

**2020**  
ANNUAL REPORT



	PAGE(S)
CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	3
CHAIRMAN'S STATEMENT	4
MANAGEMENT DISCUSSION AND ANALYSIS	8
CORPORATE GOVERNANCE REPORT	19
DIRECTORS' REPORT	29
INDEPENDENT AUDITOR'S REPORT	44
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	50
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	51
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	52
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	55
CONSOLIDATED STATEMENT OF CASH FLOWS	57
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	60
FINANCIAL SUMMARY	163



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

*Executive Directors:*

CAI Dongchen (*Chairman and CEO*)

ZHANG Cullong (*Vice-Chairman and Rotating CEO*)

WANG Zhenguo

PAN Weidong

WANG Huaiyu

LI Chunlei

WANG Qingxi

CHAK Kin Man

JIANG Hao

*Independent Non-executive Directors:*

WANG Bo

CHEN Chuan

WANG Hongguang

AU Chun Kwok Alan

LAW Cheuk Kin Stephen

### AUDIT COMMITTEE

AU Chun Kwok Alan (*Chairman*)

WANG Bo

CHEN Chuan

### NOMINATION COMMITTEE

CAI Dongchen (*Chairman*)

WANG Bo

CHEN Chuan

### REMUNERATION COMMITTEE

AU Chun Kwok Alan (*Chairman*)

WANG Bo

CHEN Chuan

### AUDITOR

Deloitte Touche Tohmatsu

*Registered Public Interest Entity Auditors*

### COMPANY SECRETARY

LO Tai On

### REGISTERED OFFICE

Suite 3206

32nd Floor

Central Plaza

18 Harbour Road

Wan Chai

Hong Kong

### SHARE REGISTRAR

Tricor Secretaries Limited

Level 54

Hopewell Centre

183 Queen's Road East

Hong Kong

### PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited

China CITIC Bank International Limited

The Bank of Hebei Co., Ltd.

China Minsheng Banking Corp., Ltd.

Shanghai Pudong Development Bank Co., Ltd.

The Export-Import Bank of China

Industrial and Commercial Bank of China

Bank of Communications Co., Ltd.

China Everbright Bank Company Limited

### STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

### STOCK CODE

1093

### WEBSITE

[www.cspc.com.hk](http://www.cspc.com.hk)





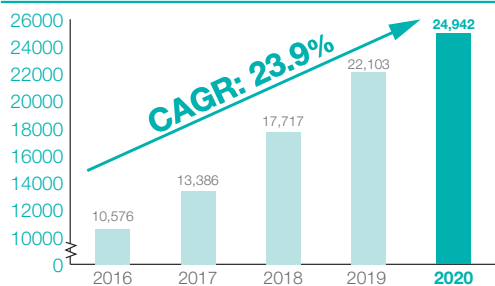
## FINANCIAL HIGHLIGHTS

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>	Change
Revenue by business units:			
Finished drugs	<b>20,404,678</b>	17,937,001	13.8%
Bulk products			
— Vitamin C	<b>1,859,272</b>	1,921,704	-3.2%
— Antibiotics and others	<b>1,372,639</b>	1,052,318	30.4%
Functional food and others	<b>1,305,615</b>	1,192,169	9.5%
Total revenue	<b>24,942,204</b>	22,103,192	12.8%
Gross profit	<b>18,685,322</b>	15,910,981	17.4%
Profit attributable to shareholders	<b>5,159,655</b>	3,714,106	38.9%
	<i>RMB cents</i>	<i>RMB cents</i> (Restated)	
Basic earnings per share (Note)	<b>43.16</b>	31.07	38.9%

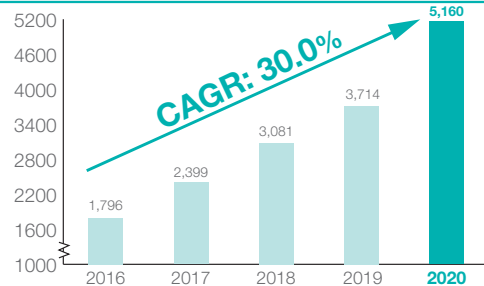
The Board of Directors recommends a final dividend of HK9 cents per share for 2020.

Note: The weighted average number of ordinary shares for the calculation of earnings per share has been adjusted for the effects of the bonus issues on 3 July 2020 and 29 October 2020.

**Turnover (RMB million)**



**Profit attributable to shareholders (RMB million)**





## CHAIRMAN'S STATEMENT

### RESULTS

For the year ended 31 December 2020, the Group's revenue increased 12.8% to RMB24,942 million, profit attributable to shareholders increased 38.9% to RMB5,160 million. Basic earnings per share increased similarly to RMB43.16 cents.

### DIVIDEND

The Board of Directors recommends a final dividend of HK9 cents per share for 2020. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 11 June 2021 to shareholders whose names appear on the register of members of the Company on 28 May 2021. An interim dividend of HK6 cents (equivalent to HK3.75 cents if adjusted for the effect of the issue of bonus shares on 29 October 2020) per share for 2020 has been paid on 9 October 2020.

### INDUSTRY REVIEW

Various policies with far-reaching implications have been promulgated in 2020 to regulate the development of the pharmaceutical industry. The "Opinions of the CPC Central Committee and the State Council on Deepening the Reform of Medical Insurance System" released on February 25 formulates the top-level planning of healthcare reform and further deepens the healthcare reform for the purpose of achieving a more mature and well-established healthcare security system, setting out the overall reform objectives and measures for the establishment of the medical insurance system in the next five to ten years.

Following the successful implementation of the second and third batches of the nationwide centralised procurement during the year, the fourth batch was completed in February 2021. The policy of consistency evaluation of generic drugs was formally extended to injectable formulation in May, which will further drive enterprises to improve drug quality and set a foundation for the gradual inclusion of injectable formulation products into the scope of centralised procurement. The policy of centralised procurement of medicines has become normalized and institutionalized, and is able to reduce the burden on patients as well as on the medical insurance fund, while at the same time it takes into consideration the reasonable profit of enterprises, promotes industry concentration and encourages product innovation and upgrading.

The national reimbursement drug list adjustment in 2020 has introduced innovative policies of allowing enterprises to submit applications, and for the first time including products with higher sales amount for medical insurance basis negotiation. The dynamic adjustment of the national reimbursement drug list each year will greatly accelerate the inclusion of innovative drugs in the list and expedite the process of commercialisation. The ongoing reform of the medical insurance payment methods including pilot trial of Diagnosis Related Groups (DRGs) and Diagnosis-Intervention Packet (DIP) will generate a positive effect on improving the structure of drugs for clinical application, reducing the burden of patients and enhancing the accessibility of medication.

The introduction of these major healthcare reform policies has undoubtedly created significant impact to the pharmaceutical industry and greatly facilitated the reshuffle of the industry. The intensified competition for the survival of the fittest will lead to the emergence of outstanding companies, with the strongest remaining strong and the weakest exiting. With its strong professional market development capabilities, comprehensive management system, excellent corporate culture and sustained R&D capability of innovation, the Group has turned into a leading company in the industry and is moving to become the industry's benchmark.



## CHAIRMAN'S STATEMENT

### BUSINESS REVIEW

In 2020, the novel coronavirus pandemic sweeping the world has cast a shadow over human health and the world economy, and the China's pharmaceutical industry has also faced unprecedented challenges. The Group has risen to the challenges and achieved remarkable growth under the difficult environment. Innovative drug products continued to maintain rapid growth with key products such as NBP, Duomeisu, Jinyouli and Keaili achieving remarkable sales results once again. More than 150 medical research projects have been conducted cumulatively for NBP, providing strong support for its market penetration and continuous growth. The price reduction of NBP resulting from the medical insurance negotiation during the year will significantly improve accessibility and affordability, benefiting more patients and driving sales volume growth with further market penetration and online sales growth. The coverage in target hospitals of oncology drugs has further been enhanced with efforts put on continuous gaining of market access, increasing in investment in academic-based promotion and expanding professional sales force. The winning of Keaili at the second round of national centralised procurement tender with the lowest price and inclusion into the national reimbursement drug list has greatly facilitated channel penetration and accelerate volume growth. For common generic drug products, Encun (clopidogrel bisulfate tablets), which won the centralised procurement tender, has rapidly established a presence in hospital market and become a new growth point, demonstrating the development advantages of the Group's economy of scale and rich product series in common generic drug products. The rapid sales growth of the newly launched products such as Daxinning (dronedarone hydrochloride tablets), Shuanling (pentoxifylline injection and tablets) and Enxi (pramipexole hydrochloride tablets) have provided further momentum to the Group's growth. The fourth batch of the reasonably-priced, tender-winning products, namely esomeprazole magnesium enteric-coated capsules, ibuprofen tablets, duloxetine hydrochloride enteric capsules, bortezomib for injection, pramipexole dihydrochloride tablets and norfloxacin tablets, will be quickly adopted by hospitals creating new source of profit growth.

The clinical development of products and indications has made good progress in 2020. Since the beginning of the year, 17 products have been granted drug registration approval, 14 products granted clinical trial approval and 24 products have passed the consistency evaluation of generic drugs. The marketing application of key product mitoxantrone hydrochloride liposome injection (new preparation) has been granted priority review and has passed the production on-site inspection and clinical trial examination; Duvelisib (innovative drug) has completed patient enrolment for its bridging study in China, and its marketing application has been filed; marketing application of amphotericin B liposome has been filed; progress of clinical trials of irinotecan liposome was smooth, and its marketing application is expected to be filed soon. Over the past three years, the Group has continued to increase investment in R&D, with a compound growth rate of 46.7% for its R&D expenses. As the R&D pipeline continues to grow, the development of clinical research has accelerated significantly, patients enrolled in trials are growing at multiples, with a lot of useful clinical trial data available. With the continued increase in R&D expenses, it is believed that the products and indications under the R&D pipeline layout will be more diversified. The Group has also developed dozens of new indications in several major therapeutic areas, expecting a number of new drugs to be approved for marketing in the next three years.



# CHAIRMAN'S STATEMENT

## OUTLOOK

Looking forward, the Group will continue to focus on the following three aspects:

### 1. Strengthening the ability to develop the commercialised market

While the scale of the sales team continues to expand, the management capability of the sales team will also be raised to a new level and height through the introduction of advanced behavioural and performance management tools in the industry. Through equity incentive for the marketing backbone officers, the team's work enthusiasm and team cohesion are greatly enhanced. We strive to achieve industry-leading market share for each core product in the sales product pipeline.

Leveraging on the good marketing base of our sales team, we will continue to improve our market access capabilities, rapidly expand the market and grow rapidly upon the approval of new products, so that patients can benefit as soon as possible. In turn, with the continuous improvement in sales capacity, the Group will maintain continuous and stable growth in its performance and continue to create value and solid growth in investment returns for our shareholders.

### 2. Enhancing R&D innovation capability and efficiency

We will continue to invest more in R&D and BD, and increase the introduction and training of high-end talents in the area of R&D. With the advantage of the Group's national first-class R&D team, and R&D centres in Beijing, Shanghai and Shijiazhuang in China as well as in California and New Jersey in the United States, we will accelerate the progress of 300 new products under development and will focus on promoting 15 strategic products including small molecule and large molecule innovative drugs and new formulations to the market as soon as possible.

The product layout of the R&D pipeline will focus on the originality of cutting-edge science and technology including targeted, new technology and novel therapies, meeting the needs of clinical demands and providing innovative solutions for doctors and patients. We will continue to meet clinical needs by actively expanding our therapeutic product areas and conducting clinical trials targeting major diseases with high morbidity rates. The Group currently has a leading domestic and world-class R&D platform for new nano formulations, and we will continue to market product development of special formulations with outstanding clinical efficacy.

In addition to the rapid development of our own research and development pipeline, we will also focus on enhancing our BD work capability and leveraging on our own commercialization strengths to supplement our product line, expand indications and introduce cutting-edge technology platforms as our major direction, as well as to seek global partners, introduce new products and technologies, and grow together with our partners.

The Group will adhere to an innovative research and development strategy, continue to increase investment in research and development, maintain the ratio of research and development expenses to sales revenue at over 10%, and have new and major products approved for launch every year, providing a product pipeline for sustained revenue growth and performance growth.





## CHAIRMAN'S STATEMENT

### OUTLOOK *(continued)*

#### 3. Accelerating the process of internationalization

The Group will continue to expand the international market and international cooperation vigorously while setting a strong foundation in the China market. By introducing new products, new technologies and high-end talents through international research and development partners and the mutual benefiting product licensing and transfer of interests with international partners, we will expand our sources of income and increase our total revenue from international business.

The Group will continue to focus on the international registration of new products and the development and sales of international markets, so as to establish the brand name of CSPC in the international market and enhance the Group's international position in the industry.

### APPRECIATION

I would like to take this opportunity to express my gratitude to all staff for their dedication and hard work, and to all our shareholders and customers for their continued support.

**CAI Dongchen**

*Chairman*

Hong Kong, 15 March 2021



# MANAGEMENT DISCUSSION AND ANALYSIS

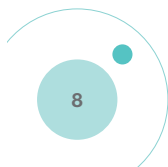
## BUSINESS REVIEW

With the outbreak of COVID-19 pandemic in early 2020, hospital visit rate dropped sharply and market activities were disrupted during the first quarter of 2020, making a negative impact on the operation. The Group reduced the impact of the pandemic on sales through active promotion of online academic meetings and flexible sales strategies. Since the beginning of the second quarter, benefited from the strong and effective control measures by the government, the pandemic in China has been gradually brought under control, hospital visit rate has recovered and various marketing activities have resumed. The overall operation of the Group has returned to normal and maintained a sustained growth of 12.8% in revenue for the year.

In 2020, the operating results of the Group maintained a steady growth trend. With various measures such as professional academic-based promotion, hospital development, lower-tier market penetration, clinical application extension and professional sales force expansion, major finished drug products were able to sustain rapid growth, and market coverage was further enhanced (reaching medical institutions of various levels in city, county, town and community). During the year, market development of several newly launched products was also carried out smoothly, which have brought in new drives for sales growth and further facilitated a more balanced and reasonable product mix of the finished drugs.

Good progress has also been made in respect of R&D:

- 1) Obtained drug registration approvals for rivaroxaban tablets, montelukast sodium tablets, montelukast sodium chewable tablets, ornithine aspartate injection, bortezomib for injection, celecoxib capsules, acarbose tablets, memantine hydrochloride tablets, duloxetine hydrochloride enteric capsules, dasatinib tablets, esomeprazole magnesium enteric-coated capsules, nintedanib esilate soft capsules and entecavir tablets in China;
- 2) Obtained ANDA approval for omega-3-acid ethyl esters 90 soft capsules, esomeprazole magnesium enteric-coated capsules, paliperidone extended-release tablets and paroxetine hydrochloride enteric-coated sustained-release tablets in the U.S.;
- 3) New drug marketing application for mitoxantrone hydrochloride liposome injection (new preparation) in China was accepted and granted priority review, and production on-site inspection and clinical trial examination passed;
- 4) Completed patient enrolment for the bridging study of Duvelisib (innovative drug) in China, and its marketing application has been filed and granted priority review;
- 5) Marketing application of amphotericin B liposome has been filed;
- 6) Passed the assessment and public notice of the application of Jinyouli and its related technology for the Second Prize of State Scientific and Technological Progress Award;





# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW *(continued)*

- 7) Obtained clinical trial approval for irinotecan liposome injection (for treating pancreatic cancer, breast cancer and small cell lung cancer), docetaxel for injection (albumin-bound), SYHA1805 tablets, SYHA1815 tablets, recombinant anti-IgE monoclonal antibody for injection, ALMB-0168, ALMB-0166, amphotericin B liposome for injection, butylphthalide injection and SYHA1813 oral solutions in China; obtained clinical trial approval for ALMB-0168 in Australia; as well as clinical trial approval for docetaxel for injection (albumin-bound), Y150 (CD38/CD3 bispecific antibody) and NBL-012 (fully human IL23/P19 monoclonal antibody) the U.S.; and
- 8) 27 generic drug products (42 specifications) have passed or been deemed to have passed the consistency of quality and efficacy evaluation of generic drugs.

### Finished Drug Business

The finished drug business recorded sales of RMB20,405 million in 2020, representing an increase of 13.8% over last year. The sales performance of products by major therapeutic area is as follows.

### Nervous System Disease Products

Major products include NBP (恩必普) (butylphthalide soft capsules and butylphthalide and sodium chloride injection), Oxilain (歐來寧) (oxiracetam capsules and oxiracetam for injection), Shuanling (舒安靈) (pentoxifylline extended-release tablets and pentoxifylline injection) and Enxi (恩悉) (pramipexole dihydrochloride tablets).

NBP is a Class 1 new chemical drug in China and a patent-protected exclusive product mainly used for the treatment of acute ischemic stroke. Its efficacy has been widely recognised with its being listed as the recommended drugs in multiple editions of “Guidelines for Acute Ischemic Stroke Treatment in China” of Chinese Medical Association as well as in more than ten domestic authoritative clinical guidelines and expert consensus. Both formulations of NBP are national reimbursement drugs, which are favourable for the promotion of sequential treatment (injection for emergency use and soft capsules for recovery use). Butylphthalide has been strengthening its clinical evidence while actively exploring new therapeutic areas, with currently 155 research projects in progress. In particular, the overall progress of the clinical trials of butylphthalide soft capsules for the treatment of vascular dementia is smooth with patient enrolment under way. The phase II clinical trial of butylphthalide soft capsules in the U.S. has completed patient enrolment ahead of schedule due to the pandemic and is in the process of data analysis. The development of new indications and markets will be able to bring new growth opportunities following the expiry of the butylphthalide patent. In December 2020, both formulations of butylphthalide have successfully passed the price negotiation of the national reimbursement drug list. The corresponding price reduction can significantly improve the accessibility of the product and stimulate market demand, leading to rapid growth in sales volume. The price reduction may put certain pressure on the product sales for a short period of time, but it may also accelerate the product’s access to hospitals and resolve the risks associated with being selected for national and provincial centralized procurement catalog. The Group will constantly strive to penetrate lower-tier markets, increase user coverage and benefit more patients.



# MANAGEMENT DISCUSSION AND ANALYSIS

## **BUSINESS REVIEW** *(continued)*

### **Finished Drug Business** *(continued)*

#### **Nervous System Disease Products** *(continued)*

Oulaining is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. In 2019, the promulgation of the National Key Drug List for Monitoring and Prescription Control and removal from the provincial supplementary reimbursement catalog had significant impact on the sales of Oulaining. Nevertheless, Oulaining has been marketed in China for over 17 years and has also been included in a number of authoritative guidelines, having a relatively large user base of doctors and patients. The Group adopted a combined sales model with direct and cooperative sales during the year, strengthened control over each level of end-user market and increased efforts in academic-based promotion, striving to achieve stable sales of Oulaining within its reasonable scope of use.

