40,000,000 capital in exchange of 17.9% in equity interest of 3D Medicines Shanghai. The Group had a right to appoint two directors to the board of 3D Medicines Shanghai in accordance with the investment agreement. In 2020, the proportion of the Group's interest in 3D Medicines Shanghai was diluted to 12.8% due to the new financing obtained by 3D Medicines Shanghai. As of December 31, 2020, the Group injected US$30,000,000 (equivalent to RMB210,351,000) which represents an effective ownership interest of 9.6%.

16 Interest in Associates (Continued)

Notes: (Continued)

On March 18, 2021, the Group entered into investment agreements with 3D Medicines Shanghai and 3D Medicines Cayman, to exchange the 12.8% of equity interest in 3D Medicines Shanghai with 11.5% of interest in 3D Medicines Cayman. The dilution of the effective interest from 12.8% to 11.5% resulted from the new financing obtained by 3D Medicines Cayman. The Group had a right to appoint one director to the board of 3D Medicines Cayman. In June 2021, the Group completed the remaining US$10,000,000 capital injection (equivalent to RMB61,265,000) and with new financing obtained by 3D Medicines Cayman, the proportion of the Group's interest in 3D Medicines Cayman was further diluted to 9.6%.

On December 1, 2021, in accordance with the Register of Directors and Officers of 3D Medicines Cayman, the Group no longer has the right to appoint directors to the board of 3D Medicines Cayman. Therefore the directors of the Company are in the view that the Group lost significant influence on 3D Medicines Cayman on December 1, 2021. The Group ceased to account for the equity interest in 3D Medicines Cayman under equity method and recognized a gain of RMB211,115,000 in the consolidated statements of profit or loss, which represented the difference between the fair value of the retained interest and the carrying amount of the investment at the date on which significant influence was lost. Since the loss of significant influence on 3D Medicines Cayman, the Group recognized the equity interest in 3D Medicines Cayman as a financial asset measured at fair value through profit or loss.

Summarized financial information of the material associate, 3D Medicines, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements are disclosed below:

	December 31, 2020 RMB'000
Gross amounts of 3D Medicines Shanghai's	
Current assets	498,721
Non-current assets	1,337,423
Current liabilities	(70,894)
Non-current liabilities	(190,705)
Equity	1,574,545
Revenue	277
Loss from continuing operations	(183,234)
Other comprehensive income	—
Total comprehensive income	(183,234)
Reconciled to the Group's interest in 3D Medicines Shanghai	
Gross amounts of net assets of 3D Medicines Shanghai	1,574,545
Group's effective interest	9.60%
Group's share of net assets of 3D Medicines Shanghai	151,100
Goodwill	55,615
Carrying amount of in the consolidated financial statements	206,715

16 Interest in Associates (Continued)

	December 31, 2021 RMB'000	December 31, 2020 RMB'000
Group's share of 3D Medicines Cayman's		
Loss from continuing operations	**(46,269)**	(15,997)
Gain on dilution of interest in 3D Medicines Cayman	**4,328**	12,361
	(41,941)	(3,636)

Aggregate information of associates that are not individually material:

	2021 RMB'000	2020 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**4,863**	4,433

	2021 RMB'000	2020 RMB'000
Aggregate amounts of the Group's share of those associates'		
Loss from continuing operations	**(1,975)**	(10,238)
Total comprehensive income	**(1,975)**	(10,238)

The Group assesses whether this is any objective evidence that its interest in the associates are impaired at the end of each reporting period by considering the associates' business development process, any significant financial difficulty, default or bankruptcy encountered by the associates and adverse change in technological, market, economic or legal environment. Based on the assessment above, the Group concluded that no impairment indicator was identified at the end of each reporting period and no impairment loss of interest in associates is considered necessary to be recognized in the consolidated statements of profit or loss.

17 Interest in a Joint Venture

Details of the Group's interest in the joint venture as at December 31, 2021 which is accounted for using equity method in the consolidated financial statements are set out below:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Simnogen Biotech Ltd.	Incorporated	The PRC	USD4,000,000	51%	—	51%	Research and development of innovative pharmaceuticals and vaccine products

In June 2019, the Group acquired 51% of the equity interest in Simnogen Biotech Ltd. from a company controlled by the ultimate controlling shareholder of the Group, BioSciKin Precision Medical Holding Group Co., Ltd., at a consideration of RMB5,200,000. Simnogen Biotech Ltd. is mainly engaged in research and development of innovative pharmaceutical and vaccine products. According to the articles of association, no single investor is in a position to control the investors' meeting nor no single director appointed by either investor is in a position to control the board of directors. Therefore, the directors of the Company consider that the Group is not able to control Simnogen Biotech Ltd. and deem it to be a joint venture of the Group rather than a subsidiary.

Simnogen Biotech Ltd., the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

Information of the joint venture that is not material:

	December 31, 2021 RMB'000	December 31, 2020 RMB'000
Carrying amount of the joint venture in the consolidated financial statements	**4,402**	4,672
Amount of the Group's share of the joint venture's		
Loss from continuing operations	**(270)**	(393)
Total comprehensive income	**(270)**	(393)

18 Financial Assets at Fair Value Through Other Comprehensive Income

	2021 RMB'000	2020 RMB'000
Equity securities designated at FVOCI (non-recycling)		
— Listed equity securities	**240,527**	297,232
— Unlisted equity securities	**51,200**	30,423
	291,727	327,655

The listed equity securities at FVOCI (non-recycling), represent investment in listed equity securities issued by listed companies incorporated in the United States. The unlisted equity securities at FVOCI (non-recycling), represent investment in unlisted equity interest in private entities incorporated in the PRC and the Cayman Islands. These investments are engaged in research and development of innovative pharmaceutical products.

The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the year ended December 31, 2021 and 2020.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 36(e).

19 Financial Assets at Fair Value Through Profit or Loss — Non-Current

	2021 RMB'000	2020 RMB'000
Financial assets at FVPL — non-current		
— Listed equity security	**16,307**	—
— Unlisted investments	**750,959**	73,603
— Unlisted units in investment funds	**1,173,109**	1,158,098
	1,940,375	1,231,701

The Group's non-current balances of financial assets at FVPL represent listed equity security issued by listed company incorporated in Australia, the unlisted investments in private entities incorporated in the PRC, the United States and the Cayman Islands and unlisted units in investment funds incorporated in the PRC, the United States, the Cayman Islands and the Netherlands. These investments are primarily engaged or further invested in the healthcare and pharmaceutical sectors.

The analysis on the fair value measurement of the Group's above financial assets is disclosed in Note 36(e).

20 Trading Securities

	2021 RMB'000	2020 RMB'000
Listed equity securities	—	3,634

The analysis on the fair value measurement of the above financial assets is disclosed in Note 36(e).

21 Inventories

(a) Inventories in the consolidated statements of financial position comprise:

	2021 RMB'000	2020 RMB'000
Raw materials	89,998	86,369
Semi-finished goods	26,205	39,335
Finished goods	118,954	136,969
	235,157	262,673

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount of inventories sold	727,169	659,010
Provision for write-down of inventories	35,846	20,962
	763,015	679,972

All inventories are expected to be recovered within one year.

22 Trade and Bills Receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	**2,017,320**	1,522,578
Bills receivable	**419,635**	369,275
	2,436,955	1,891,853
Less: loss allowance	**(38,188)**	(20,841)
	2,398,767	1,871,012

All of the trade and bills receivables are expected to be recovered within one year.

As at December 31, 2021, bills receivable of RMB80,786,000 were pledged for issuance of bills payable.

Aging analysis

As of the end of the reporting period, the aging analysis of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	**1,561,742**	1,379,987
Over 3 months but within 12 months	**831,220**	488,584
Over 12 months	**5,805**	2,441
	2,398,767	1,871,012

Trade and bills receivables are due within 30 - 90 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 36(a).