Shuanling is mainly used for the treatment of cerebrovascular diseases, peripheral vascular disease, diabetes complications, and is recommended by various domestic and foreign clinical medication guidelines. Upon the adjustment of the national reimbursement drug list and promulgation of the National Key Drug List for Monitoring and Prescription Control, the medical reimbursement for numerous blood vessels dilating and microcirculation improvement drugs have been restricted, providing a great opportunity for pentoxifylline to become an alternative drug for more market share. In 2020, through the establishment of a dedicated sales team and increased hospital development, the Group has achieved rapid sales growth, with a market coverage of over 1,300 hospitals.

Enxi is the first product launched by the Group for the therapeutic area of Parkinson's disease. It is the first and currently the only product of pramipexole dihydrochloride tablets that has passed the consistency evaluation in China. Since launch in April this year, Enxi has successfully registered for online tender in over 20 provinces across the country and has developed more than 900 tiered-hospitals.

In 2020, nervous system disease products recorded sales of RMB7,414 million, representing a year-on-year increase of 1.5%. Among which the sales of NBP increased by 17.4% and the sales of Oulaining decreased by 63.6%.

#### **Oncology products**

Major products include Duomeisu (多美素) (doxorubicin hydrochloride liposome injection), Jinyouli (津優力) (PEG-rhGCSF injection) and Keaili (克艾力) (paclitaxel for injection (albumin-bound)).

Duomeisu was developed by the "National Key Laboratory for New Pharmaceutical Preparations and Excipients" of the Group and supported by the "Major New Drug Development" projects in China. It has been recommended by the U.S. "National Comprehensive Cancer Network (NCCN) Guidelines" for the first-line treatment of lymphoma, ovarian cancer, relapsed or metastatic breast cancer, soft tissue sarcoma and AIDS-related Kaposi sarcoma. Duomeisu has considerable advantages in terms of efficacy and safety (especially cardiac safety of patients) as compared to traditional anthracyclines. On the basis of strengthening the existing sales areas such as haematological cancer, breast cancer, gynecologic cancer and bone cancer, the Group will continue to explore new areas such as leukemia, liver cancer, bladder cancer, lung cancer and gastric cancer, with an aim of sustaining a steady and continuous sales growth of Duomeisu.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **BUSINESS REVIEW** *(continued)*

#### **Finished Drug Business** *(continued)*

##### **Oncology products** *(continued)*

Jinyouli is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection and pyrexia due to low neutrophil count in patients during chemotherapy, thus ensuring the administration of standardised dosage of chemotherapy. Jinyouli is well supported by clinical evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte stimulating factor in China, covering lung cancer, breast cancer, lymphoma, ovarian cancer, colorectal cancer and gastric cancer, earning unanimous recommendations from domestic and foreign guidelines. In addition to existing therapeutic areas, the Group will further expand into areas such as head and neck cancer and genitourinary cancer and constantly explore application opportunities in immunotherapy, concurrent chemoradiotherapy and childhood acute lymphoblastic leukemia in order to promote the leading position of Jinyouli in the long-acting white blood cell booster market.

Keaili is the first-to-market generic of new generation of paclitaxel chemotherapy drug in China with the consistency evaluation passed. It is made of stable nanoparticles formed by the integration of paclitaxel and human serum albumin (endogenous). The product has the distinctive features of convenience, high efficacy and safety. It can enhance the efficacy of paclitaxel drugs and is convenient to use. Solvents with strong side effects and pre-treatment are not required and administration only takes 30 minutes. The clinical trials and medical projects conducted since the launch of Keaili have generated phased achievement for various cancers. 6 articles have been published in "Science Citation Index (SCI)" and domestic core journals and 5 articles have been published at conferences such as CSCO, ESMO-ASIA and ASCO. It also assisted in formulating a guideline for pancreatic cancer. In addition to consolidating the existing therapeutic areas in breast cancer, lung cancer and gynecologic cancer, the Group will constantly extend into new fields such as gastric cancer, esophageal cancer as well as head and neck cancer. In early 2020, Keaili won the national centralized procurement tender with the lowest price and was successfully included into the national reimbursement drug list (new version) at the end of the year. By leveraging on the policy advantage, the Group will put effort in covering all cancer types, hospital development and market penetration, and continue to adopt the strategy of professional academic-based promotion in order to achieve rapid sales growth for Keaili.

In 2020, oncology products recorded sales of RMB6,294 million, representing a year-on-year increase of 29.0%. Among which the sales of Keaili, Jinyouli and Duomeisu increased by 16.4%, 37.3% and 41.3% respectively.

##### **Anti-infective products**

Major products include Shuluoke (舒羅克) (meropenem for injection), Nuomoling (諾莫靈) (amoxicillin capsules), Xianqu/Shiyao (先曲/石藥) (ceftriaxone sodium for injection), Zhongnuo Lixin (中諾立新) (cefuroxime sodium for injection), Xinweihong (新維宏) (azithromycin tablets) and Weihong (維宏) (azithromycin dispersible tablets/capsules/enteric tablets).

Affected by the restrictive use of antibiotics policy, the market of anti-infective products was relatively weak. In addition, the adoption of infection prevention measures to fight the pandemic by the general public during the year has led to a significant drop in the number of influenza and other infectious diseases cases, and the demand for related medicines has also decreased accordingly. In 2020, anti-infective products recorded sales of RMB2,708 million, representing a year-on-year decrease of 7.9%.



# MANAGEMENT DISCUSSION AND ANALYSIS

## **BUSINESS REVIEW** *(continued)*

### **Finished Drug Business** *(continued)*

#### **Cardiovascular disease products**

Major products include Xuanning (玄寧) (maleate levamlodipine tablets and dispersible tablets), Encun (恩存) (clopidogrel bisulfate tablets), Daxinning (達新寧) (dronedarone hydrochloride tablets), Abikang (阿比康) (aspirin enteric tablets) and Meiluolin (美洛林) (ticagrelor tablets).

Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina, and is a product in the national reimbursement drug list and essential drug list. In 2019, Xuanning received marketing approval from the U.S. Food and Drug Administration (FDA), becoming the first Chinese innovative drug granted full approval by the U.S. FDA. It is also included in certain authoritative guidelines such as the “Guidelines for Hypertension Prevention” and “Guidelines for the Rational Use of Drugs for Hypertension” in China. The Group reorganised its Xuanning sales team during the year, and strengthened the application at different levels of medical institutions in China by adopting an integrated sales model with direct, cooperative and retail sales, boosting the rapid sales growth of Xuanning and actively expanding overseas markets.

Encun is the only domestic clopidogrel bisulfate tablets with approval by the U.S. FDA. It is a preferred drug for treating coronary heart disease and secondary prevention for stroke with high quality and reasonable price. Encun is also recommended by the 2020 edition of the “Guidelines for Comprehensive Management Practice of Primary Cardiovascular Disease”. In September 2019, the Group has won the nationwide extended tender of the centralized procurement with a reasonable price. The year 2020 was the first year of tender implementation. In the tender-winning provinces, through the effective marketing development and academic-based promotions, we achieved rapid sales volume ramp-up and recorded satisfactory sales revenue, with actual sales volumes more than doubling the contracted purchase volume.

Daxinning is the first-to-market generic dronedarone hydrochloride tablets in China and is mainly used for the treatment of sinus arrhythmia patients with a medical history of paroxysmal or persistent atrial fibrillation. Dronedarone is an exclusive product in China and will not be selected for national centralized procurement in the short term. With the ongoing aging population in China, the base of patients with atrial fibrillation will gradually increase with growing attention, providing a promising market prospect. Since launch in October 2019, the Group has established a dedicated sales team and adopted the sales model of professional academic-based promotion. More than 12,000 patients with atrial fibrillation have been served so far within a year with satisfactory sales revenue recorded.

In 2020, cardiovascular disease products recorded sales of RMB2,359 million, representing a year-on-year increase of 61.9%. In addition to the new sales revenue contributed by new products such as Encun and Daxinning, the sales growth of Xuanning has reached 36.8%.

#### **Respiratory disease products**

Major products include Qixiao (琦效) (arbidol hydrochloride tablets), Zhongnuo Like (中諾立克) (ambroxol hydrochloride oral solution), Zhongnuoping (中諾平) (ambroxol hydrochloride extended-release tablets) and Nuoyian (諾一安) (montelukast sodium tablets/chewabletablets).



# MANAGEMENT DISCUSSION AND ANALYSIS

## **BUSINESS REVIEW** *(continued)*

### **Finished Drug Business** *(continued)*

#### **Respiratory disease products** *(continued)*

As a broad-spectrum antiviral drug, Qixiao is mainly used for the treatment of viral infections represented by influenza. It has also been included in multiple editions of the Guidelines for the Diagnosis and Treatment of COVID-19 in 2020. The Group will increase efforts in medical research on Qixiao in various therapeutic areas, establish evidence of efficacy comparable to oseltamivir and actively promote clinical applications of the product in emergency, pediatrics, respiratory and infection departments. Qixiao achieved rapid sales volume ramp-up and satisfactory sales revenue during the year.

In 2020, respiratory disease products recorded sales of RMB491 million, representing a year-on-year increase of 54.4%.

#### **Digestion and metabolism disease products**

Major products include Linmeixin (林美欣) (glimepiride dispersible tablets), Shuanglexin (雙樂欣) (metformin hydrochloride tablets/extended-release tablets) and Xinweiping (欣維平) (acarbose tablets) (approved in the first half of this year). In 2020, Digestion and metabolism disease products recorded sales of RMB492 million, representing a year-on-year increase of 8.8%.

#### **Products in other therapeutic areas**

Major products include Gubang (固邦) (alendronate sodium tablets/enteric tablets), Xianpai (先派) (omeprazole injections) and Qimaite (奇邁特) (tramadol hydrochloride tablets). In 2020, products in other therapeutic areas recorded sales of RMB647 million, representing a year-on-year increase of 10.7%.

### **Bulk Product Business**

#### **Vitamin C**

In 2020, the vitamin C product series recorded sales revenue of RMB1,859 million, representing a slight year-on-year decrease of 3.2%. Owing to the pandemic and changes in supply and demand, product price has shown an upward trend since the beginning of this year with strong market demand. The Group has already laid out the capacity expansion plan for vitamin C in 2021 in order to establish a solid foundation to further increase market share and extend to untapped markets. The Group will also continue to optimise customer structure and focus on branding in order to enhance the overall market competitiveness.

#### **Antibiotics and Others**

In 2020, the antibiotic and others product series recorded sales revenue of RMB1,373 million, representing a year-on-year increase of 30.4%. During the year, the increase in export demand for antibiotic products has contributed to the growth of the business. The Group will keep improving product qualities, accelerating accreditation in the high-end market, developing end-user customers as well as making use of the product chain advantage.

#### **Functional Food and Others Business**

In 2020, the business recorded sales revenue of RMB1,306 million, representing a year-on-year increase of 9.5%. Caffeine products maintained a steady operation with stable product prices and growth in sales volume. The Group will continue to maintain a steady growth of the results through technology upgrade, cost reduction and market development.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW *(continued)*

### Research and Development

The Group has a leading R&D team with bases located in Shijiazhuang, Shanghai, Beijing and the United States, focusing on the discovery, research and development of small molecule target drugs, nano-drugs, monoclonal antibody drugs, bispecific antibody drugs, antibody-drug conjugates and biological drugs in the immune field.

The Group firmly believes in the importance of investing in research and development so that the Group can have strong product and technology innovation capability as well as a rich pipeline of drugs under development. The R&D expenses for the year amounted to RMB2,890 million (charged to profit or loss statement), representing a year-on-year increase of 44.5% and accounting for approximately 14.2% of the finished drug business revenue. At present, there are around 300 projects in the pipeline, of which over 40 are innovative small molecule drugs, over 40 are innovative macromolecule drugs and over 20 are drugs of new preparation, primarily focusing on the therapeutic areas of oncology, autoimmunity, psychiatry and neurology, digestion and metabolism, cardio-cerebrovascular system and anti-infectives. Currently, there are 30 drug candidates pending drug registration approval, 41 products under clinical trials (including 30 innovative drugs and 11 new preparations) and 8 products under bioequivalence tests and 2 products pending clinical trial approval.

The Group is committed to building a technology platform with its own intellectual property rights to differentiate itself from its competitors in the industry. The Group's nanomedicine technology platform is the most competitive in the industry, and its related pipeline layout is also leading in the international arena. The "National Key Laboratory for New Formulations and Excipients" established by the Group has been ranked as "excellent" in the evaluation of the State Key Laboratory for a number of times.

In respect of nanomedicine delivery technologies, the Group has systematically developed a number of core delivery technologies including nanoliposomes, albumin nano-formulations, polymeric micelles, and lipid nanoparticles for the delivery of nucleic acid drugs and nucleic acid vaccines.

A number of products have been developed based on the nanomedicine technology platform. Duomeisu (多美素) and Keaili (克艾力) which have been launched to the market have become important products for the Group. Amphotericin B nanocomplex and mitoxantrone liposomes have been submitted to the NDA for priority review and will be approved within the year. Amphotericin B liposomes have been submitted for market launch and irinotecan liposomes will be submitted for market launch in the near future. Docetaxel albumin nanoparticles, paclitaxel cationic liposomes, prostaglandin liposomes, Daunorubicin/Cytarabine liposomes and paclitaxel albumin nanoparticles (fast dissolving) are under clinical trial. Applications for clinical trials for products such as sirolimus albumin nanoparticles and cisplatin polymer micelles will be submitted very soon and the clinical trials are expected to start in the near future. In addition, more than 20 other nanomedicines are in pre-clinical studies. The use of nanotechnology to deliver nucleic acid drugs and nucleic acid vaccines has gradually become a trend and is a hot topic in the industry. The Group is also actively developing new delivery technologies and has made positive progress in the development of a number of new products, including the coronavirus RBD dimer nucleic acid vaccine.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW *(continued)*

### Research and Development *(continued)*

The major products under development of the Group are as follows:

Therapeutic Area	Name of Product under Development	
<b>Oncology</b>	Duvelisib capsules	SKLB1028 capsules
	HA121-28 tablets	SYHA1801 capsules
	SYHA1807 capsules	Simmitinib hydrochloride tablets
	SYHA1803 capsules	JMT103
	SYHA1813 oral solutions	DP303c
	SYHA1815 tablets	M802*
	SYSA1802	ALMB0168
	JMT101	Paclitaxel cationic liposome for injection
	M701*	Docetaxel for injection (albumin-bound)
	Y150 (CD38/CD3)*	
	Irinotecan liposome injection	
	Mitoxantrone hydrochloride liposome injection	
	<b>Anti-infectives</b>	Amphotericin B liposome for injection
Amphotericin B cholesteryl sulfate complex for injection		
<b>Digestion &amp; Metabolism</b>	DBPR108 tablets	SYHA1402 tablets
	SYHA1805 tablets	SYSA1803 (TG103)
<b>Psychiatry &amp; Neurology</b>	Butylphthalide soft capsules	Ammuxetine hydrochloride enteric tablets
	ALMB0166	
<b>Cardio-cerebrovascular</b>	SYHA136 tablets	Alprostadil liposome for injection
<b>Immunity System</b>	Omalizumab	SYHX1901
	NBL-012	
<b>Others</b>	CSPCHA115 capsules	JMT103

\* Product developed by Wuhan YZY Biopharma Co. Ltd.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW *(continued)*

### Research and Development *(continued)*

The Group's R&D innovation capabilities and projects have received great support from the government. The projects receiving government funding support since the beginning of this year include: 14 major scientific and technological projects for the "13th Five-Year" major new drug innovation projects, 1 key project under the national key research programme in "nanotechnology", 10 scientific and technological plan projects in Hebei Province, 5 biomedical health industry projects of Shijiazhuang Industry and Information Technology Department, 4 scientific and technological plan projects in Shijiazhuang City and a number of high-tech zone policy support projects.

The Group also attaches great importance to the protection of intellectual property rights and actively files patent applications for its research and development projects. Since the beginning of the year, the Group has filed 148 patent applications (115 domestic and 33 overseas) and received 106 authorisations (84 domestic and 22 overseas).

The Group is also actively looking for acquisition and collaboration opportunities in order to strengthen its product pipeline and leverage on its strong marketing capability. In March 2021, the Group has obtained the product licensing and commercialisation rights of two products under development, namely CM310 (an anti-IL-4R recombinant fully humanized antibody) and BPI-7711 Capsules (a third generation irreversible EGFR-TKI).

In the three years ahead, the Group is expected to launch more than 60 new products, over 15 of which will be key products with a market potential exceeding RMB1 billion each. Meanwhile, mitoxantrone liposomes, docetaxel albumin nanoparticles and paclitaxel albumin nanoparticles (fast dissolving), which are developed based on the nanotechnology platform, are all heavyweight products with global patents and great market value. The launch of these new products will certainly provide strong support to the Group's high quality growth in the future.

## FINANCIAL REVIEW

### Results

	<b>2020</b>	2019	Change
	<b>RMB'000</b>	RMB'000	
Revenue:			
Finished drugs	<b>20,404,678</b>	17,937,001	13.8%
Bulk products			
– Vitamin C	<b>1,859,272</b>	1,921,704	-3.2%
– Antibiotics and others	<b>1,372,639</b>	1,052,318	30.4%
Functional food and others	<b>1,305,615</b>	1,192,169	9.5%
	<b>24,942,204</b>	22,103,192	12.8%
Gross profit	<b>18,685,322</b>	15,910,981	17.4%
Gross profit margin	<b>74.9%</b>	72.0%	



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW *(continued)*

### Results *(continued)*

Finished drug business is the major growth driver to the Group with sales increasing by 13.8% to RMB20,405 million for the current year. Key products such as NBP, Xuanning, Duomeisu, Jinyouli and Keaili continued to maintain strong growth. Gross profit margin slightly increased mainly attributable to an improvement in sales mix.

### Selling and Distribution Expenses

Selling and distribution expenses was RMB9,378 million for the current year as compared with RMB8,712 million last year. The increase in selling and distribution expenses was primarily attributable to (i) expansion of sales force of finished drugs; and (ii) increased efforts in marketing and academic promotion for key finished drug products and newly launched finished drug products.

### Administrative Expenses

Administrative expenses was RMB946 million for the current year as compared with RMB749 million last year. The increase in administrative expenses was primarily attributable to the expanded scale of operation and management function of the Group.

### Research and Development Expenses

R&D expenses was RMB2,890 million for the current year as compared with RMB2,000 million last year. The increase in R&D expenses was primarily attributable to (i) increased number of products under development; and (ii) increased spending on ongoing and newly initiated clinical trials.

### Liquidity and Financial Position

For the year 2020, the Group's operating activities continued to generate strong net cash inflow. Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) decreased from 35 days in 2019 to 33 days this year. Average turnover period of inventories (ratio of balance of inventories to cost of sales) decreased from 149 days in 2019 to 109 days this year. Current ratio of the Group was 2.5 as at the year end of 2020, higher than 2.2 a year ago. Capital expenditure for the year amounted to approximately RMB1,000 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As at the end of 2020, the Group's bank balances and cash amounted to RMB7,259 million (2019: RMB4,118 million) and bank loan amounted to RMB99 million (2019: RMB23 million). The gearing ratio (balance of bank loan divided by total equity) as at the end of the year was 0.43% (2019: 0.12%).

The bank loan is denominated in Renminbi. The Group's sales are denominated in Renminbi (for domestic sales in China) and in US dollars (for export sales). The Group manages its foreign exchange risks by closely monitoring its foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW *(continued)*

### **Pledge of Assets**

The Group had no assets charged to any third parties as at 31 December 2020.

### **Dividend Policy**

It is the present intention of the Board to provide shareholders with regular dividends with a normal target payout ratio of not less than 30 per cent of the Group's core profit on a full year basis. The actual amount of dividends will depend on a number of factors including but not limited to financial results, financial position and funding needs of the Group.

### **Employees**

As at 31 December 2020, the Group had a total of 21,527 employees. the majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards and bonuses to staff based on the performance of the Group and individual employee.



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standard of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Corporate Governance Code (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2020 except the deviation from code provision A.2.1 as set out under “CHAIRMAN AND CHIEF EXECUTIVE OFFICER”.

## BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine executive directors and five independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 35 to 38 of this annual report.

Following the resignation of Mr. Chan Siu Keung, Leonard as an independent non-executive director on 1 January 2021, the Company did not comply with the following rules of the Listing Rules: i) rule 3.10A requiring independent non-executive directors representing at least one-third of the Board; ii) rule 3.10(2) requiring at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise; (iii) rule 3.21 requiring at least one of the members of the audit committee with appropriate professional qualifications or accounting or related financial management expertise and the audit committee must be chaired by an independent non-executive director; and (iv) rule 3.25 requiring the remuneration committee must be chaired by an independent non-executive director. With the appointment of Mr. Au Chun Kwok Alan as an independent non-executive director, the chairman of the audit committee and remuneration committee of the Company on 27 January 2021, the said rules of the Listing Rules have been complied with by the Company.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the Company’s subsidiaries is responsible for the day-to-day management and operation of the respective individual business units.



## CORPORATE GOVERNANCE REPORT

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2020. Individual attendance of each director at the regular board meetings and committee meetings in 2020 is set out below:

Directors	Board	Number of meetings attended/held		
		Audit Committee	Remuneration Committee	Nomination Committee
<b>Executive Directors:</b>				
Cai Dongchen	4/4			2/2
Zhang Cuilong	4/4			
Wang Zhenguo	4/4			
Pan Weidong	4/4			
Wang Huaiyu	4/4			
Lu Hua ( <i>resigned on 14 August 2020</i> )	2/2			
Li Chunlei	4/4			
Wang Qingxi	4/4			
Chak Kin Man	4/4			
Jiang Hao ( <i>appointed on 24 November 2020</i> )	0/0			
<b>Non-Executive Director:</b>				
Lee Ka Sze, Carmelo ( <i>resigned on 1 January 2021</i> )	4/4	4/4	2/2	
<b>Independent Non-Executive Directors:</b>				
Chan Siu Keung, Leonard ( <i>resigned on 1 January 2021</i> )	4/4	4/4	2/2	2/2
Wang Bo	3/4	3/4	1/2	
Lo Yuk Lam ( <i>resigned on 27 January 2021</i> )	4/4			2/2
Yu Jinming ( <i>resigned on 8 March 2021</i> )	4/4			
Chen Chuan	4/4			

The Company has received an annual confirmation of independence from each of the independent non-executive directors as of the date of this report. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

There is no financial, business, family or other material/relevant relationship between Board members.



# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

## NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of three years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

## BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (resigned on 1 January 2021)/Mr. Au Chun Kwok Alan (appointed on 27 January 2021) (Chairman), Mr. Lee Ka Sze, Carmelo (resigned on 1 January 2021)/Mr. Chen Chuan (appointed on 1 January 2021) and Mr. Wang Bo.

The remuneration of directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

Two meetings were held in 2020 to consider and make recommendations to the Board on the remuneration of directors of the Company based on the above criteria and approve the terms of service contract of a newly appointed executive director.

The Group's businesses are under the direct responsibility of the above executive Directors who are the senior management of the Company. Details of the amount of Director's emoluments for the year ended 31 December 2020 are set out in note 9 to the financial statements.



# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

The Nomination Committee of the Company is responsible for formulating and implementing the policy for nominating potential candidates to the Board, and assessing the independence of independent non-executive directors. In discharging its duties, the committee regularly reviews the structure, size and composition of the Board so as to ensure it is aligned with the business objectives of the Group. The committee comprises three members, namely Mr. Cai Dongchen (Chairman), Mr. Chan Siu Keung, Leonard (resigned on 1 January 2021)/Mr. Chen Chuan (appointed on 1 January 2021) and Prof. Lo Yuk Lam (resigned on 27 January 2021)/Mr. Wang Bo (appointed on 27 January 2021).

Two meetings were held in 2020 to review the structure, size and composition of the Board, assess the independence of independent non-executive directors and make recommendation to the Board on the re-appointment of directors and appointment of a new director. The Company has adopted a nomination policy which sets out the selection criteria (including but not limited to work experience, cultural and education background, reputation, professional experience, length of service, gender and age of the candidate) and nomination process of directors.

## AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Group. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (resigned on 1 January 2021)/Mr. Au Chun Kwok Alan (appointed on 27 January 2021) (Chairman), Mr. Lee Ka Sze, Carmelo (resigned on 1 January 2021)/Mr. Chen Chuan (appointed on 1 January 2021) and Mr. Wang Bo.

Four meetings were held in 2020. At the meetings, the committee discussed and reviewed the following matters:

1. the 2019 annual results, annual report and results announcement;
2. the external auditor's report to the Audit Committee in respect of the 2019 annual audit;
3. the quarterly results for the three months ended 31 March 2020 and results announcement;
4. the 2020 interim results, interim report and results announcement;
5. the external auditor's report to the Audit Committee in respect of the 2020 interim review;
6. the quarterly results for the nine months ended 30 September 2020 and results announcement;
7. the performance of the external auditor and its remuneration;
8. connected transactions during the year ended 31 December 2019; and
9. the systems of risk management and internal controls and the effectiveness of the internal audit function.



# CORPORATE GOVERNANCE REPORT

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

## TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

Details of the participation in continuous professional development by the directors during the year are summarized in the table below.

	Attending training course/ seminar/forum/ conference	Reading regulatory update or materials relevant to the Company or its business
<b>Executive Directors:</b>		
Cai Dongchen	✓	✓
Zhang Cuilong	✓	✓
Wang Zhenguo	✓	✓
Pan Weidong	✓	✓
Wang Huaiyu	✓	✓
Lu Hua ( <i>resigned on 14 August 2020</i> )	✓	✓
Li Chunlei	✓	✓
Wang Qingxi	✓	✓
Chak Kin Man	✓	✓
Jiang Hao ( <i>appointed on 24 November 2020</i> )	✓	✓
<b>Non-Executive Director:</b>		
Lee Ka Sze, Carmelo ( <i>resigned on 1 January 2021</i> )	✓	✓
<b>Independent Non-Executive Directors:</b>		
Chan Siu Keung, Leonard ( <i>resigned on 1 January 2021</i> )	✓	✓
Wang Bo	✓	✓
Lo Yuk Lam ( <i>resigned on 27 January 2021</i> )	✓	✓
Yu Jinming ( <i>resigned on 8 March 2021</i> )	✓	✓
Chen Chuan	✓	✓



# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

Effective risk management is the key to sustainable business success. As a major pharmaceutical group based in mainland China, we face a diverse range of risks and uncertainties that could have a materially adverse impact on the business or results of operations. Our approach to risk management is therefore an ongoing process of identification, evaluation and management of the principal risks affecting the business.

### Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented — principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;
2. The management is responsible for overseeing the risk management and internal control activities of the Group — regular meetings with each business unit to ensure principal risks are properly managed, and new or changing risks are identified;
3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control systems — review of the annual review report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

### Internal Control System

The internal control system of the Group is designed to facilitate effective and efficient operations, ensure the maintenance of proper accounting records, ensure compliance with applicable laws and regulations, identify and manage potential risks and safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

During 2020, the Group's internal audit function has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering all material financial, operational and compliance controls, and risk management. In addition, the review has considered the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The review report was submitted to the Audit Committee and the Board for their review.

Apart from review of the annual review report submitted by the internal audit function, the Audit Committee also had regular meetings with the external auditor and reviewed the reports provided by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations given by the external auditor to remedy the control issues identified or to further improve the internal control system.



## CORPORATE GOVERNANCE REPORT

The Board formed its own view on the effectiveness of the systems based on the review of the annual review report and the recommendation of the Audit Committee.

In respect of the year ended 31 December 2020, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

### DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

### CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

1. develop and review the Company's policies and practices on corporate governance and make recommendations;
2. review and monitor the training and continuous professional development of directors and senior management;
3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

The Board has performed the above duties during the year.

### EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged approximately RMB4,217,000 for audit services and RMB4,860,000 for non-audit services. The non-audit services consist of review of interim financial statements and continuing connected transactions, and acting as reporting accountant for a proposed issue of RMB shares on the Sci-Tech Board of the Shanghai Stock Exchange.



# CORPORATE GOVERNANCE REPORT

## FINANCIAL REPORTING

The Directors' responsibilities for the financial statements are set out on page 47 and the responsibilities of the external auditor are set out on page 48 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## COMPANY SECRETARY

Mr. Lee Ka Sze, Carmelo, a practicing solicitor in Hong Kong, had served as the company secretary throughout the year and resigned on 1 January 2021. He is a partner of Messrs. Woo, Kwan, Lee & Lo and is not a full time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lee is Mr. Chak Kin Man, an executive director of the Company. During 2020, Mr. Lee has confirmed that he has taken no less than 15 hours of relevant professional training.

With effect from 1 January 2021, Mr. Lo Tai On was appointed as the company secretary to fill the vacancy left after the resignation of Mr. Lee Ka Sze, Carmelo on the same date. Mr. Lo is a member of The Hong Kong Institute of Certified Public Accountants. He is a director of Fair Wind Secretarial Services Limited, a company rendering secretarial services.

## COMMUNICATIONS WITH SHAREHOLDERS

The objective of communications with shareholders is to provide them with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner. The Company uses a range of communication tools to ensure its shareholders and investors are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

The Company also actively attends different forms of investors' communication activities, including meetings with investors, telephone conferences, activities organized by sell side institutions and non-deal roadshows, with the hope to enhance corporate transparency so that investors can have a better understanding of the business model and latest development strategy of the Group. During 2020, management of the Company has attended around 200 one-on-one or group meetings.

In addition, the Company maintains a website at [www.cspc.com.hk](http://www.cspc.com.hk) as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other key information are available for public access.

In order to enable shareholders and investors to exercise their rights in an informed manner and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders and investors may at any time send their enquiries and concerns to the Company via the Company's website. Shareholders may also make enquiries with the Board at the general meetings of the Company.

## GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5 per cent of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting.



## CORPORATE GOVERNANCE REPORT

The request —

- (a) must state the general nature of the business to be dealt with at the meeting;
- (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
- (c) may consist of several documents in like form;
- (d) may be sent in hard copy form or electronic form; and
- (e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

### **PUTTING FORWARD PROPOSAL AT ANNUAL GENERAL MEETING (“AGM”)**

Pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) can make a request to circulate a resolution for an AGM if they represent —

- (a) at least 2.5 per cent of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or
- (b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request —

- (a) may be sent in hard copy form or electronic form;
- (b) must identify the resolution of which notice is to be given;
- (c) must be authenticated by the person or persons making it; and
- (d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.



# CORPORATE GOVERNANCE REPORT

## PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The procedures for shareholders to propose a person for election as a director have been uploaded to the Company's website.

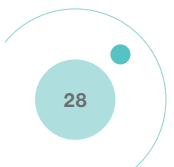
### 2020 GENERAL MEETINGS

At the 2020 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee, Remuneration Committee and Nomination Committee have attended the 2020 annual general meeting to ensure effective communication with shareholders. In addition, the Company held an extraordinary general meeting in 2020 to approve the issue of bonus shares on the basis of three bonus shares for every five existing shares in the Company. The attendance record of the Directors at the 2020 general meetings are set out below:

	<b>General meeting attended/held</b>
<b>Directors</b>	
<b>Executive Directors:</b>	
Cai Dongchen	2/2
Zhang Cuilong	0/2
Wang Zhenguo	0/2
Pan Weidong	0/2
Wang Huaiyu	0/2
Lu Hua ( <i>resigned on 14 August 2020</i> )	0/1
Li Chunlei	0/2
Wang Qingxi	0/2
Chak Kin Man	2/2
Jiang Hao ( <i>appointed on 24 November 2020</i> )	0/0
<b>Non-Executive Director:</b>	
Lee Ka Sze, Carmelo ( <i>resigned on 1 January 2021</i> )	2/2
<b>Independent Non-Executive Directors:</b>	
Chan Siu Keung, Leonard ( <i>resigned on 1 January 2021</i> )	2/2
Wang Bo	0/2
Lo Yuk Lam ( <i>resigned on 27 January 2021</i> )	0/2
Yu Jinming ( <i>resigned on 8 March 2021</i> )	0/2
Chen Chuan	0/2

## CONSTITUTIONAL DOCUMENTS

During the year, there is no change in the Company's constitutional documents.





## DIRECTORS' REPORT

The board of directors of the Company (the “Board”) is pleased to present this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 45, 18 and 19 to the consolidated financial statements, respectively.

### BUSINESS REVIEW

#### Overview

The Group is principally engaged in the development, manufacture and sales of medicines and pharmaceutical related products primarily in the People’s Republic of China (the “PRC” or “China”).

The finished drug products of the Group are primarily sold in China. The existing product portfolio consists of nervous system disease products, oncology products, anti-infective products, cardiovascular disease products, respiratory disease products, digestion and metabolism disease products and products in other therapeutic areas. The primary end-user customers of our finished drug products include hospitals, health-care centres, clinics and pharmacy stores. We generate revenue by selling our finished drug products to distributors which in turn sell our products to the end-user customers.

The other products of the Group include vitamin C, antibiotics and glucose products in bulk powder form and functional food products. Apart from the market in China, a significant part of the products is sold in overseas markets, including U.S., Germany, Japan and India. We generate revenue by selling the products to pharmaceutical companies, food and beverages manufacturers and distributors.

The Group has a strong research and development team which focuses on the development of innovative drugs. We also collaborate with leading research institutions to broaden our sources of new drugs. It is our strategy to continue to invest in research and development in order to maintain a sustainable growth of our business.

The Group’s headquarters along with its major production facilities are located in Shijiazhuang City, Hebei Province, the PRC.



## DIRECTORS' REPORT

### BUSINESS REVIEW *(continued)*

#### Principal risks and uncertainties

The following risks and uncertainties may affect the results and business operations of the Group, some of which are inherent to pharmaceutical sector and some are from external sources.

**(i) Drug approval process**

The actual timing of market launch of our products under development could vary significantly from our estimates due to a number of factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties of the outcome. Any delay or failure in the process could adversely affect the timing of market launch of our products. The Group is committed to investing in research and development of new drugs in order to ensure a rich product pipeline.

**(ii) Results of drug tenders and centralised procurements**

Our sales and profitability depend on our ability to win in drug tenders and centralised procurements for our products at a desirable price in China. We may fail to win due to various factors, including uncompetitive bidding price. If our products fail to win or the new prices are significantly cut, the market share, sales and profitability of the products concerned could be adversely impacted. We have a team of staff handling drug tenders and centralised procurements of our products. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

**(iii) Compliance with certain PRC environmental and safety regulations**

We are subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to discharge of waste, disposal of hazardous substances, noise pollution and safety of our workers. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our production facilities and obligations to take corrective measures. In addition, we may need to incur additional costs and capital expenditure in order to comply with any new or amended standard. We have established specific department to inspect and monitor the environmental performance of the Group. The department will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

**(iv) Exclusion of products from drug reimbursement list**

Under the PRC medical insurance scheme, patients can obtain reimbursement of all or a portion of the cost of drugs listed in the National Reimbursement Drug List or the Provincial Reimbursement Drug List (the "Reimbursement Lists"). The Reimbursement Lists are reviewed and updated from time to time. There is no assurance that our products will be or continue to be listed in the Reimbursement Lists. The entry into and the removal from the Reimbursement Lists are beyond our control. The removal of any of our products from the Reimbursement Lists may have an adverse impact on the sales of the products concerned. In addition, product prices may have to be cut in order to be listed in the Reimbursement Lists.



## DIRECTORS' REPORT

### BUSINESS REVIEW *(continued)*

#### Principal risks and uncertainties *(continued)*

**(v) *Illegal practice of employees or third-party distributors***

The Group prohibits our employees and third-party distributors from engaging in corruption practices to influence the procurement decision of hospitals. However, we may not be able to effectively ensure that every employee or third-party distributor complies at all times with our policies. If such illegal practices or improper conduct occur, this may harm our reputation or expose us to regulatory investigations and potential punishment. The employee handbook and sales contracts entered into with third-party distributors contain specific rules to prohibit illegal practices in order to prevent misconduct from occurring.

**(vi) *Side effects of products***

Our products may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical studies, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by our customers. In addition, our products may be perceived to cause severe side effects if products of other companies containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects. If our products cause or perceived to cause severe side effects, our sales and profitability could be adversely affected. We have adopted a product recall procedure to ensure that our products could be quickly recalled in case of safety or quality concerns.

**(vii) *Product liability***

Claims for product liability and product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated, or if we are alleged to have engaged in practices such as insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. Product liability claims may attract negative publicity which may adversely affect our reputation and business. We are committed to maintaining a high technical and quality standard to ensure that the products meet the requirements in all aspects.

#### Key Relationships

**(i) *Employees***

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option scheme and share award scheme to recognize and reward the contribution of the employees for the Group's operations and future development.



## DIRECTORS' REPORT

### BUSINESS REVIEW *(continued)*

#### Key Relationships *(continued)*

##### **(ii) Suppliers**

We have developed long-standing relationships with a number of suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

##### **(iii) Distributors**

We sell our finished drug products mainly to distributors which will sell the products to end-user customers. We work closely with the distributors to ensure that we share the view for upholding our brand value and customer services.

##### **(iv) Hospitals**

We are committed to offer a broad and diverse range of good-quality products to hospitals. We also stay connected and maintain a close relationship with the hospitals by maintaining a database and have ongoing communications with them through various channels such as visits, marketing materials and meetings.

#### **Environmental policies**

We are subject to certain PRC laws, rules and regulations concerning environmental protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste and noise pollution during our manufacturing processes.

The Group attaches importance to comply with the relevant environmental laws and regulations. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to remedy the environmental issues identified and improve the environmental performance of the Group.