23 Prepayments, Deposits and Other Receivables

	2021 RMB'000	2020 RMB'000
Current		
Prepayments for raw materials and expenses	**55,807**	48,453
Value added tax recoverable	**21,524**	25,280
Other deposits and receivables	**63,651**	49,651
	140,982	123,384
Less: loss allowance	**(948)**	(2,827)
	140,034	120,557
Non-current		
Prepayments for property, plant and equipment	**30,432**	63,534
Deposits for investments	**—**	50,000
Other deposits and receivables	**46,132**	—
	76,564	113,534

All of prepayments, deposits and other receivables current balances are expected to be recovered or recognized as expense within one year.

24 Cash and Cash Equivalents, Pledged Deposits, Restricted Deposits, and Time Deposits

(a) Cash and cash equivalents comprise:

	2021 RMB'000	2020 RMB'000
Cash at bank	**973,139**	3,270,241

24 Cash and Cash Equivalents, Pledged Deposits, Restricted Deposits, and Time Deposits (Continued)

(b) Pledged deposits and restricted deposits comprise:

	2021 **RMB'000**	2020 RMB'000
Pledged deposits for		
— issuance of letter of guarantee	**1,580**	1,777
— bank loans	**—**	915,600
	1,580	917,377

	2021 **RMB'000**	2020 RMB'000
Restricted deposits for		
— research and development projects	**4,005**	3

(c) Time deposits comprise:

	2021 **RMB'000**	2020 RMB'000
Current Portion	**1,210,078**	—
Non-current Portion	**410,000**	—
	1,620,078	—

24 Cash and Cash Equivalents, Pledged Deposits, Restricted Deposits, and Time Deposits (Continued)

(d) Reconciliation of profits before taxation to cash generated from operations

	Note	2021 RMB'000	2020 RMB'000
Profit before taxation		**1,401,797**	805,088
Adjustments for:			
Depreciation of property, plant and equipment	6(c)	**234,390**	204,969
Amortization of intangible assets	6(c)	**17,417**	17,360
Net finance costs	6(a)	**2,561**	107,481
Share of losses of associates	16	**43,916**	13,874
Share of losses of a joint venture	17	**270**	393
Net (gain)/loss on disposal of property, plant and equipment	5(b)	**(2,685)**	3,361
Net realized loss/(gain) on trading securities	5(b)	**119**	(627)
Net realized and unrealized gains on financial assets at fair value through profit or loss	5(b)	**(382,849)**	(464,309)
Net gain on disposal of interest in subsidiaries	5(b)	**(399,330)**	(1,552)
Net gain on disposal of interest in associates	5(b)	**—**	(8,963)
Net gain arising from fair value remeasurement of interest in associates	5(b)	**(314,456)**	—
Gain arising from business combination	5(b)	**—**	(1,762)
Equity settled share-based payment expenses	32	**62,392**	32,797
Increase in provision	30	**—**	100,700
Impairment loss on trade and other receivables	6(c)	**15,828**	6,735
Provision for write-down of inventories	21(b)	**35,846**	20,962
Other income from asset-related government grants	5(a)	**(32,477)**	(32,384)
Foreign exchange (gain)/loss on bank loans		**(100,763)**	10,154
Changes in working capital:			
Increase in pledged deposits for issuance of letter of guarantee and restricted deposits		**(3,805)**	(818)
Increase in inventories		**(8,330)**	(35,461)
Increase in trade and bills receivables		**(545,202)**	(542,151)
(Increase)/decrease in prepayments, deposits and other receivables		**(482,242)**	1,341
Increase/(decrease) in trade and bills payables		**81,874**	(13,231)
Increase in other payables and accruals		**186,319**	21,517
Decrease in income-related deferred income		**2,140**	5,925
Cash (used in)/generated from operations		**(187,270)**	251,399

24 Cash and Cash Equivalents, Pledged Deposits, Restricted Deposits, and Time Deposits (Continued)

(e) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	Bank loans RMB'000 (Note 25)	Lease liabilities RMB'000 (Note 26)	Total RMB'000
At January 1, 2021	3,068,490	231,528	3,300,018
Changes from financing cash flows:			
Proceeds from bank loans	1,027,150	—	1,027,150
Repayment of bank loans	(2,463,778)	—	(2,463,778)
Capital element of lease rentals paid	—	(41,359)	(41,359)
Interest element of lease rentals paid	—	(6,984)	(6,984)
Interest paid	(63,864)	—	(63,864)
Total changes from financing cash flows	(1,500,492)	(48,343)	(1,548,835)
Exchange adjustments	(101,777)	—	(101,777)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	—	42,175	42,175
Disposal of interests in subsidiaries	—	(91,145)	(91,145)
Adjustment from lease termination	—	(35,402)	(35,402)
Interest expenses (Note 6(a))	63,864	6,984	70,848
Total other changes	63,864	(77,388)	(13,524)
At December 31, 2021	1,530,085	105,797	1,635,882

24 Cash and Cash Equivalents, Pledged Deposits, Restricted Deposits, and Time Deposits (Continued)

(e) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans RMB'000 (Note 25)	Loans from related parties RMB'000	Lease liabilities RMB'000 (Note 26)	Total RMB'000
At January 1, 2020	2,783,149	—	157,807	2,940,956
Changes from financing cash flows:				
Proceeds from bank loans	2,056,618	—	—	2,056,618
Repayment of bank loans	(1,789,365)	—	—	(1,789,365)
New loans from related parties	—	35,506	—	35,506
Repayment of loans from related parties	—	(35,506)	—	(35,506)
Capital element of lease rentals paid	—	—	(37,485)	(37,485)
Interest element of lease rentals paid	—	—	(9,253)	(9,253)
Interest paid	(131,627)	(298)	—	(131,925)
Total changes from financing cash flows	135,626	(298)	(46,738)	88,590
Exchange adjustments	10,154	—	—	10,154
Other changes:				
Increase in lease liabilities from entering into new leases during the year	—	—	111,206	111,206
Interest expenses (Note 6(a))	124,178	298	9,253	133,729
Capitalized borrowing costs (Note 6(a))	9,381	—	—	9,381
Decrease in deferred income related to bank loans	6,002	—	—	6,002
Total other changes	139,561	298	120,459	260,318
At December 31, 2020	3,068,490	—	231,528	3,300,018

(f) Total cash flow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2021 RMB'000	2020 RMB'000
Within operating cash flows	**10,369**	10,581
Within investing cash flows	**—**	814
Within financing cash flows	**48,343**	46,738
	58,712	58,133

24 Cash and Cash Equivalents, Pledged Deposits, Restricted Deposits, and Time Deposits (Continued)

(f) Total cash flow for leases (Continued)

These amounts relate to the following:

	2021 RMB'000	2020 RMB'000
Lease rentals paid	58,712	57,319
Increase in leasehold land	—	814
	58,712	58,133

(g) Disposal of interests in subsidiaries

On May 7, 2021, the Group disposed its entire interests in Simgene Group Limited, Simnova Biotherapeutics Limited, Simcere Innovation, Inc., Shanghai Xianjing Biological Technology Co., Ltd. and Shanghai Xianbo Biological Technology Co., Ltd. (together as "**Simgene Group**") to the controlling shareholder of the Group for a cash consideration of RMB104,170,000. Simgene Group was principally engaged in Cell Therapy Business.