#### **Compliance with laws and regulations**

The Group's operations are mainly carried out by the Company's subsidiaries established in the mainland China and U.S. while the Company itself is incorporated in Hong Kong with its shares listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China, U.S. and Hong Kong. During the year ended 31 December 2020 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China, U.S. and Hong Kong that have a significant impact on the Group.

#### **Recent Developments**

Details of important events affecting the Group since 31 December 2020 are set out in the notes to the consolidated financial statements.

Further discussion and analysis of the business and operation of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections and the consolidated financial statements of this Annual Report.



## DIRECTORS' REPORT

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on page 50 and 51, respectively.

The Board of Directors recommends a final dividend of HK9 cents per share for 2020. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 11 June 2021 to shareholders whose names appear on the register of members of the Company on 28 May 2021. An interim dividend of HK6 cents (equivalent to HK3.75 cents if adjusted for the effect of the issue of bonus shares on 29 October 2020) per share for 2020 has been paid on 9 October 2020.

### DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2020 amounted to approximately RMB2,092,244,000 (2019: RMB1,732,534,000).

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

### DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB47,605,000 (2019: RMB34,386,000).

### FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately RMB1,023,904,000 (2019: RMB2,184,602,000). Details of the movements in fixed assets of the Group during the year are set out in note 13 to the consolidated financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options (if any) of the Company are set out in notes 35 and 36 to the consolidated financial statements, respectively.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 163 of this annual report.

### EQUITY-LINKED AGREEMENTS

Save for the long-term incentive program of the Group, no equity-linked agreement was entered into during the year or subsisted at the end of the year.



## DIRECTORS' REPORT

### PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets and profit of the Company against all liability incurred by him as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance policy against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company.

### DIRECTORS

#### Directors of the Company

The directors of the Company during the year and up to the date of this report were:

#### Executive directors:

Cai Dongchen (*Chairman and CEO*)  
Zhang Cuilong (*Vice-Chairman and Rotating CEO*)  
Wang Zhenguo  
Pan Weidong  
Wang Huaiyu  
Li Chunlei  
Wang Qingxi  
Chak Kin Man  
Jiang Hao (*appointed on 24 November 2020*)  
Lu Hua (*resigned on 14 August 2020*)

#### Non-executive director:

Lee Ka Sze, Carmelo (*resigned on 1 January 2021*)

#### Independent non-executive directors:

Wang Bo  
Chen Chuan  
Wang Hongguang (*appointed on 27 January 2021*)  
Au Chun Kwok Alan (*appointed on 27 January 2021*)  
Law Cheuk Kin Stephen (*appointed on 8 March 2021*)  
Chan Siu Keung, Leonard (*resigned on 1 January 2021*)  
Lo Yuk Lam (*resigned on 27 January 2021*)  
Yu Jinming (*resigned on 8 March 2021*)

Mr. Lu Hua resigned as an executive director due to the pursuit of his own career development, Mr. Lee Ka Sze, Carmelo resigned as a non-executive director due to the pursuit of his personal and other commitments, Mr. Chan Siu Keung, Leonard and Prof. Lo Yuk Lam resigned as an independent non-executive director due to retirement. Mr. Yu Jinming resigned as an independent non-executive director due to the pursuit of his other work commitments.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Zhang Cuilong, Pan Weidong, Li Chunlei and Wang Qingxi shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.



## DIRECTORS' REPORT

### DIRECTORS *(continued)*

#### **Directors of the Company** *(continued)*

In accordance with Article 92 of the Company's Articles of Association, Mr. Law Cheuk Kin Stephen shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

None of the above directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive directors are independent.

The list of directors of the Company's subsidiaries (other than those listed as directors of the Company) is kept at the registered office of the Company and available for inspection by shareholders of the Company during office hours.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

#### **CAI Dongchen**

Mr. Cai, aged 67, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai is also the chairman of the Nomination Committee of the Company and a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

Mr. Cai is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Cai is also a director of True Ally Holdings Limited and Massive Giant Group Limited, both are substantial shareholders of the Company within the meaning of Part XV of the SFO.

#### **ZHANG Cuilong**

Mr. Zhang, aged 52, Vice-Chairman and Rotating Chief Executive Officer of the Company, was appointed as an executive director of the Company in 2018. Mr. Zhang is also a director of certain subsidiaries of the Group. Mr. Zhang holds a bachelor's degree in pharmacology from Hebei Medical College (now known as Hebei Medical University) and has extensive technical, marketing and management experience in the pharmaceutical industry.

#### **WANG Zhenguo**

Mr. Wang, aged 51, was appointed as an executive director of the Company in 2012. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical, marketing and management experience in the pharmaceutical industry.

#### **PAN Weidong**

Mr. Pan, aged 51, was appointed as an executive director of the Company in 2006. Mr. Pan is also a director of certain subsidiaries of the Group. Mr. Pan holds an EMBA degree from Tsinghua University and has extensive finance, accounting and investment experience in the pharmaceutical industry.

Mr. Pan is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.



## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

#### **WANG Huaiyu**

Mr. Wang, aged 57, was appointed as an executive director of the Company in 2010. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

#### **LI Chunlei**

Dr. Li, aged 44, was appointed as an executive director of the Company in 2017. Dr. Li is currently the Chief Scientist of the Group in charge of research and development. Dr. Li is also the general manager of a subsidiary of the Company, deputy director of the Novel Pharmaceutical Preparations and Excipients State Key Laboratory and director of the Hebei Pharmaceutical Engineering Technology Centre. Dr. Li holds a bachelor's degree in engineering (biological pharmaceuticals) from Jilin University and Shenyang Pharmaceutical University, a master's degree in science (microbial and biochemical pharmaceuticals) from Jilin University and a doctorate in science (pharmaceutical science) from Shenyang Pharmaceutical University.

#### **WANG Qingxi**

Dr. Wang, aged 55, was appointed as an executive director of the Company in 2018. Dr. Wang is also a director of certain subsidiaries of the Group. Prior to joining the Group, Dr. Wang worked at Merck & Co., Inc. in the U.S. for 20 years where he held senior positions including director of pharmaceutical R&D and director of business development and operation. Dr. Wang holds a bachelor's degree in science (chemistry) and a master's degree in science (chemistry) from Nankai University in China, a master's degree in science (polymer science) and a doctorate in chemistry from University of Connecticut in the U.S. and a MBA degree from Temple University in the U.S..

#### **CHAK Kin Man**

Mr. Chak, aged 55, was appointed as an executive director of the Company in 2005. Mr. Chak is also a director of certain subsidiaries of the Group. Mr. Chak is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chak holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relations.

Mr. Chak is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

#### **JIANG Hao**

Dr. Jiang, aged 37, was appointed as an executive director of the Company on 24 November 2020. Prior to joining the Group in August 2020, Dr. Jiang has worked at Fastenal Company as general manager (north and central China) in the U.S., Tianjin Kesun Technology Company (marketing and sales centre of Baidu in Tianjin) as general manager and 3H Health Investment Management Ltd. as assistant to chairman and chief operation officer. Dr. Jiang holds a bachelor's degree in management from Hebei University of Technology, a master's degree in management, economics and industrial engineering from Politecnico di Milano and a doctorate in management (technology economics and management) from Hebei University of Technology.



## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

#### **WANG Bo**

Mr. Wang, aged 60, was appointed as an independent non-executive director of the Company in 2012. He is also a member of the Audit Committee, Nomination Committee (appointed on 27 January 2021) and Remuneration Committee of the Company. Mr. Wang is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd.. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. Mr. Wang is currently the distinguished researcher of the Research Center of National Drug Policy & Ecosystem.

Mr. Wang is also an independent director of Henan Taloph Pharmaceutical Stock Co., Ltd. (listed on Shanghai Stock Exchange), Jiuzhitang Co., Ltd. (listed on Shenzhen Stock Exchange) and Youcare Pharmaceutical Group Co., Ltd. (listed on Shanghai Stock Exchange).

#### **CHEN Chuan**

Mr. Chen, aged 57, was appointed as an independent non-executive director of the Company in 2016. He was appointed as a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company on 1 January 2021. Mr. Chen holds a bachelor's degree in Medicine from Norman Bethune University of Medical Science and a Master's degree in Science from Albert Einstein College of Medicine at Yeshiva University.

Mr. Chen is also a director of Beijing Dong Fang Ming Kang Medical Equipment Co., Ltd. (quoted on the National Equities Exchange and Quotations System), a director of Shanghai Benemae Pharmaceutical Corporation (quoted on the National Equities Exchange and Quotations System) and an independent director of Guangxi Liuzhou Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange).

#### **WANG Hongguang**

Prof. Wang, aged 58, was appointed as an independent non-executive director of the Company on 27 January 2021. Prof. Wang is a director and professor of International Center for Bioeconomy, Institute of Multidisciplinary Biomedical Research of Tsinghua University (National Institute of Biological Sciences, Beijing), executive director and adjunct professor of Peking University's China Center for Strategic Studies, adjunct professor of Tianjin University and China Pharmaceutical University. Prof. Wang has previously served as a director of Center of Biotechnology Development of China of the Ministry of Science and Technology. Mr. Wang has long been engaged in the research on technology and economic strategy, and has conducted in-depth research on domestic and foreign biotechnology development and industry policies. Prof. Wang was the founder of "Disparity Economics" and has published 21 books including "Bio-economic of China" and more than 110 theses. Prof. Wang holds a bachelor's degree in agriculture from Gansu Agricultural University, a master's degree in agri-culture and a doctorate in agriculture from China Agricultural University.

Prof. Wang is also an independent director of Beijing Tiantan Biological Products Co., Ltd (listed on Shanghai Stock Exchange).



## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

#### **AU Chun Kwok Alan**

Mr. Au, aged 48, was appointed as an independent non-executive director of the Company, the chairman of the Audit Committee and Remuneration Committee of the Company on 27 January 2021. Mr. Au is the founder and managing director of GT Healthcare Group, a private equity platform focusing on cross border healthcare investments. Prior to that, Mr. Au served as the head of the Asia Healthcare Investment Banking of Deutsche Bank Group, advising healthcare IPO and M&A in the region, an executive director at JAFCO Asia Investment Group, responsible for healthcare investments in China, and an investment director of Morningside Group in charge of healthcare investments in Asia. Mr. Au received a bachelor's degree in psychology from Chinese University of Hong Kong and a master's degree in management from Columbia Business School in New York. Mr. Au is a certified public accountant (CPA) in the U.S. and a chartered financial analyst (CFA), and an associate member of the Hong Kong Institute of Financial Analysts and member of the American Institute of Certified Public Accountants.

Mr. Au is also an independent director of Cellular BioMedicine Group (listed on Nasdaq) and I-Mab Biopharma Co., Ltd. (listed on Nasdaq), and a panel member for biotechnology of the Innovation and Technology Fund of the Hong Kong SAR Government.

#### **Law Cheuk Kin Stephen**

Mr. Law, aged 58, was appointed as an independent non-executive director on 8 March 2021. Mr. Law is currently the Managing Director of ANS Capital Limited. Mr. Law previously served as the Finance Director and a member of the Executive Directorate of MTR Corporation Limited, Chief Financial Officer of Guoco Group Limited, Hong Kong and Managing Director of TPG Growth Capital (Asia) Limited, and held various senior positions in the Morningside Group and Wheelock Group. He was also previously a non-executive director of China NT Pharma Group Limited (listed on The Stock Exchange of Hong Kong Limited, the "Stock Exchange"), an alternate director of MIE Holdings Corporation (listed on the Stock Exchange), an independent non-executive director of AAG Energy Holdings Limited (listed on the Stock Exchange) and Stealth BioTherapeutics Corp. (listed on Nasdaq). He is currently a member of the board of directors of SOW (Asia) Foundation and a council member of Hong Kong Business Accountants Association. He served as a council member of the Hong Kong Institute of Certified Public Accountants from 2010 to 2017 and an adjunct professor of the Hong Kong Polytechnic University from 2015 to 2017. He is currently a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Besides, Mr. Law has been appointed by the Ministry of Finance of the People's Republic of China as an expert consultant to provide advice on finance and management accounting. Mr. Law holds a Bachelor's degree in Science (Civil Engineering) from the University of Birmingham, the United Kingdom and received a Master's degree in Business Administration from the University of Hull, the United Kingdom.

Mr. Law is also an independent non-executive director of China Everbright Limited, Somerley Capital Holdings Limited, China Galaxy Securities Co., Ltd. and Bank of Guizhou Co., Ltd., all of which are listed on the Stock Exchange.



## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the connected transactions and continuing connected transactions of the Group during the year are set out in the section headed "Connected Transactions and Continuing Connected Transactions".

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo, who resigned as a non-executive director on 1 January 2021, is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

#### Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	196,076,960	
	Interest of controlled corporation	<u>2,604,708,710</u> (Note)	
		<u>2,800,785,670</u>	23.39%
Chak Kin Man	Beneficial owner	7,680	0.00006%

Note: Mr. Cai Dongchen is deemed to be interested in 2,604,708,710 shares, comprising (i) 410,744,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合伙)) ("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2020.



## DIRECTORS' REPORT

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the long-term incentive program of the Group, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the year.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

#### Long Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
Cai Dongchen	Beneficial owner	196,076,960	
	Interest in controlled corporation	2,604,708,710 (Note)	
		<u>2,800,785,670</u>	23.39%
True Ally Holdings Limited	Beneficial owner	948,249,600	
	Interest in controlled corporation	1,656,459,110 (Note)	
		<u>2,604,708,710</u>	21.75%
Massive Giant Group Limited	Beneficial owner	1,218,834,470	10.18%
Common Success International Limited	Beneficial owner	728,796,313	6.09%
Citigroup Inc.	Person having a security interest in shares	14,909,059	
	Interest in controlled corporation	41,245,193	
	Approved lending agents	548,685,107	
		<u>604,839,359</u>	5.05%
UBS Group AG	Interest in controlled corporation	<u>772,060,170</u>	6.45%

#### Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
Citigroup Inc.	Interest in controlled corporation	65,361,451	0.55%

*Note:* Mr. Cai Dongchen is deemed to be interested in 2,604,708,710 shares, comprising (i) 410,744,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Zhongyihe and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2020.



## DIRECTORS' REPORT

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

#### Connected Transaction

On 25 June 2019, Hebei Children's Hospital of Integrated Traditional Chinese and Western Medicine, CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd ("Zhongnuo") and CSPC Ouyi Pharmaceutical Co. Ltd. ("Ouyi") entered into a lease agreement with CSPC Holdings Company Limited ("CHL") to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2019 with an aggregate rental of RMB21,241,000 per annum. During the year ended 31 December 2020, a rental of RMB21,241,000 was paid.

#### Continuing Connected Transactions

During the year ended 31 December 2020, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Name of company	Nature of transactions	Transaction amount RMB'000
CHL and its subsidiaries (the "CHL Group")	Sales of pharmaceutical products ( <i>note a</i> )	466,409
	Rental payment ( <i>note b</i> )	2,346
	Rental payment ( <i>note c</i> )	57,240
	Purchase of steam ( <i>note d</i> )	14,788
	Purchase of steam ( <i>note e</i> )	15,114

#### Notes:

- On 1 November 2018, the Company entered into a master sales agreement with CHL, pursuant to which the Company agreed to supply and to procure its subsidiaries to supply pharmaceutical products to the CHL Group for a terms of three years commencing on 1 November 2018. On 9 December 2019, the Company entered into a supplemental agreement within CHL to amend the master sales agreement by revising the annual cap.
- On 20 July 2002, Zhongnuo entered into a lease agreement with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The rental was revised to RMB3,312,800 per annum upon review on 1 August 2020.
- On 21 December 2018, each of CSPC NBP Pharmaceutical Co. Ltd., Ouyi, Zhongnuo and CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd., entered into a lease agreement with CHL to lease certain premises in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 1 January 2019 with an aggregate rental of RMB57,240,000 per annum.
- On 29 August 2017, CSPC Innovation Pharmaceutical Co. Ltd. entered into a steam supply agreement with Hebei Hongyuan Re Dian Limited Liability Company ("Hongyuan") for the purchase of steam from Hongyuan for a term of three years commencing on 29 August 2017. The agreement was renewed on 28 August 2020 for the period from 29 August 2020 to 31 December 2020 and further renewed on 18 December 2020 for a term of one year commencing on 1 January 2021. Details of the transactions are set out in the announcement of the Company dated 28 August 2020 and 18 December 2020.
- On 12 July 2019, Hebei Shengxue Glucose Limited Liability Company entered into a steam supply agreement with Hongyuan for the purchase of steam from Hongyuan for a term of three years commencing on 13 June 2019.



## DIRECTORS' REPORT

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

*(continued)*

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in CHL through a series of corporations. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. In addition, each of Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu and Dr. Li Chunlei, all being directors of the Company, is also indirectly interested in CHL.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to carry out assurance procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

- (i) in the ordinary and usual course of the Group's business;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### RELATED PARTY TRANSACTIONS

Significant related party transactions which were undertaken in the normal course of business are set out in note 43 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) under the Listing Rules but are not disclosed in the section headed "Connected Transactions and Continuing Connected Transactions", they are exempt from reporting, annual review and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

### INTERESTS IN COMPETITOR

CHL holds certain equity interest in CSPC Jiangxi Jinfurong Pharmaceutical Co., Ltd, a company principally engaged in the manufacture and sales of traditional Chinese medicines in the PRC and which may compete with the Group in certain aspects of its business.

Each of Mr. Cai Dongchen, Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu and Dr. Li Chunlei, all being directors of the Company, has an indirect interest in CHL.



## DIRECTORS' REPORT

### LONG-TERM INCENTIVE PROGRAM

Particulars of the Company's share option scheme and share award scheme are set out in note 36 to the consolidated financial statements.

### EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

### 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 listed securities of the Company during the year.

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2020.

### AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**CAI Dongchen**

*Chairman*

Hong Kong, 15 March 2021

# INDEPENDENT AUDITOR'S REPORT

# Deloitte.

# 德勤

## TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED

石藥集團有限公司

*(incorporated in Hong Kong with limited liability)*

### OPINION

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 162, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

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

# INDEPENDENT AUDITOR'S REPORT

## Key audit matter

### *Revenue recognition*

We identified revenue recognition as a key audit matter due to its significance to the consolidated statement of profit or loss and higher risks of material misstatement on revenue recognition arising from its large transaction volume.

The accounting policy for recognition of revenue from contract with customers is disclosed in note 3 to the consolidated financial statements. As set out in the consolidated statement of profit or loss and other comprehensive income and note 5 to the consolidated financial statements, during the year ended 31 December 2020, the revenue from contract with customers is approximately RMB24,942,204,000.