Aggregate of assets and liabilities at the date of disposal over which control was lost:

	2021 RMB'000
Property, plant and equipment (Note 12)	162,264
Prepayments, deposits and other receivables	85,953
Cash and cash equivalents	6,471
Other payables and accruals	(458,703)
Lease liabilities	(91,145)
Net liabilities disposed of	(295,160)

Gains on disposal of interests in subsidiaries:

	2021 RMB'000
Cash consideration	104,170
Net liabilities disposed of	295,160
Net gain on disposal of interests in subsidiaries (Note 5(b))	399,330

24 Cash and Cash Equivalents, Pledged Deposits, Restricted Deposits, and Time Deposits (Continued)

(g) Disposal of interests in subsidiaries (Continued)

Analysis of net cash in respect of the disposal of interests in subsidiaries is as follows:

	2021 **RMB'000**
Cash consideration	**104,170**
Less: cash and cash equivalents disposed of	**(6,471)**
Proceeds received for disposal of interests in subsidiaries	**97,699**

25 Bank Loans

The maturity profile for the interest-bearing bank loans of the Group at the end of each reporting period is as follows:

	2021 **RMB'000**	2020 RMB'000
Short-term bank loans	**991,571**	1,560,740
Current portion of long-term bank loans	**538,514**	232,200
Within 1 year or on demand	**1,530,085**	1,792,940
After 1 year but within 2 years	**—**	1,231,450
After 2 years but within 5 years	**—**	44,100
More than 5 years	**—**	—
	—	1,275,550
	1,530,085	3,068,490

The bank loans were secured as follows:

	2021 **RMB'000**	2020 RMB'000
Bank loans		
— Secured	**1,134,596**	1,992,450
— Unsecured	**395,489**	1,076,040
	1,530,085	3,068,490

25 Bank Loans (Continued)

Notes:

(i) The Group's bank loans were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	2021 RMB'000	2020 RMB'000
Leasehold land (Note 12)	—	14,217
Plants and buildings (Note 12)	—	157,341
Pledged deposits (Note 24(b))	—	915,600
	—	1,087,158

(ii) Certain bank loans obtained by the Group were guaranteed by Mr. Ren Jinsheng, the ultimate controlling shareholder of the Group, his spouse Ms. Wang Xi, and Nanjing BioSciKin Technology Development Co., Ltd., which is controlled by the ultimate controlling shareholder of the Group.

	2021 RMB'000	2020 RMB'000
Guarantees for bank loans	—	547,800

26 Lease Liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each reporting period:

	2021		2020	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	31,558	34,889	38,098	46,533
After 1 year but within 2 years	30,686	32,824	38,751	45,630
After 2 years but within 5 years	43,553	44,638	100,547	112,019
After 5 years	—	—	54,132	58,033
	74,239	77,462	193,430	215,682
	105,797	112,351	231,528	262,215
Less: total future interest expenses		(6,554)		(30,687)
Present value of lease liabilities		105,797		231,528

27 Trade and Bills Payables

	2021 RMB'000	2020 RMB'000
Trade payables	**256,131**	115,462
Bills payable	**67,820**	126,615
	323,951	242,077

As of the end of the reporting period, the aging analysis of trade and bills payables, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	**252,556**	191,610
3 to 12 months	**70,567**	48,617
Over 12 months	**828**	1,850
	323,951	242,077

All of the trade and bills payables are expected to be settled within one year or repayable on demand.

28 Other Payables and Accruals

	2021 RMB'000	2020 RMB'000
Accrued expenses (Note i)	**546,992**	719,708
Contract liabilities (Note ii)	**26,140**	18,762
Payable for employee reimbursements	**105,691**	139,552
Payables for staff related costs	**279,064**	235,162
Payables for purchase of property, plant and equipment	**35,334**	58,469
Other tax payables	**76,667**	60,950
Others	**92,126**	90,740
	1,162,014	1,323,343

All of the other payables and accruals are expected to be settled within one year or repayable on demand.

28 Other Payables and Accruals (Continued)

Notes:

(i) Accrued expenses primarily comprise marketing and promotion expenses, research and development costs and other expenses.

(ii) Contract liabilities represent customers' advances received for goods that have not yet been transferred to the customers.

Movements in contract liabilities

	2021 RMB'000	2020 RMB'000
Balance at 1 January	**18,762**	16,675
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(18,762)**	(16,675)
Increase in contract liabilities as a result of customers' advances received for goods that have not yet been transferred to the customers as at the year end	**26,140**	18,762
Balance at 31 December	**26,140**	18,762

29 Income Tax in the Consolidated Statements of Financial Position

(a) Current taxation in the consolidated statements of financial position represents:

	2021 RMB'000	2020 RMB'000
At the beginning of the year	**(21,335)**	85,219
Provision for Income Tax for the year	**25,152**	50,215
Effect of PRC Corporate Income Tax on disposal of financial assets at fair value through other comprehensive income	**5,458**	2,057
Under/(over)-provision in respect of prior years	**4,791**	(4,158)
Tax paid	**(14,700)**	(154,668)
At the end of the year	**(634)**	(21,335)
Represented by:		
Taxation recoverable	**(16,789)**	(21,335)
Taxation payable	**16,155**	—
	(634)	(21,335)

29 Income Tax in the Consolidated Statements of Financial Position (Continued)

(b) Deferred tax assets and liabilities recognized represents:

(i) The components of deferred tax assets recognized in the consolidated statements of financial position and the movements during the year are as follows:

	Provision for asset impairment RMB'000	Unrealized profits on inventories RMB'000	Deductible tax losses RMB'000	Depreciation of property, plant and equipment RMB'000	Fair value change of financial assets RMB'000	Government grants RMB'000	Accrued expenses RMB'000	Other temporary differences RMB'000	Total RMB'000
At January 1, 2020	4,377	110,423	12,010	2,300	26,833	69,374	102,362	2,745	330,424
Recognized in profit or loss	5,252	(14,988)	34,290	(665)	(15,941)	(874)	(148)	2,829	9,755
Recognized in other comprehensive income	—	—	—	—	(6,528)	—	—	—	(6,528)
At December 31, 2020 and January 1, 2021	**9,629**	**95,435**	**46,300**	**1,635**	**4,364**	**68,500**	**102,214**	**5,574**	**333,651**
Recognized in profit or loss	**4,921**	**12,978**	**75,948**	**(150)**	**(402)**	**(3,201)**	**–**	**(138)**	**89,956**
Recognized in other comprehensive income	**–**	**–**	**–**	**–**	**107**	**–**	**–**	**–**	**107**
At December 31, 2021	**14,550**	**108,413**	**122,248**	**1,485**	**4,069**	**65,299**	**102,214**	**5,436**	**423,714**

29 Income Tax in the Consolidated Statements of Financial Position (Continued)

(b) Deferred tax assets and liabilities recognized represents (Continued):

(ii) The components of deferred tax liabilities recognized in the consolidated statements of financial position and the movements during the year are as follows:

	Fair value adjustment arising from business combination RMB'000	Depreciation of property, plant and equipment RMB'000	Fair value change of financial assets RMB'000	Undistributed profits RMB'000	Other temporary differences RMB'000	Total RMB'000
At January 1, 2020	8,811	59,909	30,101	72,088	1,421	172,330
Business combination (Note 37)	15,175	—	—	—	—	15,175
Recognized in profit or loss	(6,363)	18,247	83,267	10,005	(657)	104,499
Recognized in other comprehensive income	—	—	28,456	—	—	28,456
Exchange adjustment	—	—	(3,304)	—	—	(3,304)
At December 31, 2020 and January 1, 2021	**17,623**	**78,156**	**138,520**	**82,093**	**764**	**317,156**
Recognized in profit or loss	**(3,090)**	**227**	**(43,859)**	**9,874**	**(263)**	**(37,111)**
Recognized in other comprehensive income	**–**	**–**	**(2,511)**	**–**	**–**	**(2,511)**
Exchange adjustment	**–**	**–**	**(1,021)**	**–**	**–**	**(1,021)**
At December 31, 2021	**14,533**	**78,383**	**91,129**	**91,967**	**501**	**276,513**

(iii) Reconciliation to the consolidated statements of financial position:

	2021 RMB'000	2020 RMB'000
Net deferred tax assets recognized in the consolidated statements of financial position	**289,972**	210,093
Net deferred tax liabilities recognized in the consolidated statements of financial position	**(142,771)**	(193,598)
	147,201	16,495

29 Income Tax in the Consolidated Statements of Financial Position (Continued)

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(s), the Group did not recognize deferred tax assets of RMB24,910,000 (2020: RMB88,703,000), in respect of cumulative tax losses RMB106,110,000 (2020: RMB372,838,000) as at December 31, 2021. The Group did not recognize deferred tax assets of RMB39,346,000 (2020: RMB44,445,000), in respect of cumulative time differences RMB137,069,000 (2020: RMB163,409,000) as at December 31, 2021. It was not probable that future taxable profits against which the losses and time differences can be utilized will be available in the relevant tax jurisdiction and entities.