## How our audit addressed the key audit matter

Our procedures in relation to revenue recognition included:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;
- Assessing the Groups' revenue recognition policies with reference to the requirements of Hong Kong Financial Reporting Standards;
- Performing test of details of revenue records, on a sampling basis, by inspecting goods delivery note and acknowledgement of receipt from customers for verifying the transfer of control of goods; and
- Performing analytical procedures by comparing revenue and gross profit to that of previous years among the same segments and key products and assessing the reasonableness of revenue recognised in current year.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matter

### *Expected credit losses on trade receivables*

We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period.

As at 31 December 2020, the Group's net trade receivables amounting to approximately RMB2,398,859,000, which represented approximately 8% of total assets of the Group and out of these trade receivables approximately RMB189,458,000 were past due.

As disclosed in note 41 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables with significant outstanding and credit-impaired balances are assessed for ECL individually. The loss allowance of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

As disclosed in note 41 to the consolidated financial statements, the Group's lifetime ECL recognised on trade receivables as at 31 December 2020 amounted to approximately RMB22,436,000.

## How our audit addressed the key audit matter

Our procedures in relation to impairment assessment of trade receivables included:

- Understanding key controls on how the management estimates the loss allowance for trade receivables;
- Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2020, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents;
- Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2020, including their identification of significant outstanding and credit-impaired balances, the reasonableness of management's grouping of the remaining debtors into different categories in the provision matrix, and the basis of estimated loss rates applied for each individually significant balance and each category in the provision matrix (with reference to historical default rates and forward-looking information); and
- Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 22 and 41 to the consolidated financial statements.



# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

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

# INDEPENDENT AUDITOR'S REPORT

## 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 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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

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

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

From the matters communicated with those charged with governance, 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 the independent auditor's report is Yau Wing Chi.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

15 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	24,942,204	22,103,192
Cost of sales		<u>(6,256,882)</u>	<u>(6,192,211)</u>
Gross profit		18,685,322	15,910,981
Other income		264,736	243,783
Other gains or losses		376,816	48,450
Selling and distribution expenses		(9,377,620)	(8,712,083)
Administrative expenses		(945,713)	(748,509)
Research and development expenses		(2,889,837)	(2,000,426)
Other expenses		(57,036)	(142,015)
Share of results of associates	18	(20,917)	—
Share of results of joint ventures	19	34,449	58,407
Gain on deemed disposal of partial interest in an associate	18	37,192	—
Gain on disposal of subsidiaries	38	314,901	—
Loss on deemed disposal of a subsidiary	38	(19,038)	—
Finance costs	6	<u>(12,232)</u>	<u>(32,426)</u>
Profit before tax		6,391,023	4,626,162
Income tax expense	8	<u>(1,162,013)</u>	<u>(892,810)</u>
Profit for the year	7	<u>5,229,010</u>	<u>3,733,352</u>
Profit for the year attributable to:			
Owners of the Company		5,159,655	3,714,106
Non-controlling interests		<u>69,355</u>	<u>19,246</u>
		<u>5,229,010</u>	<u>3,733,352</u>
		<b>RMB cents</b>	<b>RMB cents</b>
			(Restated)
Earnings per share			
— Basic	11	<u>43.16</u>	<u>31.07</u>
— Diluted	11	<u>43.16</u>	<u>31.07</u>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year	<u>5,229,010</u>	<u>3,733,352</u>
<b>Other comprehensive income:</b>		
<b><i>Item that will not be reclassified to profit or loss:</i></b>		
Fair value gain on financial assets measured at fair value through other comprehensive income, net of income tax	<b>240,898</b>	184,227
<b><i>Item that may be reclassified subsequently to profit or loss:</i></b>		
Exchange differences on translation of foreign operations	<u>(9,340)</u>	<u>(24,503)</u>
Other comprehensive income for the year, net of income tax	<u>231,558</u>	<u>159,724</u>
Total comprehensive income for the year	<u><b>5,460,568</b></u>	<u>3,893,076</u>
Total comprehensive income for the year attributable to:		
Owners of the Company	<b>5,391,213</b>	3,873,830
Non-controlling interests	<u>69,355</u>	<u>19,246</u>
	<u><b>5,460,568</b></u>	<u>3,893,076</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	13	7,770,442	8,459,176
Right-of-use assets	14	1,163,898	823,202
Investment property	15	35,406	—
Goodwill	16	149,983	188,964
Other intangible assets	17	508,742	1,135,662
Interests in associates	18	571,640	231,135
Interests in joint ventures	19	261,546	176,639
Amounts due from joint ventures	43	757,331	150,432
Other financial assets	20	1,877,024	1,077,932
Deferred tax assets	33	117,471	34,843
Deposits, prepayments and other receivables	23	505,356	343,380
Bank deposits	26	430,000	—
		<b>14,148,839</b>	<b>12,621,365</b>
<b>Current assets</b>			
Inventories	21	1,861,066	2,535,743
Trade receivables	22	2,398,859	2,258,844
Deposits, prepayments and other receivables	23	484,289	567,252
Bills receivables	24	1,989,549	1,993,083
Amounts due from related companies	43	144,260	140,183
Amount due from an associate	43	82,428	—
Amounts due from joint ventures	43	129,680	58,628
Other financial assets	20	—	536
Structured bank deposits	25	1,535,207	1,838,159
Restricted bank deposits	26	36,571	186,293
Bank balances and cash	26	7,259,458	4,118,236
		<b>15,921,367</b>	<b>13,696,957</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
	Notes		
<b>Current liabilities</b>			
Trade payables	27	1,204,566	1,110,883
Other payables	28	3,554,759	3,691,652
Contract liabilities	31	625,699	503,755
Bills payables	29	37,000	316,137
Contingent consideration payable	41c	24,346	18,130
Amounts due to related companies	43	13,168	10,854
Amount due to an associate	43	—	124,627
Amounts due to joint ventures	43	239,630	104,678
Lease liabilities	32	124,835	74,235
Tax liabilities		378,839	258,823
Borrowing	30	99,000	23,000
		<u>6,301,842</u>	<u>6,236,774</u>
<b>Net current assets</b>		<u>9,619,525</u>	<u>7,460,183</u>
<b>Total assets less current liabilities</b>		<u>23,768,364</u>	<u>20,081,548</u>
<b>Non-current liabilities</b>			
Other payables	28	253,968	154,733
Contingent consideration payable	41c	—	13,923
Lease liabilities	32	92,879	90,300
Deferred tax liabilities	33	320,444	304,427
		<u>667,291</u>	<u>563,383</u>
<b>Net assets</b>		<u><u>23,101,073</u></u>	<u><u>19,518,165</u></u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		<b>As at 31 December 2020</b>	As at 31 December 2019
	<i>Note</i>	<b>RMB'000</b>	<i>RMB'000</i>
<b>Capital and reserves</b>			
Share capital	35	<b>10,899,412</b>	10,899,412
Reserves		<b>11,432,876</b>	7,562,311
Equity attributable to owners of the Company		<b>22,332,288</b>	18,461,723
Non-controlling interests		<b>768,785</b>	1,056,442
Total equity		<b>23,101,073</b>	19,518,165

The consolidated financial statements on pages 50 to 162 were approved and authorised for issue by the Board of Directors on 15 March 2021 and are signed on its behalf by:

**CAI Dongchen**  
DIRECTOR

**CHAK Kin Man**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Equity attributable to owners of the Company							Equity attributable to non-controlling interests					
	Share capital RMB'000	Treasury share reserve RMB'000 (note d)	Share award reserve RMB'000	Other reserves RMB'000 (note a)	Statutory reserves RMB'000 (note b)	Capital contribution reserve RMB'000 (note c)	Translation reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Share-based payment reserve of a subsidiary RMB'000	Share of net assets of subsidiaries RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2019	10,899,412	-	-	(4,636,480)	1,112,943	46,794	(2,403)	7,631,994	15,052,260	-	477,340	477,340	15,529,600
Profit for the year	-	-	-	-	-	-	-	3,714,106	3,714,106	-	19,246	19,246	3,733,352
Other comprehensive income for the year, net of income tax	-	-	-	184,227	-	-	(24,503)	-	159,724	-	-	-	159,724
Total comprehensive income for the year	-	-	-	184,227	-	-	(24,503)	3,714,106	3,873,830	-	19,246	19,246	3,893,076
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,910)	(2,910)	(2,910)
Dividends recognised as distribution (note 12)	-	-	-	-	-	-	-	(965,385)	(965,385)	-	-	-	(965,385)
Transfer to statutory reserves	-	-	-	-	676,369	-	-	(676,369)	-	-	-	-	-
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	15,360	15,360	15,360
Disposal of financial assets measured at fair value through other comprehensive income	-	-	-	(516)	-	-	-	516	-	-	-	-	-
Recognition of equity-settled share-based payments	-	-	6,721	-	-	-	-	-	6,721	-	-	-	6,721
Purchase of shares under share award scheme (note d)	-	(100,706)	-	-	-	-	-	-	(100,706)	-	-	-	(100,706)
Dilution of interest in a subsidiary (note e)	-	-	-	595,003	-	-	-	-	595,003	-	547,406	547,406	1,142,409
At 31 December 2019 and 1 January 2020	10,899,412	(100,706)	6,721	(3,857,766)	1,789,312	46,794	(26,906)	9,704,862	18,461,723	-	1,056,442	1,056,442	19,518,165
Profit for the year	-	-	-	-	-	-	-	5,159,655	5,159,655	-	69,355	69,355	5,229,010
Other comprehensive income for the year, net of income tax	-	-	-	240,898	-	-	(9,340)	-	231,558	-	-	-	231,558
Total comprehensive income for the year	-	-	-	240,898	-	-	(9,340)	5,159,655	5,391,213	-	69,355	69,355	5,460,568
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(7,729)	(7,729)	(7,729)
Dividends recognised as distribution (note 12)	-	-	-	-	-	-	-	(1,527,694)	(1,527,694)	-	-	-	(1,527,694)
Transfer to statutory reserves	-	-	-	-	85,930	-	-	(85,930)	-	-	-	-	-
Recognition of equity-settled share-based payments	-	-	7,046	-	-	-	-	-	7,046	2,080	-	2,080	9,126
Deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	-	(2,990)	(2,990)	(2,990)
Disposal of subsidiaries (note 38)	-	-	-	-	-	-	-	-	-	-	(1,756)	(1,756)	(1,756)
Deemed disposal of a subsidiary (note 38)	-	-	-	-	-	-	-	-	-	-	(346,617)	(346,617)	(346,617)
Disposal of financial assets measured at fair value through other comprehensive income	-	-	-	(70,452)	-	-	-	70,452	-	-	-	-	-
At 31 December 2020	10,899,412	(100,706)	13,767	(3,687,320)	1,875,242	46,794	(36,246)	13,321,345	22,332,288	2,080	766,705	768,785	23,101,073

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

## Notes:

- (a) The balance in other reserve mainly included an amount of RMB4,030,633,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of RMB2,631,198,000 and the fair value of the consideration paid by the Company of RMB6,661,831,000 in a reverse acquisition on 29 October 2012.
- (b) The statutory reserves were appropriated from profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.
- (c) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 43, which comprise (1) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under Robust Sun Group in 2012; (2) the imputed interest arising on a non-interest bearing loan from CHL in 2012; and (3) deemed capital contribution arising from the acquisition of CSPC Shengxue Glucose Co., Ltd. from CHL in 2016.
- (d) The Company purchased its own ordinary shares of an aggregate of 10,000,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in January 2019 through BOCI-Prudential Trustee Limited (the "Trustee") and all the shares were held by the Trustee. Details are set out in note 35(b).
- (e) CSPC Innovation Pharmaceutical Co., Ltd. ("CSPC XNW") listed its shares on the Shenzhen Stock Exchange with effect from 22 March 2019. On the same date, 50,000,000 ordinary shares of CSPC XNW with a par value of RMB1.00 each were issued by way of public offering and placing (the "Share Offer"). The net proceeds received by CSPC XNW, after deducting the expenses relating to the Share Offer, was RMB1,142,409,000. The Group's percentage of equity interest in CSPC XNW and its subsidiaries (collectively referred to as the "XNW Group") was then diluted from 100% to 75% upon completion of the Share Offer. The difference between the share of net assets of XNW Group by the non-controlling interests and the net proceeds from the Share Offer of RMB595,003,000 was recognised in other reserve.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		6,391,023	4,626,162
Adjustments for:			
Amortisation of other intangible assets		15,121	17,954
Depreciation of property, plant and equipment		671,254	587,892
Depreciation of right-of-use assets		120,713	85,749
Depreciation of investment property		1,719	—
Finance costs		12,232	32,426
Government grant income		(111,606)	(135,748)
Fair value changes on other financial assets		(531,097)	(93)
Interest income		(102,820)	(64,740)
Imputed interest income on amount due from a joint venture		(11,912)	—
Fair value changes on structured bank deposits		(57,705)	(84,371)
Fair value changes on contingent consideration payable		10,423	12,728
Loss on disposal of property, plant and equipment		12,386	15,161
Loss on disposal of right-of-use assets		—	1,708
Impairment loss on trade receivables		9,693	2,625
Impairment loss on amounts due from joint ventures		26,733	10,767
Impairment loss on other receivables		1,694	—
Write-down of inventories		1,858	—
Impairment loss of prepayment for acquisition of intangible assets		—	100,000
Shares-based payments		9,126	6,721
Share of results of associates		20,917	—
Share of results of joint ventures		(34,449)	(58,407)
Gain on disposal of subsidiaries	38	(314,901)	(5,807)
Gain on deemed disposal of partial interest in an associate	18	(37,192)	—
Gain on deregistration of a subsidiary		(1,798)	—
Loss on deemed disposal of a subsidiary	38	19,038	—
Loss on deemed disposal of partial interest in a joint venture		—	17,235
Operating cash flows before movements in working capital		6,120,450	5,167,962
Decrease in inventories		601,436	509,315
Increase in trade receivables		(445,452)	(196,742)
Decrease (increase) in deposits, prepayments and other receivables		71,921	(82,378)
Increase in bills receivables		(182,799)	(696,719)
Increase in amounts due from related companies		(105,486)	(76,740)
Increase (decrease) in trade payables		337,706	(511,866)
Increase (decrease) in contract liabilities		162,703	(196,320)
(Decrease) increase in bills payables		(11,527)	166,250
Increase in other payables		461,001	360,498
Increase in government grants		128,868	135,213
Decrease in amounts due from joint ventures		688,218	—
(Decrease) increase in amounts due to joint ventures		(28,726)	104,678
Increase in amounts due to related companies		2,314	—
Cash generated from operations		7,800,627	4,683,151
Income tax paid		(1,061,017)	(866,825)
Interests paid		—	(32,426)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>6,739,610</b>	<b>3,783,900</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>INVESTING ACTIVITIES</b>			
Purchase of and deposits paid for property, plant and equipment		(1,356,241)	(1,882,891)
Acquisition of subsidiaries and assets	37	—	(507,635)
Deposits paid for right-of-use assets		(57,298)	(104,380)
Payments for right-of-use assets		(141,578)	(69,419)
Purchase of other intangible assets		(21,489)	(65,982)
Purchase of other financial assets		(216,024)	(313,492)
Capital injection to an associate		(150,427)	(31,435)
Capital injection to a joint venture		—	(109)
Advance to an associate		(71,070)	—
Advances to joint ventures		(100,238)	(185,278)
Repayment from joint ventures		—	135,822
Payment of contingent consideration		(18,130)	(12,949)
Receipts of government grants related to acquisition of property, plant and equipment		4,728	—
Placement of structured bank deposits		(3,595,000)	(1,053,600)
Placement of restricted bank deposits		(36,571)	(183,384)
Placement of bank deposits		(430,000)	—
Withdrawal of restricted bank deposits		128,771	—
Withdrawal of structured bank deposits		3,861,646	2,510,818
Withdrawal of bank deposits		—	100,000
Decrease (increase) in structured bank deposits with maturity within three months		94,900	(918,640)
Interest received		91,934	64,981
Dividend received from a joint venture		—	25,000
Proceeds on disposal of other financial assets		191,437	16,977
Deregistration of a subsidiary		(2,987)	—
Disposal of subsidiaries	38	(289,675)	10,275
Proceeds on disposal of property, plant and equipment		28,832	8,128
Deemed disposal of a subsidiary	38	(9,753)	—
Deposits paid for acquisition of other financial assets		(35,280)	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,129,513)</b>	<b>(2,457,193)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
<b>FINANCING ACTIVITIES</b>		
Settlement of bills payables	—	(1,504,583)
Dividends paid	<b>(1,527,694)</b>	(965,385)
Dividends paid to non-controlling interests	<b>(7,729)</b>	(2,910)
Purchase of shares under the share award scheme	—	(100,706)
Interest on lease liabilities	<b>(10,322)</b>	—
Interest on bank borrowings	<b>(1,910)</b>	—
Payment of lease liabilities	<b>(92,321)</b>	(64,564)
Repayment to related companies	—	(17,571)
Proceeds from the Share Offer of CSPC XNW	—	1,223,500
Listing expenses from the Share Offer of CSPC XNW	—	(81,091)
New borrowings raised	<b>169,000</b>	23,000
Repayment of borrowings	—	(70,589)
Capital contribution from non-controlling interests	—	15,360
	<hr/>	<hr/>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(1,470,976)</b>	(1,545,539)
	<hr/>	<hr/>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,139,121</b>	(218,832)
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>4,118,236</b>	4,335,613
	<hr/>	<hr/>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>2,101</b>	1,455
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER,</b> represented by bank balances and cash	<b>7,259,458</b>	4,118,236
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL INFORMATION

CSPC Pharmaceutical Group Limited (the “Company”) is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of this annual report.

The Company acts as an investment holding company and its subsidiaries (hereinafter together with the Company collectively referred to as the “Group”) are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 45.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### Amendments to HKFRSs that are mandatorily effect for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the above amendments in the current year has had no material impact on the Group’s financial positions and performance for the current and prior year and/or the disclosures set out in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

### New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendment to HKFRS 16	Covid-19-Related Rent Concessions <sup>4</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021

Except for the amendments to HKFRSs mentioned below, the directors of the Company (the “Directors”) anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### Amendments to HKFRS 3 Reference to the Conceptual Framework

The amendments:

- update a reference in HKFRS 3 Business Combinations so that it refers to the *Conceptual Framework for Financial Reporting 2018 issued in June 2018* (the “Conceptual Framework”) instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010);
- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (“HKAS 37”) or HK(IFRIC) — Int 21 *Levies* (“HK(IFRIC) — Int 21”), an acquirer applies HKAS 37 or HK(IFRIC) — Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition, the results of the valuation technique equals the transaction price.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies

#### ***Basis of consolidation***

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Basis of consolidation** *(continued)*

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

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

#### *Changes in the Group's interests in existing subsidiaries*

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

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

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

#### **Business combinations or asset acquisitions**

##### *Optional concentration test*

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### **Business combinations or asset acquisitions (continued)**

##### *Asset acquisitions*

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets /financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

##### *Business combinations*

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

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Business combinations or asset acquisitions** *(continued)*

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Business combinations or asset acquisitions** *(continued)*

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

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

#### **Goodwill**

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

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

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Investments in associates and joint ventures** *(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 the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interest in the associate or joint venture that is not related to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Revenue from contracts with customers**

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

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

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

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

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

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

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

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

#### **Variable consideration**

For contracts that contain variable consideration (price adjustments), the Group estimates the amount of consideration to which it will be entitled using the expected value method, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Leases**

##### *Definition of a lease*

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

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

##### *The Group as a lessee*

##### *Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

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

##### *Short-term leases*

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

##### *Right-of-use assets*

The cost of right-of-use asset includes:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Leases** *(continued)*

*The Group as a lessee (continued)*

Right-of-use assets *(continued)*

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

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

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Leases** *(continued)*

*The Group as a lessee (continued)*

*Lease liabilities (continued)*

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

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

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

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

Lease modifications

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Leases** *(continued)*

##### *The Group as a lessor*

##### Classification and measurement of leases

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

##### Allocation of consideration to components of a contract

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

#### **Foreign currencies**

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Foreign currencies** *(continued)*

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

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

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

#### **Government grants**

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Employment benefits**

##### *Retirement benefit costs*

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

##### *Short-term employee benefits*

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

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

#### **Share-based payments**

##### *Equity-settled share-based payments transactions*

Shares/Share options granted to employees

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

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

When share options are exercised, the amount previously recognised in share award reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share award reserve will be transferred to accumulated profits.