(d) Deferred tax liabilities not recognized

For the year ended December 31, 2021, the Group did not recognize deferred tax liabilities of RMB28,159,000 (2020: RMB21,535,000), in respect of distributable profits of the Group's PRC subsidiaries amounted to RMB563,183,000 (2020: RMB430,702,000), as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that these undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future in accordance with the Group's dividend policy. As at December 31, 2021, the deferred tax liabilities not recognized in respect of distributable profits of the Group's PRC subsidiaries is RMB85,088,000 (2020: RMB56,929,000).

30 Provision

Provision for the year ended December 31, 2021

	RMB'000
At January 1, 2020	—
Provision made during the year	100,700
At December 31, 2020 and January 1, 2021	**100,700**
Provision paid during the year	**(100,700)**
At December 31, 2021	**—**

On September 11, 2020, the Group received an investigation notice from State Administration for Market Regulation of the PRC (the "**SAMR**") in respect of the alleged claim of abuse of a dominant market position in connection with an exclusive supply arrangement of raw materials with an overseas third party supplier. On January 22, 2021, the Group was imposed a penalty of RMB100,700,000 by SAMR for the results from this investigation. The Group made full provision for this matter for the year ended December 31, 2020 and made full payment on February 5, 2021.

31 Deferred Income

As at December 31, 2021, deferred income represented unamortized conditional government grants amounting to RMB417,613,000 (2020: RMB447,950,000) for plant relocation and construction and encouragement of technology research and development.

Deferred income is recognized as income upon the satisfaction of acceptance standards, completion of the relocation or amortized over the useful life of the related property, plant and equipment upon the completion of the construction.

32 Equity Settled Share-Based Transactions

The Pre-IPO Share Incentive Scheme

On October 1, 2019, the board of directors of the Company's immediate parent company, SPHL, approved a grant of 1,023,000 restricted shares, of which 507,500 restricted shares were previously repurchased by SPHL through Excel Management Company Limited ("**Excel management**") and the remaining 515,500 restricted shares were held by Mr. Ren Jinsheng through Excel Management. The restricted shares were granted to the directors and employees of the Company and its subsidiaries ("the **Participants**") at a price of RMB50 per each restricted share or at nil price.

Each restricted share gives the holder a right to receive the underlying ordinary share held by Excel Management pursuant to the conditions provided for under the Restricted Share Incentive Scheme at the end of the respective vesting period.

The 2021 RSU Scheme

On May 20, 2021, the board of the Company approved the adoption of the 2021 Restricted Stock Unit ("**RSU**") Scheme and would grant up to 137,296,927 restricted shares to the Participants under the 2021 RSU Scheme in aggregate.

For the year ended December 31, 2021, 31,391,000 restricted shares were granted to the Participants under the 2021 RSU Scheme at nil consideration.

On July 28, 2021, November 12, 2021, and January 10, 2022, the Company allotted and issued 10,937,000, 8,712,000 and 19,649,000 shares, respectively, to Futu Trustee Limited ("the **Trustee**"), which will be issued to Participants upon the vest of the RSUs granted under 2021 RSU Scheme. Neither the Participants nor the Trustee may exercise any of the voting rights in respect of any shares held by the Trustee for the purpose of the 2021 RSU Scheme.

32 Equity Settled Share-Based Transactions (Continued)

(a) The terms and conditions of the grants are as follows:

	Number of Restricted shares	Vesting condition	Price per restricted share RMB
Restricted shares granted to directors and employees:			
Pre-IPO Share Incentive Scheme			
— on October 1, 2019	180,000	Cliff vest on December 31, 2021	Nil
— on October 1, 2019	843,000	Cliff vest on December 31, 2021	50
2021 RSU Scheme			
— on July 16, 2021	10,838,000	Graded vest of one third per year over three years from the date of grant and subject to performance conditions.	Nil
— on November 1, 2021	8,712,000	Graded vest of one third on August 27, 2022, 2023 and 2024, respectively, and subject to performance conditions.	Nil
— on December 23, 2021	11,841,000	Graded vest of one third per year over three years from the date of grant and subject to performance conditions.	Nil

(b) A summary of restricted shares outstanding for the year ended December 31, 2021 and 2020:

	2021		2020	
	Weighted average grant-date fair value RMB	**Number of restricted shares '000**	Weighted average grant-date fair value RMB	Number of restricted shares '000
Balance at the beginning of the year	**81.32**	**887**	51.42	1,916
Grant during the year	**8.23**	**31,391**	—	—
Vested during the year	**78.96**	**(751)**	17.42	(893)
Forfeited during the year	**29.73**	**(586)**	79.65	(136)
Balance at the end of the year	**8.20**	**30,941**	81.32	887

32 Equity Settled Share-Based Transactions (Continued)

(c) Fair value of restricted shares granted

The grant-date fair value of the restricted shares granted is measured at the difference between the fair value of the underlying ordinary shares and the grant price at the respective grant dates.

Share-based payment expense of RMB62,392,000 (2020: RMB32,797,000) is recognized as staff costs in the consolidated statements of profit or loss for the year ended December 31, 2021.

33 Capital, Reserves and Dividends

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

			Reserves		
The Company	**Share capital RMB'000**	**Other reserve RMB'000**	**Exchange reserve RMB'000**	**Retained profits RMB'000**	**Total RMB'000**
Balance at January 1, 2020	210	2,085,626	(2,721)	35,042	2,118,157
Changes in equity for 2020:					
Issue of ordinary shares by initial public offering and over-allotment, net of issuance costs	3,002,661	—	—	—	3,002,661
Profit and total comprehensive income for the year	—	—	(93,460)	(131,306)	(224,766)
Balance at December 31, 2020 and January 1, 2021	**3,002,871**	**2,085,626**	**(96,181)**	**(96,264)**	**4,896,052**
Changes in equity for 2021:					
Equity settled share-based transactions	**—**	**42,516**	**—**	**—**	**42,516**
Appropriation of dividends	**—**	**—**	**—**	**(391,296)**	**(391,296)**
Profit and total comprehensive income for the year	**—**	**—**	**(107,483)**	**1,223,418**	**1,115,935**
Balance at December 31, 2021	**3,002,871**	**2,128,142**	**(203,664)**	**735,858**	**5,663,207**

33 Capital, Reserves and Dividends (Continued)

(b) Dividends

(i) Dividend payable to equity shareholders of the Company attribute to the year:

	2021 RMB'000	2020 RMB'000
Dividends proposed after the end of the reporting period of RMB0.15 per ordinary share (2020: RMB0.15 per ordinary share)	**394,244**	391,296

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period. The amount of proposed final dividend was based on 2,628,290,618 shares (2020: 2,608,641,618 shares) in issue as at December 31, 2021.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial years, declared and approved during the year:

	2021 RMB'000	2020 RMB'000
Dividends in respect of previous financial years approved and paid during the year, of RMB0.15 per share (2020: nil)	**391,296**	—

(c) Share capital

	Note	Number of Shares	HKD
Ordinary shares, issued and fully paid:			
At January 1, 2020		2,345,117,618	234,512
Issues of ordinary shares by initial public offering	(i)	263,524,000	3,474,545,000
At December 31, 2020 and January 1, 2021		**2,608,641,618**	**3,474,779,512**
Issues of ordinary shares under 2021 RSU Scheme	(ii)	**19,649,000**	**—**
At December 31, 2021		**2,628,290,618**	**3,474,779,512**

Notes:

(i) On 27 October 2020, the Company issued 260,569,000 shares at an offer price of HKD13.70 per share by way of public offering to Hong Kong and overseas investors. Net proceeds from these issues amounted to HKD3,435,111,000 (RMB2,968,578,000 equivalent) (after offsetting costs directly attributable to the issue of shares of HKD134,684,000), which were recorded in share capital.