When shares granted are vested, the amount previously recognised in share award reserve will be transferred to share capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Taxation**

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

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

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

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Taxation** *(continued)*

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

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

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

#### **Property, plant and equipment**

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Property, plant and equipment** *(continued)*

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

#### **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

#### **Intangible assets**

##### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets not yet available for use that are acquired separately are not amortised but tested individually for impairment annually and carried at cost less any subsequent accumulated impairment losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### *Intangible assets (continued)*

*Internally-generated intangible assets – research and development expenditure*

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

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

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

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

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

#### *Intangible assets acquired in a business combination*

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination not yet available for use or with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Intangible assets** *(continued)*

##### *Intangible assets acquired in a business combination (continued)*

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

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

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

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

In testing a cash-generating unit for impairment, corporate assets are allocated to individual CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### ***Inventories***

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

#### ***Provisions***

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

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

#### ***Financial instruments***

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Financial instruments** *(continued)*

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

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

#### *Financial assets*

Classification and subsequent measurement of financial assets

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Financial instruments** *(continued)*

##### *Financial assets (continued)*

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

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

A financial asset is held for trading if:

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

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Financial instruments** *(continued)*

##### *Financial assets (continued)*

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

(ii) Equity instruments designated as at FVTOCI *(continued)*

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

(iii) Financial assets at FVTPL

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

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

#### Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, deposits and other receivables, bills receivables, amounts due from related companies, an associate and joint ventures, bank deposits, restricted bank deposits and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables and trade receivables due from related companies and joint ventures.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Financial instruments** *(continued)*

##### *Financial assets (continued)*

##### *Impairment of financial assets (continued)*

(i) Significant increase in credit risk

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Financial instruments** *(continued)*

##### *Financial assets (continued)*

##### *Impairment of financial assets (continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Financial instruments** *(continued)*

##### *Financial assets (continued)*

##### *Impairment of financial assets (continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

##### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Significant accounting policies *(continued)*

#### **Financial instruments** *(continued)*

##### *Financial assets (continued)*

##### *Derecognition of financial assets (continued)*

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

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

##### *Financial liabilities and equity*

##### *Classification as debt or equity*

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

##### *Equity instruments*

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

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

##### *Financial liabilities*

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

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration of an acquirer in a business combination to which HKFRS 3 applies.

##### *Financial liabilities at amortised cost*

Financial liabilities (including trade payables, other payables, bills payables, amounts due to an associate, joint ventures and related companies and borrowing) are subsequently measured at amortised cost, using the effective interest method.

##### *Derecognition of financial liabilities*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### **Critical judgements in applying accounting policies**

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

### ***Control over YZY Biopharma Co., Ltd. ("YZY Biopharma")***

Note 45 describes that YZY Biopharma was a subsidiary of the Group at 31 December 2019 although the Group had only 39.56% ownership interest and voting rights in YZY Biopharma.

The Directors assessed whether or not the Group had control over YZY Biopharma based on whether the Group had the practical ability to direct the relevant activities of YZY Biopharma unilaterally. As a result of a contractual arrangement with certain shareholders of YZY Biopharma, the Group was given the power to control the majority of the votes in shareholders' and board of directors' meetings of YZY Biopharma that directed the relevant activities of YZY Biopharma. After assessment, the Directors concluded that the Group had control over YZY Biopharma in 2019.

### **Key sources of estimation uncertainty**

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

### ***Provision of ECL for trade receivables***

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on internal credit ratings as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 41.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### **Key sources of estimation uncertainty *(continued)***

#### ***Estimated impairment assessment of goodwill***

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU (or a group of CGUs) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU (or a group of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

As at 31 December 2020, the carrying amount of goodwill was RMB149,983,000 (2019: RMB188,964,000). Details of the recoverable amount calculation are disclosed in note 16.

#### ***Estimated impairment assessment of other intangible assets not yet available for use***

For other intangible assets not yet available for use, the Group would assess the assets individually for impairment annually. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2020, the carrying amounts of other intangible assets not yet available for use are RMB384,837,000 (2019: RMB1,015,677,000). Details of the assessment of impairment of other intangible assets not yet available for use are disclosed in note 17.

#### ***Estimated provision for inventories***

Inventories are valued at the lower of cost and net realisable value. The Group regularly inspects and reviews the ageing of the inventories to identify slow-moving and obsolete inventories. When the Group identifies an item of inventory which has a net realisable value lower than its carrying amount or is slow-moving or obsolete, the Group would write down that inventory in that year. As at 31 December 2020, the net carrying amount of inventories was RMB1,861,066,000 (2019: RMB2,535,743,000), after provision for inventories of RMB7,758,000 (2019: RMB5,900,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### Key sources of estimation uncertainty *(continued)*

#### Fair value measurement of financial assets

As at 31 December 2020, certain unquoted investments of the Group's financial assets amounting to RMB1,840,922,000 (2019: RMB1,035,812,000) were measured at fair values based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 41c for further disclosures.

## 5. REVENUE AND SEGMENT INFORMATION

	2020 RMB'000	2019 RMB'000
Sale of goods	<u>24,942,204</u>	<u>22,103,192</u>

Information reported to executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 Operating Segments are as follows:

- (a) Finished drugs — research and development, manufacture and sale of pharmaceutical products;
- (b) Bulk products — manufacture and sale of vitamin C, antibiotic and other products in bulk powder form; and
- (c) Functional food and others — manufacture and sale of functional food products (including caffeine additives and vitamin supplements), provision of healthcare service and others.

Glucose products were included in the segment of "Functional Food and Others" in prior years. In the current year, as the Directors consider it more appropriate to classify glucose products within bulk products in view of its nature and thus glucose products are included in the segment of antibiotics and others under "Bulk Products" for the current year. The comparative information has been restated to conform with current year's presentation.

Revenue is recognised at a point of time upon control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5. REVENUE AND SEGMENT INFORMATION (continued)

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

As at 31 December 2020 and 2019, all outstanding sales contracts are expected to be fulfilled within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

#### For the year ended 31 December 2020

	Bulk products		Functional food and others	Segment total	Eliminations	Consolidated
	Finished drugs	Vitamin C and others				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE						
External sales	20,404,678	1,859,272	1,372,639	1,305,615	24,942,204	–
Inter-segment sales	–	6,739	115,707	15,106	137,552	(137,552)
TOTAL REVENUE	<u>20,404,678</u>	<u>1,866,011</u>	<u>1,488,346</u>	<u>1,320,721</u>	<u>25,079,756</u>	<u>(137,552)</u>
SEGMENT PROFIT	<u>4,814,309</u>	<u>333,009</u>	<u>119,869</u>	<u>275,160</u>	<u>5,542,347</u>	
Unallocated income						703,535
Unallocated expenses						(189,214)
Share of results of associates						(20,917)
Share of results of joint ventures						34,449
Gain on deemed disposal of partial interest in an associate						37,192
Gain on disposal of subsidiaries						314,901
Loss on deemed disposal of a subsidiary						(19,038)
Finance costs						(12,232)
Profit before tax						<u>6,391,023</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Segment revenues and results (continued)

For the year ended 31 December 2019

	Finished drugs RMB'000	Bulk products		Functional food and others RMB'000 (Restated)	Segment total RMB'000	Eliminations RMB'000	Consolidated RMB'000
		Vitamin C RMB'000	Antibiotics and others RMB'0000 (Restated)				
SEGMENT REVENUE							
External sales	17,937,001	1,921,704	1,052,318	1,192,169	22,103,192	—	22,103,192
Inter-segment sales	—	5,446	121,320	5,214	131,980	(131,980)	—
<b>TOTAL REVENUE</b>	<b>17,937,001</b>	<b>1,927,150</b>	<b>1,173,638</b>	<b>1,197,383</b>	<b>22,235,172</b>	<b>(131,980)</b>	<b>22,103,192</b>
SEGMENT PROFIT	3,943,808	391,271	15,999	252,095	4,603,173		4,603,173
Unallocated income							149,111
Unallocated expenses							(152,103)
Share of results of joint ventures							58,407
Finance costs							(32,426)
Profit before tax							<b>4,626,162</b>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, fair value changes on financial assets measured at FVTPL, finance costs, central administrative expenses, share of results of associates and joint ventures, gain on deemed disposal of partial interest in an associate, gain on disposal of subsidiaries, loss on deemed disposal of partial interest in a joint venture and loss on deemed disposal of a subsidiary. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Other segment information

For the year ended 31 December 2020

	Bulk products		Functional food and others	Segment total	Unallocated	Consolidated
	Finished drugs	Vitamin C				
	RMB'000	RMB'000	RMB'0000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	<u>546,832</u>	<u>84,972</u>	<u>94,837</u>	<u>66,920</u>	<u>15,246</u>	<u>808,807</u>

For the year ended 31 December 2019

	Bulk products		Functional food and others	Segment total	Unallocated	Consolidated
	Finished drugs	Vitamin C				
	RMB'000	RMB'000	RMB'0000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	405,202	94,675	99,387	70,091	22,240	691,595
Impairment loss of prepayment for acquisition of intangible asset	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>100,000</u>

### Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of customers:

	2020 RMB'000	2019 RMB'000
The PRC (country of domicile)	<b>21,615,773</b>	18,897,453
Other Asian regions	<b>872,244</b>	1,045,038
Americas	<b>1,252,436</b>	974,937
Europe	<b>987,194</b>	1,093,405
Others	<b>214,557</b>	92,359
	<u><b>24,942,204</b></u>	<u>22,103,192</u>

The Group's operations are substantially based in the PRC and substantially all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 6. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on discounted bills receivables	—	22,694
Interest on lease liabilities	10,322	7,739
Interest on bank borrowings	1,910	1,993
	<u>12,232</u>	<u>32,426</u>

## 7. PROFIT FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration (note 9)		
— salaries, wages and other benefits	2,771,548	1,912,253
— contribution to retirement benefit schemes	97,128	142,693
— shared-based payment expense	9,126	6,721
Total staff costs	<u>2,877,802</u>	<u>2,061,667</u>
Amortisation of other intangible assets	15,121	17,954
Depreciation of right-of-use assets	120,713	85,749
Depreciation of property, plant and equipment	671,254	587,892
Depreciation of investment property	1,719	—
Total depreciation and amortisation	<u>808,807</u>	<u>691,595</u>
Auditor's remuneration		
— audit services	4,217	3,872
— non-audit services	4,860	1,200
Government grant income (included in other income) (note 34)	(111,606)	(135,748)
Impairment loss of prepayment for acquisition of intangible asset (included in other expenses) (note a)	—	100,000
Interest income on bank balances (included in other income)	(102,820)	(64,740)
Fair value changes on financial assets measured at FVTPL (included in other gain or losses)	(531,097)	—
Fair value changes on structured bank deposits (included in other gains or losses)	(57,705)	(84,371)
Fair value changes on contingent consideration payables (included in other gains or losses)	10,423	12,728
Loss on disposal of property, plant and equipment (included in other gains or losses)	12,386	15,161
Net foreign exchange loss (gain) (included in other gains or losses)	127,465	(18,563)
Loss on deemed disposal of partial interest in a joint venture (included in other gains or losses)	—	17,235
Impairment losses recognised under expected credit loss model, net of reversal (included in other gains or losses)	38,120	13,392
	<u>38,120</u>	<u>13,392</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 7. PROFIT FOR THE YEAR (continued)

Notes:

- (a) During the year ended 31 December 2019, a collaboration agreement for acquiring exclusive commercialisation right of a drug under development was terminated and an impairment provision of RMB100,000,000 in respect of the upfront payment was recognised and included in other expenses.
- (b) Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss for the years ended 31 December 2020 and 2019.

## 8. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current taxation:		
– PRC Enterprise Income Tax (“PRC EIT”)	1,039,914	786,220
– PRC withholding tax on dividends distributed by subsidiaries	136,419	94,815
– United States of America (“USA”) Federal and State Income tax	4,714	3,148
	<u>1,181,047</u>	884,183
Deferred taxation (note 33)	<u>(19,034)</u>	8,627
	<u><u>1,162,013</u></u>	<u><u>892,810</u></u>

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company’s PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the “EIT Law”) and implementation regulations of the EIT Law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15%.

The calculation of USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 8. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Profit before tax	<b>6,391,023</b>	4,626,162
Tax at the PRC EIT rate of 25%	<b>1,597,756</b>	1,156,540
Tax effect of expenses not deductible for tax purpose	<b>208,774</b>	141,574
Tax effect of income not taxable for tax purpose	<b>(104,579)</b>	—
Tax effect of share of results of associates	<b>5,229</b>	—
Tax effect of share of results of joint ventures	<b>(8,612)</b>	(14,602)
Tax effect of tax losses not recognised	<b>121,847</b>	107,605
Effect of tax relief and concessions granted to certain PRC subsidiaries	<b>(804,608)</b>	(628,857)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(213)</b>	(485)
PRC withholding tax on dividends distribution by subsidiaries	<b>146,419</b>	131,035
Income tax expense for the year	<b>1,162,013</b>	892,810

Details of deferred taxation and unused tax losses are set out in note 33.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 16 (2019: 15) directors were as follows:

### 2020

	Executive directors										Non-executive director	Independent non-executive directors					Total
	Cai Dongchen (Chairman and Chief Executive)	Zhang Cullong	Wang Zhenguo	Pan Weidong	Wang Huaiyu	Lu Hua	Li Chunlei	Wang Qingxi	Chak Kin Man	Jiang Hao	Lee Ka Sze, Carmelo	Chan Siu Keung, Leonard	Wang Bo	Lo Yuk Lam	Yu Jiming	Chen Chuan	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Fees	53	53	53	53	53	–	53	53	53	4	338	240	107	107	89	107	1,416
Salaries and allowances	4,274	693	693	693	693	404	693	1,725	2,003	60	–	–	–	–	–	–	11,931
Performance-related bonuses	7,120	8,010	5,340	3,560	3,560	–	3,560	890	2,670	890	–	–	–	–	–	–	35,600
Contributions to retirement benefit schemes	394	56	56	73	56	42	56	75	185	12	–	–	–	–	–	–	1,005
<b>Total emoluments</b>	<b>11,841</b>	<b>8,812</b>	<b>6,142</b>	<b>4,379</b>	<b>4,362</b>	<b>446</b>	<b>4,362</b>	<b>2,743</b>	<b>4,911</b>	<b>966</b>	<b>338</b>	<b>240</b>	<b>107</b>	<b>107</b>	<b>89</b>	<b>107</b>	<b>49,952</b>

### 2019

	Executive directors										Non-executive director	Independent non-executive directors					Total
	Cai Dongchen (Chairman and Chief Executive)	Zhang Cullong	Wang Zhenguo	Pan Weidong	Wang Huaiyu	Lu Hua	Li Chunlei	Wang Qingxi	Chak Kin Man	Jiang Hao	Lee Ka Sze, Carmelo	Chan Siu Keung, Leonard	Wang Bo	Lo Yuk Lam	Yu Jiming	Chen Chuan	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Fees	53	53	53	53	53	53	53	53	53	53	334	238	106	106	88	106	1,455
Salaries and allowances	4,226	693	693	693	693	693	701	1,725	1,981	–	–	–	–	–	–	–	12,098
Performance-related bonuses	7,480	5,720	5,280	3,080	3,080	2,376	3,960	880	2,640	–	–	–	–	–	–	–	34,496
Contributions to retirement benefit schemes	390	61	64	80	64	64	65	77	183	–	–	–	–	–	–	–	1,048
<b>Total emoluments</b>	<b>12,149</b>	<b>6,527</b>	<b>6,090</b>	<b>3,906</b>	<b>3,890</b>	<b>3,186</b>	<b>4,779</b>	<b>2,735</b>	<b>4,857</b>	<b>334</b>	<b>238</b>	<b>106</b>	<b>106</b>	<b>88</b>	<b>106</b>	<b>106</b>	<b>49,097</b>

#### Notes:

- (i) Dr. Lu Hua resigned as an executive director on 14 August 2020.
- (ii) Dr. Jiang Hao was appointed as an executive director on 24 November 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The performance-related incentive payment is determined by the remuneration committee for both years having regard to the performance of the Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the Directors waived any emoluments in both years.

Mr. Cai Dongchen is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive. The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as the Directors for the Company.

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received market remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its fellow subsidiaries or subsidiaries was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group for the year ended 31 December 2020 included 5 (2019: 5) directors and the chief executive of the Company, details of whose emoluments are set out in note 9 above.

No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

## 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings for the purpose of basic and diluted earnings per share	<u>5,159,655</u>	<u>3,714,106</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 11. EARNINGS PER SHARE (continued)

	2020 '000	2019 '000 (Restated)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	11,954,570	11,954,967
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	<u>967</u>	<u>917</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>11,955,537</b></u>	<u><b>11,955,884</b></u>

The weighted average number of ordinary shares for the calculation of earnings per share for both years has been adjusted for the effects of the bonus issues on 3 July 2020 and 29 October 2020 and the shares held by the trustee pursuant to the share award scheme.

The computation of diluted earnings per share does not assume the exercise of a subsidiary's share options since their assumed exercise would result in an increase in earnings per share.