On 18 November 2020, pursuant to the partly exercise of the over-allotment option by the joint global coordinators of the initial public offering, the Company allotted and issued an additional 2,955,000 shares at the offer price of HKD13.70 per share. The additional net proceeds from the exercise of over-allotment option amounted to HKD39,434,000 (RMB34,083,000 equivalent) (after offsetting costs directly attributable to the issue of shares of HKD1,050,000), which were recorded in share capital.

(ii) On 28 July 2021 and 12 November 2021, the Company allotted and issued 10,937,000 shares and 8,712,000 shares to the Trustee for the purpose of the 2021 RSU Scheme (see Note 32).

33 Capital, Reserves and Dividends (Continued)

(c) Share capital (Continued)

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares, except for the shares held by the Trustee, are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Other reserve

Other reserve primarily represented: (i) the paid-in capital of Simcere Pharmaceutical and Hainan Simcere prior to the transactions in June and August 2017 respectively, during the course of the reorganization under common control; (ii) the difference between the carrying value of the net assets acquired and the consideration paid for the acquisition of subsidiaries and non-controlling interests prior to the January 1, 2017 and during the course of the reorganization under common control; (iii) the accumulated share based compensation for the unexercised share options, which were cancelled upon the privatization of the former holding company of the Group's substantial operating business, Excel Investments Group Limited (formerly known as Simcere Investments Group); and (iv) the portion of the grant date fair value of restricted shares granted by SPHL to the directors of the Company and employees of the Group that has been recognized in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii).

(ii) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(v).

(iv) Fair value reserves (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see Note 2(g)).

33 Capital, Reserves and Dividends (Continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintaining a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank loans and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

The Group's adjusted net debt to capital ratio are as follows:

	2021 RMB'000	2020 RMB'000
Current liabilities:		
Bank loans	1,530,085	1,792,940
Lease liabilities	31,558	38,098
	1,561,643	1,831,038
Non-current liabilities:		
Bank loans	—	1,275,550
Lease liabilities	74,239	193,430
	74,239	1,468,980
Total debt	1,635,882	3,300,018
Add: Proposed dividends	394,244	391,296
Less: Cash and cash equivalents	(973,139)	(3,270,241)
Adjusted net debt	1,056,987	421,073
Total equity	6,462,757	5,335,724
Less: Proposed dividends	(394,244)	(391,296)
Adjusted capital	6,068,513	4,944,428
Adjusted net debt to capital ratio	17.4%	8.5%

34 Capital Commitments

Capital commitments outstanding at the respective year end not provided for in the consolidated financial statements are as follows:

	2021 **RMB'000**	2020 RMB'000
Contracted for	**112,677**	127,910
Represented by:		
Construction of plant and buildings	**71,919**	113,096
Acquisition of machinery and equipment	**40,758**	14,814
	112,677	127,910

35 Material Related Party Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9 is as follows:

	2021 **RMB'000**	2020 RMB'000
Short-term employee benefits	**23,872**	30,708
Contributions to defined contribution retirement plans	**269**	176
Equity settled share-based payment expenses	**16,823**	14,503
	40,964	45,387

Total remuneration is included in "**staff costs**" (see Note 6(b)).

35 Material Related Party Transactions (Continued)

(b) Names and relationships of the related parties that had other material transactions with the Group:

Name of related party	Relationship
Mr. Ren Jinsheng	Ultimate controlling shareholder of the Group
Ms. Wang Xi	The spouse of the ultimate controlling shareholder of the Group
Simcere Investments Group Limited (formerly known as Excel Good Group Limited)	Controlling shareholder of the Group
Simcere Pharmaceutical Holding Limited	Immediate parent of the Group
Xuancheng Menovo Pharmaceutical Co., Ltd. (Note(a))	Associate of the Group
BCY Pharm Co., Ltd. (Note(b))	Associate of the Group
Jiangsu Simcare Pharmaceutical Co., Ltd. (Note(c))	Controlled by the ultimate controlling shareholder of the Group
Simcare Jiangsu Pharmaceutical Co., Ltd. (Note(c))	Controlled by the ultimate controlling shareholder of the Group
Beijing Sanroad Biological Products Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Jiayuantang Biological Technology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Yoai Technology Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
BioSciKin Precision Medical Holding Group Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Medway Culture Media Co. Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Asset Management Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Simcere Medical Diagnostics Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Nanjing BioSciKin Technology Development Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group

35 Material Related Party Transactions (Continued)

(b) Names and relationships of the related parties that had other material transactions with the Group: (Continued)

Name of related party	Relationship
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd. (Note(c))	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Pharmaceutical Industrial Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Simcere Industrial Co., Limited	Controlled by the ultimate controlling shareholder of the Group
Nanjing Xiansheng Medical Inspection Laboratory Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
3D Biological Medicines (Shanghai) Co., Ltd. (Note(d))	Associate of the Group
Jiangsu Medical Industry Research Institute Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Shanghai Youxu Medical Equipment Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Shanghai Xianbo Biological Technology Co., Ltd. (Note(e))	Controlled by the ultimate controlling shareholder of the Group
Simcere Innovation Inc (Note(e))	Controlled by the ultimate controlling shareholder of the Group
Nanjing Xuanwu Youai Clinic Co. Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Hainan Vision Baihui Biotechnology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group

Notes:

(a) This entity was disposed by the Group on July 30, 2020 and no longer recognized as the Group's related parties since then.

(b) This entity become the subsidiary of the Group on May 13, 2020 and no longer recognized as the Group's related parties since then.

(c) These entities were disposed by the ultimate controlling shareholder of the Group on April 9, 2021 and no longer recognized as the Group's related parties since then.

(d) On December 1, 2021, the Group ceased to have significant influence over this entity, and no longer recognized it as the Group's related parties since then.

(e) These entities were disposed by the Group to the controlling shareholder of the Group on May 7, 2021 and recognized as the Group's related parties since then.

35 Material Related Party Transactions (Continued)

(c) Guarantees issued by related parties

	2021 RMB'000	2020 RMB'000
Guarantees for bank loans (Note 25)	—	547,800

(d) Other significant related party transactions

The Group had following transactions with related parties:

	2021 RMB'000	2020 RMB'000
Purchase of goods		
Jiangsu Simcare Pharmaceutical Co., Ltd.	1	9,437
Simcare Jiangsu Pharmaceutical Co., Ltd.	13	180
Jiangsu Yoai Technology Co., Ltd.	798	479
Xuancheng Menovo Pharmaceutical Co., Ltd.	—	570
Nanjing Jiayuantang Biological Technology Co., Ltd.	2,406	—
	3,218	10,666

35 Material Related Party Transactions (Continued)

(d) Other significant related party transactions (Continued)