## 12. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2020 Interim, paid — HK6 cents (equivalent to RMB5.3 cents) (2019: nil) per share	395,134	—
2019 Final, paid — HK20 cents (equivalent to RMB18.2 cents) (2019: 2018 Final, paid — HK18 cents (equivalent to RMB15.5 cents)) per share	1,135,014	966,935
Less: Dividend for shares held by share award scheme	<u>(2,454)</u>	<u>(1,550)</u>
	<u><b>1,527,694</b></u>	<u><b>965,385</b></u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HK9 cents per ordinary share, in an aggregate amount of approximately RMB903,765,000, has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2019	3,004,354	4,468,358	218,243	24,424	1,780,562	9,495,941
Exchange adjustments	877	607	165	72	140	1,861
Additions	5,813	92,324	24,826	5,852	2,055,787	2,184,602
Transfers	686,252	1,360,393	69,263	—	(2,115,908)	—
Acquisition of subsidiaries and assets (note 37)	—	7,784	40	454	187,765	196,043
Disposals	(21,087)	(95,000)	(4,061)	(4,871)	—	(125,019)
Disposal of subsidiaries (note 38)	—	—	(559)	—	(3,588)	(4,147)
At 31 December 2019	<b>3,676,209</b>	<b>5,834,466</b>	<b>307,917</b>	<b>25,931</b>	<b>1,904,758</b>	<b>11,749,281</b>
Exchange adjustments	(3,801)	(3,121)	(191)	(127)	(96)	(7,336)
Additions	51,352	93,676	16,188	2,331	860,357	1,023,904
Transfers	444,828	368,251	91,900	621	(905,600)	—
Transfer to investment property (note 15)	(37,125)	—	—	—	—	(37,125)
Disposals	(7,279)	(100,238)	(15,705)	(8,024)	—	(131,246)
Deemed disposal of a subsidiary (note 38)	(27,955)	(41,155)	(748)	(251)	(22,671)	(92,780)
Disposal of subsidiaries (note 38)	(526,965)	(597,245)	(7,893)	(5,730)	(353,689)	(1,491,522)
At 31 December 2020	<b>3,569,264</b>	<b>5,554,634</b>	<b>391,468</b>	<b>14,751</b>	<b>1,483,059</b>	<b>11,013,176</b>
<b>DEPRECIATION AND IMPAIRMENT</b>						
At 1 January 2019	823,860	1,842,629	119,865	17,367	—	2,803,721
Exchange adjustments	73	174	41	59	—	347
Provided for the year	139,243	413,417	30,854	4,378	—	587,892
Eliminated on disposals	(11,706)	(83,900)	(1,600)	(4,524)	—	(101,730)
Eliminated on disposal of subsidiaries (note 38)	—	—	(125)	—	—	(125)
At 31 December 2019	<b>951,470</b>	<b>2,172,320</b>	<b>149,035</b>	<b>17,280</b>	<b>—</b>	<b>3,290,105</b>
Exchange adjustments	(308)	(887)	(100)	(91)	—	(1,386)
Provided for the year	152,100	473,101	42,436	3,617	—	671,254
Eliminated on disposals	(3,245)	(64,771)	(14,070)	(7,942)	—	(90,028)
Eliminated on deemed disposal of a subsidiary (note 38)	(4,049)	(10,928)	(382)	(251)	—	(15,610)
Eliminated on disposal of subsidiaries (note 38)	(189,292)	(411,859)	(8,301)	(2,149)	—	(611,601)
At 31 December 2020	<b>906,676</b>	<b>2,156,976</b>	<b>168,618</b>	<b>10,464</b>	<b>—</b>	<b>3,242,734</b>
<b>CARRYING VALUES</b>						
At 31 December 2020	<b>2,662,588</b>	<b>3,397,658</b>	<b>222,850</b>	<b>4,287</b>	<b>1,483,059</b>	<b>7,770,442</b>
At 31 December 2019	<u>2,724,739</u>	<u>3,662,146</u>	<u>158,882</u>	<u>8,651</u>	<u>1,904,758</u>	<u>8,459,176</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group has obtained the formal title for all buildings in the PRC except for buildings with carrying amount of RMB278,354,000 (2019: RMB70,430,000) in which the Group is in the process of obtaining.

The above items of property, plant and equipment, except for construction in progress, after taking account their residual values, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 20 to 25 years
Plant and machinery	8% — 20%
Furniture, fixtures and office equipment	20% — 33.33%
Motor vehicles	20%

## 14. RIGHT-OF-USE ASSETS

	<b>Land and buildings</b>
	<i>RMB'000</i>
CARRYING VALUES	
At 1 January 2019	723,977
Additions	118,414
Acquisition of subsidiaries <i>(note 37)</i>	68,703
Disposals	(1,708)
Depreciation provided for the year	(85,749)
Exchange adjustment	(435)
	<u>823,202</u>
At 31 December 2019	<b>823,202</b>
Additions	<b>616,611</b>
Adjustments on lease modifications	<b>7,853</b>
Disposal of subsidiaries <i>(note 38)</i>	<b>(149,418)</b>
Deemed disposal of a subsidiary <i>(note 38)</i>	<b>(9,711)</b>
Depreciation provided for the year	<b>(120,713)</b>
Exchange adjustment	<b>(3,926)</b>
	<u>1,163,898</u>
At 31 December 2020	<b>1,163,898</b>
	<u>1,163,898</u>
	<b>2020</b>
	<b>RMB'000</b>
	2019
	<i>RMB'000</i>
Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	<b>2,771</b>
	10,541
Total cash outflows for leases <i>(note)</i>	<b>246,992</b>
	<u>152,263</u>

Note: Amount includes payments of principal and interest portion of lease liabilities, short-term leases and payments for right-of-use assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 14. RIGHT-OF-USE ASSETS (continued)

The Group has entered into contracts to lease certain land and buildings for its operations for a fixed term of one year to twenty years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, lease liabilities of RMB217,714,000 (2019: RMB164,535,000) are recognised with related right-of-use assets of RMB205,719,000 as at 31 December 2020 (2019: RMB161,530,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## 15. INVESTMENT PROPERTY

	RMB'000
COST	
At 1 January 2019 and 31 December 2019	—
Transfer from property, plant and equipment (note 13)	<u>37,125</u>
At 31 December 2020	<u>37,125</u>
DEPRECIATION	
At 1 January 2019 and 31 December 2019	—
Provided for the year	<u>1,719</u>
At 31 December 2020	<u>1,719</u>
CARRYING VALUES	
At 31 December 2020	<u><u>35,406</u></u>
At 31 December 2019	<u><u>—</u></u>

The investment property is depreciated on a straight-line basis over the shorter of lease terms of the leasehold land or 5% per annum.

The fair value of the Group's investment property at 31 December 2020 was approximately RMB57,789,000. The fair value was determined by the Directors with reference to recent market evidence of transaction prices for similar properties in similar locations and conditions.

In estimating the fair value of the property, the highest and best use of the property is its current use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 16. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	RMB'000
COST	
At 1 January 2019	140,752
Arising on acquisition of a subsidiary (note 37)	<u>48,212</u>
At 31 December 2019	<b>188,964</b>
Deemed disposal of a subsidiary (note 38)	<u>(38,981)</u>
At 31 December 2020	<b><u>149,983</u></b>

For the purpose of impairment testing, goodwill has been allocated to four individual CGUs as at 31 December 2020 (2019: five). The carrying amount of goodwill as at 31 December 2020 and 2019 allocated to these units is as follows:

	2020 RMB'000	2019 RMB'000
Ouyi Group (note a)	82,172	82,172
Baike Group (note a)	17,875	17,875
Gold Faith Group (note a)	1,724	1,724
YZY Biopharma (note b)	—	38,981
Yong Shun Group (note c)	<u>48,212</u>	<u>48,212</u>
	<b><u>149,983</u></b>	<b><u>188,964</u></b>

Notes:

- (a) The recoverable amounts of Ouyi (as defined in note 45) and its subsidiaries (collectively referred to as "Ouyi Group"), Baike Shandong (as defined in note 45) and its subsidiaries (collectively referred to as "Baike Group"), and Gold Faith Investments Limited ("Gold Faith") and its subsidiaries (collectively referred to as "Gold Faith Group") have been determined based on value in use calculations with certain key assumptions. The calculations use cash flow projections based on financial budgets approved by management. The pre-tax discount rates used to discount the projected cash flows of Ouyi Group, Baike Group and Gold Faith Group are at a range of 12% to 15% (2019: 12% to 15%) per annum. Cash flows beyond the forecasted period are extrapolated using a steady 3% (2019: 3%) growth rate. The long-term growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin based on past performance and management's expectation of the market development. The Directors believe that any reasonably possible changes in any of these assumptions would not cause the carrying amounts to exceed the recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 16. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL *(continued)*

Notes: *(continued)*

- (b) As at 31 December 2019, the recoverable amount of YZY Biopharma had been determined based on value in use calculation with certain key assumptions. The calculation used cash flow projection based on financial budget approved by the management. The pre-tax discount rate used to discount the projected cash flows of YZY Biopharma was 22% per annum. Cash flows beyond the forecasted period were extrapolated using a steady 3% growth rate. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which included budgeted sales and gross margin based on management's expectations of the market development. The Directors believed that any reasonably possible changes in any of these assumptions would not cause the carrying amount to exceed the recoverable amount.

During the year ended 31 December 2020, the Group lost control over YZY Biopharma through deemed disposal and thus the goodwill was derecognised. Details of deemed disposal are set out in note 38.

- (c) The recoverable amount of Yong Shun Group (as defined in note 37) has been determined based on value in use calculation with certain key assumptions. The calculation uses cash flow projection based on financial budget approved by the management. The pre-tax discount rate used to discount the projected cash flows of Yong Shun Group is 21% per annum (2019: 23%). Cash flows beyond the forecasted period are extrapolated using a steady 3% growth rate (2019: 3%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin based on management's expectations of the market development. The Directors believe that any reasonably possible changes in any of these assumptions would not cause the carrying amount to exceed the recoverable amount. In the opinion of the Directors, no impairment was recognised during the year as the clinical stage of the drug candidates has progressed as planned during the year.

During the years ended 31 December 2020 and 2019, the Directors determine that there is no impairment of any of its CGUs containing goodwill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 17. OTHER INTANGIBLE ASSETS

	Development costs	In-process research and development projects	Exclusive distribution right	Licenses and patents	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note a)	(note b)	(note c)		
<b>COST</b>					
At 1 January 2019	111,339	631,906	103,723	112,597	959,565
Acquisition of subsidiaries (note 37)	—	280,048	—	—	280,048
Additions	5,982	—	—	60,000	65,982
Exchange adjustments	—	—	—	768	768
	<u>117,321</u>	<u>911,954</u>	<u>103,723</u>	<u>173,365</u>	<u>1,306,363</u>
At 31 December 2019	<b>117,321</b>	<b>911,954</b>	<b>103,723</b>	<b>173,365</b>	<b>1,306,363</b>
Additions	10,423	1,066	—	10,000	21,489
Deemed disposal of a subsidiary (note 38)	(554)	(631,906)	—	—	(632,460)
Exchange adjustments	—	—	—	(2,208)	(2,208)
	<u>127,190</u>	<u>281,114</u>	<u>103,723</u>	<u>181,157</u>	<u>693,184</u>
At 31 December 2020	<b>127,190</b>	<b>281,114</b>	<b>103,723</b>	<b>181,157</b>	<b>693,184</b>
<b>AMORTISATION</b>					
At 1 January 2019	104,317	—	—	48,262	152,579
Provided for the year	4,922	—	—	13,032	17,954
Exchange adjustments	—	—	—	168	168
	<u>109,239</u>	<u>—</u>	<u>—</u>	<u>61,462</u>	<u>170,701</u>
At 31 December 2019	<b>109,239</b>	<b>—</b>	<b>—</b>	<b>61,462</b>	<b>170,701</b>
Provided for the year	4,359	—	—	10,762	15,121
Deemed disposal of a subsidiary (note 38)	(554)	—	—	—	(554)
Exchange adjustments	—	—	—	(826)	(826)
	<u>113,044</u>	<u>—</u>	<u>—</u>	<u>71,398</u>	<u>184,442</u>
At 31 December 2020	<b>113,044</b>	<b>—</b>	<b>—</b>	<b>71,398</b>	<b>184,442</b>
<b>CARRYING VALUES</b>					
At 31 December 2020	<u>14,146</u>	<u>281,114</u>	<u>103,723</u>	<u>109,759</u>	<u>508,742</u>
At 31 December 2019	<u>8,082</u>	<u>911,954</u>	<u>103,723</u>	<u>111,903</u>	<u>1,135,662</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 17. OTHER INTANGIBLE ASSETS (continued)

Notes:

- (a) Development costs mainly represent costs internally generated or techniques acquired from third parties for the development of products and production technology.
- (b) In-process research and development projects ("IPR&D"s) were acquired through business combination. IPR&Ds are not yet available for use and are not amortised, but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.
- (c) During the year ended 31 December 2018, the Group entered into an agreement with a third party for acquisition of an exclusive distribution right in relation to the commercialisation of a drug that has already received regulatory approval from United States Food and Drug Administration. Pursuant to the agreement, the Group is responsible for the approval application and commercialisation of the product in the PRC.

The consideration payable by the Group comprises upfront payments and milestone payments subject to the progress of obtaining product regulatory approval in the PRC, and an aggregate amount of United States Dollars ("US\$") 15,000,000 (approximately RMB103,723,000) paid by the Group was capitalised as an intangible asset.

The exclusive distribution right is not yet available for use and is not amortised, but tested individually for impairment annually until regulatory approval of the product in the PRC has been obtained.

The recoverable amount of each IPR&D and exclusive distribution right has been determined based on a value in use calculation using cash flow projection which is based on financial forecast approved by the Directors. The pre-tax discount rates applied to the cash flow projections are 18% to 23%, which are determined by reference to the average discount rate for each IPR&D and exclusive distribution right with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of IPR&Ds and exclusive distribution right:

The estimation of cash inflows/outflows include budgeted sales and gross margin based on management's expectation of the market development.

Discount rate — The discount rate used is before tax and reflects specific risks in respect of the related research and development efforts.

Growth rate — The growth rate is based on the estimated growth rate of related products taking into account the industry growth rate, past experience and the medium-term or long-term growth target.

The above other intangible assets having finite useful lives are amortised on a straight-line basis over their estimated useful lives:

Development costs	3 to 10 years
Licenses and patents	3 to 10 years

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 18. INTERESTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Cost of investments in associates	592,557	231,135
Share of post-acquisition losses	(20,917)	—
	<b>571,640</b>	<b>231,135</b>

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/ voting rights held by the Group		Principal activities
			2020	2019	
Beijing Guoxinhuijin Co, Ltd. ("Guoxin") (note a)	Limited liability	The PRC	<b>30.07%</b>	30.07%	Network media
YZY Biopharma (note b)	Limited liability	The PRC	<b>35.56%</b>	N/A	Research and development of pharmaceutical products
Shijiazhuang High Tech Zone Puenguoixin Investment Center (Limited Partnership)	Limited Partnership	The PRC	<b>21.50%</b>	21.50%	Investment holding
Wuhan KDWS Biological Technology Co., Ltd ("KDWS") (note c)	Limited liability	The PRC	<b>6.98%</b>	6.98%	Research and development of pharmaceutical products

Notes:

- (a) Pursuant to an agreement entered into between CSPC XNW, a subsidiary of the Company, and Guoxin on 12 December 2019, CSPC XNW subscribed for 26 million shares of Guoxin for a consideration of RMB156,062,000, with RMB31,435,000 paid in 2019 and the remaining balance of RMB124,627,000 fully settled by instalments during the year ended 31 December 2020. Upon completion of the subscription, the Group held 30.07% of the enlarged equity interest in Guoxin and the investment was accounted for as an investment in an associate using the equity method.
- (b) YZY Biopharma became an associate of the Company through deemed disposal during the year ended 31 December 2020. Details are set out in note 38.
- During the year ended 31 December 2020, the Group's equity interest in YZY Biopharma was further diluted to 35.56% upon additional capital contribution from other equity owners on 2 December 2020 resulting in gain on deemed disposal of RMB37,192,000.
- (c) The Group has significant influence through its board representation in KDWS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 18. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of the Group's associates which represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs, is set out below:

### Guoxin

	2020 RMB'000	2019 RMB'000 (Restated)
Current assets	262,643	217,382
Non-current assets	526,593	548,520
Current liabilities	(21,479)	(12,001)
Non-current liabilities	<u>(78,080)</u>	<u>(81,435)</u>

Guoxin recorded revenue of RMB94,222,000 and profit and total comprehensive income of RMB17,170,000 for the year ended 31 December 2020. The amounts of revenue and profit and total comprehensive income of Guoxin were insignificant to the Group for the period from 12 December 2019 (date of acquisition) to 31 December 2019.

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2020 RMB'000	2019 RMB'000 (Restated)
Net assets of Guoxin	689,677	672,446
Proportion of the Group's ownership interest in Guoxin	<u>30.07%</u>	<u>30.07%</u>
The Group's share of net assets of Guoxin	207,389	202,226
Goodwill (Note)	<u>28,909</u>	<u>28,909</u>
Carrying amount of the Group's interest in Guoxin	<u><u>236,298</u></u>	<u><u>231,135</u></u>

Note: In December 2019, the Group recognised the provisional amounts of purchase considerations, fair value of identifiable assets acquired and goodwill in its consolidated financial statements for the year ended 31 December 2019. During the current year (i.e. within the measurement period), the fair value assessment in respect of the acquisition has been completed and an adjustment has been made to those identifiable assets acquired and goodwill recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 18. INTERESTS IN ASSOCIATES (continued)

### YZY Biopharma

	2020 RMB'000
Current assets	192,561
Non-current assets	633,296
Current liabilities	(127,416)
Non-current liabilities	<u>(84,942)</u>

	1.4.2020 to 31.12.2020 RMB'000
Revenue	—
Loss and total comprehensive expense for the period	(65,924)
Dividends received from the associate during the period	<u>—</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2020 RMB'000
Net assets of YZY Biopharma	613,499
Proportion of the Group's ownership interest in YZY Biopharma	<u>35.56%</u>
The Group's share of net assets of YZY Biopharma	218,160
Goodwill	<u>44,182</u>
Carrying amount of the Group's interest in YZY Biopharma	<u><u>262,342</u></u>

Note: The loss and total comprehensive expense for the period from 1 January 2020 to 31 March 2020 before deemed disposal was approximately RMB18,186,000.

The aggregate information of associates that are not individually material is considered insignificant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 19. INTERESTS IN JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

	2020 RMB'000	2019 RMB'000
Cost of investment in joint ventures	113,288	77,248
Deemed capital contribution (Note)	38,497	24,079
Share of post-acquisition profits, net of dividends received	109,761	75,312
	<b>261,546</b>	176,639

Note: Deemed capital contribution represents capitalisation of the imputed interest of advance to a joint venture.