	2021 RMB'000	2020 RMB'000
Purchase of services		
BioSciKin Precision Medical Holding Group Co., Ltd.	**22**	71
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	**191**	64
Nanjing Medway Culture Media Co. Ltd.	**109**	1,005
Nanjing Xiansheng Medical Laboratory Co., Ltd.	**363**	1,785
Jiangsu Simcere Medical Diagnostics Co., Ltd.	**30**	—
Nanjing Xuanwu Youai Clinic Co. LTD	**19**	—
	734	2,925
Sales of goods		
Jiangsu Simcare Pharmaceutical Co., Ltd.	**2,206**	15,504
Simcare Jiangsu Pharmaceutical Co., Ltd.	**602**	2,961
	2,808	18,465
Rendering of services		
BioSciKin Precision Medical Holding Group Co., Ltd.	**—**	47
Beijing Sanroad Biological Products Co., Ltd.	**57,487**	46,821
Jiangsu Simcere Medical Diagnostics Co., Ltd.	**312**	410
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	**22**	883
Shanghai Xianbo Biological Technology Co., Ltd.	**2,790**	—
Hainan Vision Baihui Biotechnology Co., LTD	**50**	—
	60,661	48,161
Receiving rental, property management and other related services		
BioSciKin Precision Medical Holding Group Co., Ltd.	**46,530**	48,449
Nanjing BioSciKin Asset Management Co., Ltd.	**2,301**	2,719
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	**—**	704
	48,831	51,872

35 Material Related Party Transactions (Continued)

(d) Other significant related party transactions (Continued)

	2021 RMB'000	2020 RMB'000
Providing rental, property management and other related services		
Shanghai Youxu Medical Equipment Co., Ltd.	27	24
3D Biological Medicines (Shanghai) Co., Ltd.	4,256	860
Shanghai Xianbo Biological Technology Co., Ltd.	6,343	—
	10,626	884
Payments made on behalf of the Group		
Jiangsu Medical Industry Research Institute Co., Ltd.	—	845
Jiangsu Pharmaceutical Industrial Co., Ltd.	—	1,461
Simcere Innovation Inc	1,102	—
	1,102	2,306
Payments made on behalf of related parties		
Shanghai Xianbo Biological Technology Co., Ltd.	2,661	—
	2,661	—
Loans from related parties		
Simcere Pharmaceutical Holding Limited	—	35,506
Interest expenses on loans from related parties		
Simcere Pharmaceutical Holding Limited	—	298
Interest income on loans to related parties		
BCY Pharm Co., Ltd.	—	130
Loans repaid by related parties		
Shanghai Xianbo Biological Technology Co., Ltd.	279,228	—
Simcere Industrial Co., Limited	135,490	—
Simcere Innovation Inc	31,112	—
	445,830	—
Disposal of interest in subsidiaries to		
Simcere Investments Group Limited	104,170	—

35 Material Related Party Transactions (Continued)

(e) Significant related party balances

The Group had following trade in nature balances with related parties:

Trade in nature:	**2021 RMB'000**	2020 RMB'000
Trade receivables		
Jiangsu Simcare Pharmaceutical Co., Ltd.	**—**	3,074
Simcare Jiangsu Pharmaceutical Co., Ltd.	**—**	1,086
Beijing Sanroad Biological Products Co., Ltd.	**7,222**	4,533
Jiangsu Simcere Medical Diagnostics Co., Ltd.	**10**	36
3D Biological Medicines (Shanghai) Co., Ltd.	**—**	278
Shanghai Youxu Medical Equipment Co., Ltd.	**—**	3
Shanghai Xianbo Biological Technology Co., Ltd.	**232**	—
	7,464	9,010
Prepayments, deposits and other receivables		
Jiangsu Yoai Technology Co., Ltd.	**124**	124
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	**—**	7
Beijing Sanroad Biological Products Co., Ltd.	**5,000**	5,000
Nanjing BioSciKin Asset Management Co., Ltd.	**—**	28
Jiangsu Simcare Pharmaceutical Co., Ltd.	**—**	195
Hainan Vision Baihui Biotechnology Co., LTD	**50**	—
Shanghai Xianbo Biological Technology Co., Ltd.	**3,398**	—
BioSciKin Precision Medical Holding Group Co., Ltd.	**39**	—
	8,611	5,354

35 Material Related Party Transactions (Continued)

(e) Significant related party balances (Continued)

	2021 RMB'000	2020 RMB'000
Other payables and accruals		
Nanjing Medway Culture Media Co. Ltd.	15	562
Jiangsu Simcare Pharmaceutical Co., Ltd.	—	503
BioSciKin Precision Medical Holding Group Co., Ltd.	—	696
3D Biological Medicines (Shanghai) Co., Ltd.	—	200
Jiangsu Yoai Technology Co., Ltd.	396	—
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	186	—
Nanjing Jiayuantang Biological Technology Co., Ltd.	579	—
	1,176	1,961

The Group had following non-trade in nature balances with related parties:

Non-trade in nature:	2021 RMB'000	2020 RMB'000
Lease liabilities	69,836	128,994

(f) Leasing arrangements

In 2021, the Group entered into a lease contract with a related party in respect of leasehold property for research and development activities or office use, with lease term of five years. The monthly rental payment by the Group under this lease is RMB35,000, which was determined with reference to amounts charged by the related party to third parties. At the commencement date of the lease, the Group recognized a right-of-use asset and a lease liability of RMB1,642,000.

In 2020, the Group entered into three lease contracts with related parties of the Group in respect of certain leasehold properties for research and development activities or office use, with lease term of four-and-half-year, five-year and five-year, respectively. The monthly rental payment by the Group under these leases is RMB571,000, RMB34,000, and RMB8,000, respectively, which was determined with reference to amounts charged by the related parties to third parties. At the commencement date of the lease, the Group recognized a right-of-use asset and a lease liability of RMB30,252,000, RMB1,931,000 and RMB440,000, respectively.

(g) Applicability of the Listing Rules relating to connected transactions

Apart from providing rental, property management and other related services to 3D Biological Medicines (Shanghai) Co., Ltd., the related party transactions mentioned in Note 35(c) and 35(d) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided under the section "Continuing Connected Transactions" in the Report of Directors.

35 Material Related Party Transactions (Continued)

(g) Applicability of the Listing Rules relating to connected transactions (Continued)

Providing rental, property management and other related services to Shanghai Youxu Medical Equipment Co., Ltd. and Shanghai Xianbo Biological Technology Co.,Ltd., purchasing of goods from Jiangsu Simcare Pharmaceutical Co., Ltd., Simcare Jiangsu Pharmaceutical Co., Ltd., Jiangsu Yoai Technology Co., Ltd., and Nanjing Jiayuantang Biological Technology Co., Ltd., rendering of services to Jiangsu Simcere Medical Diagnostics Co., Ltd., Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd., Shanghai Xianbo Biological Technology Co., Ltd., and Hainan Vision Baihui Biotechnology Co., Ltd., purchasing of service from Nanjing Medway Culture Media Co. Ltd., Nanjing Xiansheng Medical Inspection Laboratory Co., Ltd., Nanjing Xuanwu Youai Clinic Co. Ltd., BioSciKin Precision Medical Holding Group Co., Ltd., Jiangsu BioSciKin Transformation Medical Technology Co., Ltd. and Jiangsu Simcere Medical Diagnostics Co., Ltd. are continuing connected transactions but are exempted from these disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1) or they are sharing of administrative services under Rule 14A.98.

Apart from these transactions, none of the other related party transactions mentioned in Note 35 fall under the definition of a connected transaction or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36 Financial Risk Management and Fair Values of Financial Instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged deposits, restricted deposits, time deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2021, 1% (2020: 4%) of trade receivables were due from the Group's largest customer and 15% (2020: 11%) of trade receivables were due from the Group's five largest customers.

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 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss 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.

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

	At December 31, 2021		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.7%	1,152,993	8,152
Less than 3 months past due	0.9%	770,043	7,302
More than 3 months but less than 12 months past due	6.6%	71,794	4,738
More than 12 months past due	80.0%	22,490	17,996
		2,017,320	38,188

	At December 31, 2020		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.4%	667,170	2,837
Less than 3 months past due	0.5%	671,507	3,649
More than 3 months but less than 12 months past due	3.3%	173,399	5,648
More than 12 months past due	82.9%	10,502	8,707
		1,522,578	20,841

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

Movement in the loss allowance in respect of trade receivables is as follows:

	2021 RMB'000	2020 RMB'000
At the beginning of the year	**20,841**	12,786
Amounts written off	**(100)**	—
Impairment loss recognized	**17,447**	8,055
At the end of the year	**38,188**	20,841

The following significant changes in the gross carrying amounts of trade receivables contributed to the change in the loss allowance:

— origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB5,314,000 (2020: RMB1,654,000); and

— change in past due trade receivables resulted in an increase in loss allowance of RMB12,033,000 (2020: RMB6,401,000).

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	At December 31, 2021					
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at December 31, 2021 RMB'000**
Bank loans	**1,543,082**	**–**	**–**	**–**	**1,543,082**	**1,530,085**
Lease liabilities	**34,889**	**32,824**	**44,638**	**–**	**112,351**	**105,797**
Trade and bills payables	**323,951**	**–**	**–**	**–**	**323,951**	**323,951**
Other payables and accruals	**1,162,014**	**–**	**–**	**–**	**1,162,014**	**1,162,014**
	3,063,936	**32,824**	**44,638**	**–**	**3,141,398**	**3,121,847**

	At December 31, 2020					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at December 31, 2020 RMB'000
Bank loans	1,854,521	1,246,393	44,377	—	3,145,291	3,068,490
Lease liabilities	46,533	45,630	112,019	58,033	262,215	231,528
Trade and bills payables	242,077	—	—	—	242,077	242,077
Other payables and accruals	1,323,343	—	—	—	1,323,343	1,323,343
	3,466,474	1,292,023	156,396	58,033	4,972,926	4,865,438

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from short-term, long-term borrowings and time deposits. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below:

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings and time deposits as at the end of each reporting period:

	2021		2020	
	Effective Interest rate	Amount RMB'000	Effective Interest rate	Amount RMB'000
Fixed rate financial instruments:				
Financial assets				
— Time deposits (current)	1.55%–3.20%	1,210,078	—	—
— Time deposits (non-current)	3.65%–3.85%	410,000	—	—
Financial liabilities:				
— Bank loans	0.2%–3.6%	(1,145,517)	0.57%–4.28%	(2,792,528)
Total		474,561		(2,792,528)
Variable rate instruments:				
Financial liabilities:				
— Bank loans	3M-LIBOR+1.9%	(384,568)	3M-LIBOR +1.1%– 3M-EURIBOR +0.55%	(275,962)
Total		89,993		(3,068,490)

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

As the Group accounts for the above fixed rate financial instruments at amortised cost, change in interest rates would have no impact on the Group's financial statements. For the variable rate instruments, at December 31, 2021, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB3,211,000 (2020: RMB 2,249,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2020.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and borrowings which give rise to cash balances and bank loans that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD, EUR, GBP and HKD.

(i) Exposure to currency risk

The following table details the Group's exposure as at December 31, 2021 to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in RMB translated using the spot rate of the end of each reporting period. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than RMB into the Group's presentation currency are excluded.

	2021 **RMB'000**	2020 RMB'000
USD		
Cash and cash equivalents	**7,084**	9,902
Trade and other payables	**(38,303)**	—
Net exposure	**(31,219)**	9,902

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(d) Currency risk (Continued)

(i) Exposure to currency risk (Continued)

	2021 RMB'000	2020 RMB'000
EUR		
Cash and cash equivalents	**25**	27
Bank loans	**(230,308)**	(862,486)
Trade and other receivables	**379**	2,176
Trade and other payables	**(893)**	(1,969)
Net exposure	**(230,797)**	(862,252)

	2021 RMB'000	2020 RMB'000
GBP		
Cash and cash equivalents	**20**	21
Trade and other receivables	**—**	3,188
Net exposure	**20**	3,209

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

	2021		2020	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
USD	5%	(1,303)	5%	371
	(5%)	1,303	(5%)	(371)
EUR	5%	(9,808)	5%	(35,040)
	(5%)	9,808	(5%)	35,040
GBP	5%	1	5%	136
	(5%)	(1)	(5%)	(136)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at December 31, 2021. The analysis excludes differences that would result from the translation of the financial statements of entities whose functional currency is not RMB. The analysis is performed on the same basis for the year ended December 31, 2020.

(e) Fair value measurement

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

Level 3 valuations: Fair value measured using significant unobservable inputs.

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(e) Fair value measurement (Continued)

Fair value hierarchy (Continued)

The Group has a team headed by the finance manager performing valuations for the financial instruments, including unlisted equity securities, unlisted investments and unlisted units in investment funds which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

	Fair value at December 31, 2021	Fair value measurement at December 31, 2021 categorized into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
— Listed equity securities	**240,527**	**240,527**	**—**	**—**
— Unlisted equity securities	**51,200**	**—**	**51,200**	**—**
Financial assets at FVPL				
— Listed equity security	**16,307**	**16,307**	**—**	**—**
— Unlisted investments	**750,959**	**—**	**254,288**	**496,671**
— Unlisted units in investment funds	**1,173,109**	**—**	**—**	**1,173,109**

	Fair value at December 31, 2020	Fair value measurement at December 31, 2020 categorized into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
— Listed equity securities	297,232	297,232	—	—
— Unlisted equity securities	30,423	—	—	30,423
Financial assets at FVPL				
— Unlisted investments	73,603	—	—	73,603
— Unlisted units in investment funds	1,158,098	—	—	1,158,098
Trading securities				
— Listed equity securities	3,634	3,634	—	—

(Expressed in Renminbi)

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(e) Fair value measurement (Continued)

Fair value hierarchy (Continued)

During the year ended December 31, 2021, there were no transfers between Level 1 and Level 2, or transfers into Level 3. During the year ended December 31, 2021, there were transfers of amount of RMB nil (2020: RMB296,387,000) from Level 3 to Level 1 due to the listing of the equity security. During the year ended December 31, 2021, there were transfers of amount of RMB48,035,000 (2020: nil) from Level 3 to Level 2 due to the available recently comparable transaction with significant observable inputs in 2021. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted equity securities and certain unlisted investments in Level 2 is determined by recent comparable transaction price on the market. These investments were either acquired, re-invested by the Group recently or newly financed on the market.

Information about Level 3 fair value measurements

	Valuation techniques	**Significant unobservable inputs**
Unlisted investments	Valuation multiples (Note i)	Changing trend of medium market multiples of comparable companies
	Discounted cash flow method and equity allocation model (Note ii)	Discounts for lack of marketability ("DLOM")
Unlisted units in investment funds	Net asset value (Note iii)	Net asset value of underlying investments

Notes:

(i) The fair value of certain unlisted investments is determined using valuation multiples adjusted for changing trend of medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at December 31, 2021, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies by 5% would have increased/decreased the Group's profit for the year by RMB2,857,000 (2020: RMB4,421,000).

(ii) The fair value of an unlisted investment is determined using discounted cash flow method to determine the equity value of the invested company and then use equity allocation model to determine the fair value of the investment. The fair value measurement is negatively correlated to DLOM and positively correlated to volatility. As at December 31, 2021, it is estimated that with all other variables held constant, an increase in DLOM by 5% would have decreased the Group's profit for the year by RMB22,433,000, and a decrease in DLOM by 5% would have increased the Group's profit for the year by RMB22,775,000.

(iii) The fair value of unlisted units in investment funds is determined referencing net asset value of underlying investments. The fair value measurement is positively correlated to net asset value of underlying investments. As at December 31, 2021, it is estimated that with all other variables held constant, an increase/decrease in net asset value of underlying investments by 5% would have increased/decreased the Group's profit for the year by RMB48,333,000 (2020: RMB49,219,000).

36 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(e) Fair value measurement (Continued)

Information about Level 3 fair value measurements (Continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

Reclass	Financial assets at FVOCI RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
As at January 1, 2020	114,010	1,445,779	1,559,789
Net realized and unrealized losses on financial assets at fair value through profit or loss	—	399,959	399,959
Equity investments at FVOCI — net movement in fair value reserves (non-recycling)	212,800	—	212,800
Purchases	—	103,772	103,772
Sales and settlements	—	(686,654)	(686,654)
Exchange difference	—	(31,155)	(31,155)
Transfer into Level 1	(296,387)	—	(296,387)
As at December 31, 2020 and January 1, 2021	30,423	1,231,701	1,262,124
Net realized and unrealized losses on financial assets at fair value through profit or loss	**—**	**51,954**	**51,954**
Purchases	**—**	**426,757**	**426,757**
Sales and settlements	**—**	**(392,090)**	**(392,090)**
Exchange difference	**—**	**(24,448)**	**(24,448)**
Reclass from investment in associates	**—**	**423,941**	**423,941**
Transfer into Level 2	**(30,423)**	**(48,035)**	**(78,458)**
As at December 31, 2021	**—**	**1,669,780**	**1,669,780**

All financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at December 31, 2021.

37 Business Combination

On April 30, 2020, Nanjing BioSciKin Biotechnology Development Co., Ltd., the Group's wholly owned subsidiary incorporated in the PRC, entered into an agreement with BCY Pharm Co., Ltd. and its shareholders, and acquired additional 19.14% equity interest of BCY Pharm Co., Ltd., through additional capital injection of RMB40,000,000. Upon the completion of the transaction on May 13, 2020, the Group held 52.14% equity interest in BCY Pharm Co., Ltd. and BCY Pharm Co., Ltd. became a subsidiary of the Group.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	Fair value on acquisition date RMB'000
Property, plant and equipment	174
Intangible assets	60,700
Prepayments and deposits	150
Prepayments, deposits and other receivables	14,377
Cash and cash equivalents	23,879
Trade and bills payables	(457)
Other payables and accruals	(1,780)
Deferred tax liabilities	(15,175)
Identified net assets	81,868
Less:	
Non-controlling interest, based on proportionate interest in the recognized assets of identified net assets	(39,182)
Group's share of net assets of BCY Pharm Co., Ltd.	42,686

Goodwill arising from the acquisition has been recognized as below:

	RMB'000
Cash consideration through capital injection	40,000
Non-controlling interest, based on proportionate interest in the recognized assets of identified net assets	39,182
Fair value of pre-existing 33% of equity interest in BCY Pharm Co., Ltd.	33,000
Fair value of identifiable net assets	(81,868)
Goodwill	30,314

37 Business Combination (Continued)

Satisfied by:

	RMB'000
Cash consideration through capital injection	40,000
Carrying amount of interest in BCY Pharm Co., Ltd. prior to business combination	31,238
Gain arising from business combination	1,762
Group's share of net assets of BCY Pharm Co., Ltd.	33,000
Total consideration	73,000

Analysis of the net cash inflow in respect of business combination:

	RMB'000
Cash and cash equivalents acquired	23,879
Less: cash consideration paid through capital injection during the year ended December 31, 2020	(22,120)
Net cash inflow on acquisition	1,759

The fair value of net identifiable assets of BCY Pharm Co., Ltd. is determined by the directors of the Company with reference to the valuation performed by independent valuation firm on the acquisition date.

From the date of acquisition to December 31, 2020, BCY Pharm Co., Ltd. contributed revenue of RMB nil and net loss of RMB10,962,000.

38 Company-level Statement of Financial Position

	2021 RMB'000	2020 RMB'000
Non-current assets		
Property, plant and equipment	23	37
Interest in subsidiaries	3,048,379	3,067,609
Financial assets at fair value through profit or loss	1,344,856	223,075
	4,393,258	3,290,721
Current assets		
Other receivables	26,166	1,042
Amount due from related parties	527,334	5,785
Loans to subsidiaries	329,603	82,808
Time deposits	1,000,000	—
Cash and cash equivalents	355,204	1,915,804
	2,238,307	2,005,439
Current liabilities		
Bank loans	384,568	179,192
Loans from subsidiaries	190,307	111,074
Amount due to related parties	347,579	959
Other payables	35,487	8,183
Provisions	—	100,700
Taxation payable	10,417	—
	968,358	400,108
Net current assets	1,269,949	1,605,331
Total assets less current liabilities	5,663,207	4,896,052
NET ASSETS	5,663,207	4,896,052

	2021 RMB'000	2020 RMB'000
CAPITAL AND RESERVES		
Share capital	3,002,871	3,002,871
Reserves	2,660,336	1,893,181
TOTAL EQUITY	5,663,207	4,896,052

Approved and authorised for issue by the board of directors on March 24, 2022.

Ren Jinsheng)
) *Directors*
Wan Yushan)

(Expressed in Renminbi)

39 Non-adjusting Events after the Reporting Period

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 33(b).

40 Immediate and Ultimate Controlling Party

At December 31, 2021, the directors of the Company consider the immediate parent of the Group is Simcere Pharmaceutical Holding Limited, a company incorporated in Cayman Islands. The ultimate controlling party of the Group is Mr. Ren Jinsheng, Chairman of the Group. Simcere Pharmaceutical Holding Limited does not produce financial statements available for public use.

41 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended December 31, 2021

Up to date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance Contracts*, which are not yet effective for the year ended December 31, 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	January 1, 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	January 1, 2022
Amendments to HKAS 37, *Onerous Contracts — Cost of Fulfilling a Contract*	January 1, 2022
Annual Improvements to *HKFRSs 2018–2020 Cycle*	January 1, 2022
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	January 1, 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	January 1, 2023
Amendments to HKAS 8, *Definition of accounting estimates*	January 1, 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	January 1, 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL SUMMARY

Results

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	**4,999,718**	4,508,720	5,036,658	4,514,204	3,867,908
Cost of sales	**(1,079,983)**	(899,927)	(888,486)	(771,195)	(586,301)
Gross profit	**3,919,735**	3,608,793	4,148,172	3,743,009	3,281,607
Other revenue	**149,510**	114,964	91,507	67,538	70,351
Other net gain	**1,215,210**	326,924	15,941	90,501	(175,939)
Research and development costs	**(1,416,721)**	(1,141,996)	(716,412)	(447,148)	(212,309)
Selling and distribution expenses	**(2,036,705)**	(1,570,373)	(2,016,222)	(2,221,757)	(2,155,662)
Administrative and other operating expenses	**(382,485)**	(411,476)	(351,676)	(290,202)	(277,469)
Profit from operations	**1,448,544**	926,836	1,171,310	941,941	530,579
Finance income	**68,287**	26,248	34,724	36,253	25,146
Finance costs	**(70,848)**	(133,729)	(115,955)	(47,534)	(58,441)
Net finance costs	**(2,561)**	(107,481)	(81,231)	(11,281)	(33,295)
Share of losses of associates	**(43,916)**	(13,874)	(8,129)	(1,616)	—
Share of losses of a joint venture	**(270)**	(393)	(135)	—	—
Profit before taxation	**1,401,797**	805,088	1,081,815	929,044	497,284
Income tax	**97,124**	(140,801)	(78,191)	(195,357)	(146,872)
Profit for the year	**1,498,921**	664,287	1,003,624	733,687	350,412

Assets and Liabilities

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	**10,161,143**	10,943,410	6,766,870	6,338,335	5,195,018
Total liabilities	**(3,698,386)**	(5,607,686)	(5,286,406)	(4,773,201)	(3,413,865)
Total equity	**(6,462,757)**	(5,335,724)	(1,480,464)	(1,565,134)	(1,781,153)