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/ voting rights held		Principal activities
			by the Group 2020	2019	
Hebei Boao Medical Laboratory Co., Ltd ("Boao") (note a)	Limited liability	The PRC	—	49%	Provision of pharmaceutical research and development services
Hebei Huarong Pharmaceutical Co., Ltd ("Huarong") (note b)	Sino foreign equity joint venture	The PRC	26.47%	26.47%	Manufacture and sale of Vitamin B12 product
Yantai Jiashi Pharmaceutical Technology Co., Ltd ("Yantai Jiashi")	Sino foreign equity joint venture	The PRC	50%	50%	Provision of pharmaceutical research and development services
Bioworkshops Limited ("Bioworkshops") (note a)	Limited liability	The British Virgin Islands ("BVI")/the PRC	78%	78%	Provision of pharmaceutical research and development services
CSPC Zhongcheng Pharmaceutical Logistics Co., Limited ("Zhongcheng Logistics") (note c)	Limited liability	The PRC	49.5%	—	Storage, sourcing and distribution

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 19. INTERESTS IN JOINT VENTURES (continued)

Notes:

- (a) Pursuant to the relevant agreements and articles of association of Boao and Bioworkshops, the strategic financial and operating decisions relating to the relevant activities require the unanimous consent of all the joint venture partners. Accordingly, Boao and Bioworkshops were accounted for as joint ventures as at 31 December 2019. Boao is the joint venture of Zhongcheng Logistics which was disposed of on 30 April 2020. Thus, it ceased to be a joint venture of the Group with effect from 1 May 2020 while Bioworkshops remains as a joint venture of the Group as at 31 December 2020. Details of disposal are set out in note 38.
- (b) During the year ended 31 December 2019, the Group's equity interest in Huarong was diluted to 26.47% upon additional capital contribution from other equity owners on 18 March 2019 while the Group had decided not to make the proportional contribution. Pursuant to the relevant agreement and articles of association of Huarong, the strategic financial and operating decisions relating to the relevant activities required the unanimous consent of all the joint venture partners. Accordingly, Huarong remained to be accounted for as a joint venture. The Group recognised a loss on deemed disposal of partial interest in Huarong of RMB17,235,000 resulting from the dilution event during the year ended 31 December 2019.
- (c) On 16 April 2020, the Group entered into an agreement with an independent third party to dispose of its 49.5% equity interest in CSPC Zhongcheng Logistics and the disposal was completed on 30 April 2020 with the Group losing control in Zhongcheng Logistics. Pursuant to the relevant agreements and articles of association of Zhongcheng Logistics, the strategic financial and operating decisions relating to the relevant activities require the unanimous consent of all the joint venture partners. Accordingly, Zhongcheng Logistics became a joint venture of the Group with effect from 1 May 2020. Details of disposal are set out in note 38.

Summarised financial information in respect of the Group's material joint ventures which represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs is set out below.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

### Huarong

	2020 RMB'000	2019 RMB'000
Current assets	634,046	440,563
Non-current assets	631,172	527,469
Current liabilities	(336,801)	(328,552)
Non-current liabilities	—	(1,602)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	344,574	75,773
Non-current financial liabilities (excluding trade and other payables and provisions)	—	(1,602)
Revenue	849,226	904,004
Profit and total comprehensive income for the year	290,539	215,495
Dividends received from Huarong during the year	—	25,000
The above profit for the year includes the following:		
Depreciation and amortisation	(43,051)	(36,056)
Interest income	2,758	3,176
Income tax expense	(52,465)	(46,307)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 19. INTERESTS IN JOINT VENTURES (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Huarong recognised in the consolidated financial statements:

	2020 RMB'000	2019 RMB'000
Net assets of Huarong	928,417	637,878
Proportion of the Group's ownership interest in Huarong	<u>26.47%</u>	<u>26.47%</u>
Net assets of the Joint Venture attributable to the Group's interest	245,752	168,846
Other adjustment	<u>(7,059)</u>	<u>(7,059)</u>
	<u><u>238,693</u></u>	<u><u>161,787</u></u>

### Zhongcheng Logistics

	2020 RMB'000
Current assets	207,237
Non-current assets	1,301,382
Current liabilities	(1,452,686)
Non-current liabilities	(9,765)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	95,777
Current financial liabilities (excluding trade and other payables and provisions)	(183,788)
Non-current financial liabilities (excluding trade and other payables and provisions)	<u>—</u>

	1.5.2020 to 31.12.2020 RMB'000
Revenue	2,960,202
Loss and total comprehensive expense for the period	(27,160)
Dividends received from Zhongcheng Logistics during the period	—

The above loss for the period includes the following:

Depreciation and amortisation	(21,475)
Interest income	4,433
Income tax expense	<u>(9,974)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 19. INTERESTS IN JOINT VENTURES *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Zhongcheng Logistics recognised in the consolidated financial statements:

	2020 RMB'000
Net assets of Zhongcheng Logistics	46,168
Proportion of the Group's ownership interest in Zhongcheng Logistics	<u>49.5%</u>
	<u><u>22,853</u></u>

### Aggregate information of joint ventures that are not individually material

	2020 RMB'000	2019 RMB'000
The Group's share of losses and total comprehensive expense	(29,012)	(9,424)
Unrecognised share of losses of joint ventures for the year	(13,912)	(18,082)
Cumulative unrecognised share of losses of joint ventures	<u>(31,994)</u>	<u>(18,082)</u>

## 20. OTHER FINANCIAL ASSETS

	2020 RMB'000	2019 RMB'000
Unlisted investments in partnerships and funds	1,239,585	592,404
Listed equity securities	36,102	42,656
Unlisted equity securities	<u>601,337</u>	<u>443,408</u>
	<u><u>1,877,024</u></u>	<u><u>1,078,468</u></u>
Analysed as:		
Financial assets measured at FVTPL	1,239,585	592,940
Financial assets measured at FVTOCI <i>(Note)</i>	<u>637,439</u>	<u>485,528</u>
	<u><u>1,877,024</u></u>	<u><u>1,078,468</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 20. OTHER FINANCIAL ASSETS (continued)

Note: The Directors have elected to designate these investments to be measured at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

The Directors consider that the Group does not have any control nor significant influence to affect the variable returns through its investment in those enterprises or similar activities.

In the current year, the Group disposed of some of the investments for a consideration of RMB190,946,000 (2019: RMB16,977,000), which was also the fair value as at the date of disposal. A cumulative gain on disposal of RMB70,452,000 (2019: RMB516,000) has been transferred to accumulated profits.

## 21. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	525,200	458,756
Work in progress	203,886	362,769
Finished goods	<u>1,131,980</u>	<u>1,714,218</u>
	<u><b>1,861,066</b></u>	<u><b>2,535,743</b></u>

The inventories are net of a provision of RMB7,758,000 as at 31 December 2020 (2019: RMB5,900,000).

## 22. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	2,421,295	2,273,530
Less: allowance for impairment	<u>(22,436)</u>	<u>(14,686)</u>
	<u><b>2,398,859</b></u>	<u><b>2,258,844</b></u>

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB2,064,925,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 22. TRADE RECEIVABLES (continued)

The Group allows a general credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on the invoice dates which approximated the respective revenue recognition dates:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 90 days	2,209,401	2,124,588
91 to 180 days	176,777	125,010
181 to 365 days	11,281	2,830
More than 365 days	1,400	6,416
	<u>2,398,859</u>	<u>2,258,844</u>

Trade receivables with aggregate carrying amount of RMB189,458,000 (2019: RMB134,256,000) are past due as at the reporting date. The amounts are not considered as in default because there has not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

As at 31 December 2020, the Group's trade receivables denominated in US\$ amounted to RMB359,844,000 (2019: RMB366,749,000).

Details of impairment assessment of trade receivables are set out in note 41.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Prepayments	90,098	180,930
Deposits paid for property, plant and equipments and right-of-use assets	461,437	343,380
Consideration receivable for disposal of a subsidiary (note 38)	150,914	—
Other taxes recoverable	134,215	131,778
Others	152,981	254,544
	<b>989,645</b>	<b>910,632</b>
Analysed as:		
Current	484,289	567,252
Non-current	505,356	343,380
	<b>989,645</b>	<b>910,632</b>

Details of impairment assessment of deposits and other receivables are set out in note 41.

## 24. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (2019: less than 365 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information, experience and forward-looking information that is available without undue cost or effort.

## 25. STRUCTURED BANK DEPOSITS

Structured bank deposits of RMB822,470,000 carry no guaranteed return and have a total expected return up to 5.2% per annum (2019: RMB93,700,000 carried no guaranteed return and had total expected return up to 3.5% per annum), depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the terms of relevant deposits.

Structured bank deposits of RMB712,737,000 carry guaranteed return of 1.4% per annum and have a total expected return up to 4.6% per annum (2019: RMB1,744,459,000 carried guaranteed return of 3.8% per annum and had total expected return up to 5.7% per annum), depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 25. STRUCTURED BANK DEPOSITS *(continued)*

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives.

As at 31 December 2020, structured bank deposits of nil (2019: RMB195,000,000) have been pledged to secure certain banking facilities of the Group.

## 26. RESTRICTED BANK DEPOSITS/BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposits and bank balances carry interest at market interest rates ranging from 0.01% to 2.90% (2019: 0.01% to 3.00%) per annum.

As at 31 December 2020, bank deposits with a term of three years amounting RMB430,000,000 carried interest at market interest rates ranging from 3.31% to 4.13% per annum (2019: nil).

As at 31 December 2020 and 2019, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade payables and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term bank facilities.

The restricted bank deposits, bank deposits and bank balances that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
HK\$	<b>164,701</b>	76,230
US\$	<b>335,764</b>	273,112
	<b><u>          </u></b>	<b><u>          </u></b>

## 27. TRADE PAYABLES

The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
0 to 90 days	<b>1,011,690</b>	941,700
91 to 180 days	<b>39,574</b>	34,626
More than 180 days	<b>153,302</b>	134,557
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>1,204,566</u></b>	<b><u>1,110,883</u></b>

The general credit period on purchases of goods is up to 90 days (2019: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 28. OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other tax payable	131,291	118,071
Selling expense payable	1,912,702	1,558,936
Payables arising from construction cost and acquisition of property, plant and equipment	848,242	1,083,551
Government grants (note 34)	373,442	359,841
Salaries, wages and staff welfare payable	254,590	217,813
Others	288,460	508,173
	<u>3,808,727</u>	<u>3,846,385</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Analysed as:		
Current	3,554,759	3,691,652
Non-current — government grants (note 34)	253,968	154,733
	<u>3,808,727</u>	<u>3,846,385</u>

The other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
US\$	—	35,340
	<u>—</u>	<u>35,340</u>

## 29. BILLS PAYABLES

All bills payables of the Group are aged within 365 days (2019: 365 days) and not yet due at the end of the reporting period. As at 31 December 2020, bills payables of RMB7,400,000 (2019: RMB198,649,000) are secured by certain structured bank deposits and restricted bank deposits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. BORROWING

The amount represents fixed-rate RMB bank loan which is repayable within one year and carries an effective interest rate of 2.05% (2019: 5.22%) per annum at the end of reporting period.

As at 31 December 2020, the loan was secured by the corporate guarantee of CHL.

As at 31 December 2019, the loan was secured by the pledge of the Group's right-of-use assets and property with carrying amount of RMB34,142,000.

At the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
HK\$ bank loans	373,800	490,500
RMB bank loan	—	7,000
	<u>373,800</u>	<u>497,500</u>

## 31. CONTRACT LIABILITIES

Contract liabilities represent deposits received from sales of goods. As at 1 January 2019, contract liabilities amounted to RMB700,075,000.

The Group may receive certain percentage of the contract value from customers upon signing of the sale agreements or placing of purchase orders. This gives rise to contract liability at the start of a contract until revenue is recognised.

During the year ended 31 December 2020, revenue recognised in the current year relating to brought-forward contract liabilities is RMB503,755,000 (2019: RMB700,075,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 32. LEASE LIABILITIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>The lease liabilities are payable as follows:</b>		
Within one year	<b>124,835</b>	74,235
Within a period of more than one year but not more than two years	<b>39,976</b>	76,953
Within a period of more than two years but not more than five years	<b>25,409</b>	12,277
Within a period of more than five years	<b>27,494</b>	1,070
	<b>217,714</b>	164,535
Less: Amount due for settlement within one year shown under current liabilities	<b>(124,835)</b>	(74,235)
Amount due for settlement after one year shown under non-current liabilities	<b>92,879</b>	90,300

The weighted average incremental borrowing rate applied to lease liabilities at 4.4% (2019: 4.4%).

## 33. DEFERRED TAXATION

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Deferred tax assets	<b>117,471</b>	34,843
Deferred tax liabilities	<b>(320,444)</b>	(304,427)
	<b>(202,973)</b>	(269,584)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 33. DEFERRED TAXATION (continued)

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories	Property, plant and equipment	Right-of-use assets/ lease liabilities	Other intangible assets	Withholding tax on undistributed profits of subsidiaries, associates and joint ventures	Fair value change on financial assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	17,594	(5,834)	(6,970)	(99,857)	(123,904)	–	–	(218,971)
Credit (charge) to profit or loss	17,228	7,521	1,757	1,087	(36,220)	–	–	(8,627)
Acquisition of subsidiaries (note 37)	–	–	–	(42,007)	–	–	–	(42,007)
Exchange adjustments	21	–	–	–	–	–	–	21
At 31 December 2019	<b>34,843</b>	<b>1,687</b>	<b>(5,213)</b>	<b>(140,777)</b>	<b>(160,124)</b>	<b>–</b>	<b>–</b>	<b>(269,584)</b>
Credit (charge) profit or loss	<b>6,026</b>	<b>(28,966)</b>	<b>770</b>	<b>(574)</b>	<b>(10,000)</b>	<b>(24,722)</b>	<b>76,500</b>	<b>19,034</b>
Deemed disposal of a subsidiary (note 38)	–	<b>1,992</b>	<b>(7)</b>	<b>94,936</b>	–	–	–	<b>96,921</b>
Charge to other comprehensive income	–	–	–	–	–	<b>(49,219)</b>	–	<b>(49,219)</b>
Exchange adjustments	<b>(125)</b>	–	–	–	–	–	–	<b>(125)</b>
At 31 December 2020	<b>40,744</b>	<b>(25,287)</b>	<b>(4,450)</b>	<b>(46,415)</b>	<b>(170,124)</b>	<b>(73,941)</b>	<b>76,500</b>	<b>(202,973)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 33. DEFERRED TAXATION *(continued)*

At the end of the reporting period, the Group has unused tax losses of approximately RMB1,050,184,000 (2019: RMB891,808,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unused tax losses will expire as follows:

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
2021	<b>1,300</b>	2,284
2022	<b>5,809</b>	12,173
2023	<b>26,458</b>	54,280
2024	<b>224,028</b>	246,500
2025	<b>216,841</b>	39,667
2026	<b>6,909</b>	40,722
2027	<b>84,867</b>	127,064
2028	<b>45,770</b>	89,992
2029	<b>161,636</b>	279,126
2030	<b>276,566</b>	—
	<b><u>1,050,184</u></b>	<b><u>891,808</u></b>

Under the EIT Law of PRC, withholding tax is imposed on dividends declared and payable to investors that are non-PRC tax resident enterprises in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Therefore, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB11,478,292,000 (2019: RMB6,879,928,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant deferred taxation for the year or at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 34. GOVERNMENT GRANTS

	2020 RMB'000	2019 RMB'000
<b>Current</b>		
– Other subsidies (note a)	119,474	205,108
<b>Non-current:</b>		
– Acquisition of property, plant and equipment (note b)	<u>253,968</u>	<u>154,733</u>
Total (included in other payables in note 28)	<u><u>373,442</u></u>	<u><u>359,841</u></u>

Notes:

- (a) Other subsidies are generally provided in relation to development of pharmaceutical products or improvement of production efficiency. Such amounts are included in other payables until the conditions attaching to the grants have been fulfilled. During the year, the Group recognised income of RMB93,002,000 (2019: RMB117,109,000).
- (b) Government grants include cash subsidies received from the PRC government which are specific for the purchase of plant and machinery and will be transferred to profit or loss over the useful lives of the related assets upon the Group has complied with the conditions attaching to the grants. During the year, the Group recognised income of RMB18,604,000 (2019: RMB18,639,000).

## 35. SHARE CAPITAL

	Number of shares	Share capital RMB'000
<b>Issued and fully paid</b>		
At 1 January 2019 and 31 December 2019	6,236,338,403	10,899,412
Bonus issue of shares (note a)	<u>5,737,431,329</u>	<u>—</u>
At 31 December 2020	<u><u>11,973,769,732</u></u>	<u><u>10,899,412</u></u>

Notes:

- (a) On 3 July 2020, the Company issued 1,247,267,680 ordinary shares pursuant to a bonus issue of one new share for every five existing shares held by shareholders of the Company.

On 29 October 2020, the Company issued 4,490,163,649 ordinary shares pursuant to a bonus issue of three new shares for every five existing shares held by shareholders of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 35. SHARE CAPITAL (continued)

Notes: (continued)

- (b) During the year ended 31 December 2019, the trustee of the Company's share award scheme purchased 10,000,000 shares of the Company on the Stock Exchange at prices ranging from HK\$11.08 to HK\$12.06 (equivalent to RMB9.75 to RMB10.61) per share for an aggregate consideration of approximately RMB100,706,000.

As at 31 December 2020 and 2019, all the shares were held by the trustee. The number of shares held by trustee has increased to 19,200,000 shares as at 31 December 2020 (2019: 10,000,000 shares) pursuant to the bonus issues on 3 July 2020 and 29 October 2020.

## 36. LONG-TERM INCENTIVE PROGRAMS

### (a) Share option scheme

The share option scheme adopted on 9 December 2015 (the "Option Scheme") is for the purpose of providing the Company with a flexible means of giving incentive to eligible participants and is valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Option Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Option Scheme unless the Company obtains a fresh approval from its shareholders. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding the independent non-executive director of the Company who is the grantee). Where the granting of options to a participant who is an independent non-executive director of the Company or a substantial shareholder of the Company would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant in aggregate exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000 (equivalent to RMB4,400,000), such proposed grant must be approved by the shareholders of the Company by poll in general meeting.

Options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer (both dates inclusive) upon payment of HK\$1. The subscription price for option granted is determined by the Board and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the Board to each grantee and such period shall expire not later than 10 years from the date of grant of options. No share options have been granted under the Option Scheme since its adoption.

As at the date of this report, the total number of shares of the Company available for issue under the Option Scheme is 591,101,840 shares, representing approximately 4.94% of the Company's issued share capital as at the same date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 36. LONG TERM INCENTIVE PROGRAMS *(continued)*

### (b) Share award scheme

The share award scheme adopted on 20 August 2018 (the “Award Scheme”) is for the purpose of providing the Company with a flexible means of giving incentive to eligible participant and is valid and effective for a period of 10 years from its adoption.

The total number of shares which may be purchased or issued pursuant to the Award Scheme shall not in aggregate exceed 2% of the shares of the Company in issue as at the date of approval of the Award Scheme. The maximum number of shares which may be granted to a selected participant at any one time or in aggregate under the Award Scheme must not exceed 0.5% of the shares of the Company in issue as at the date of approval of the Award Scheme.

Where any grant of shares is proposed to be made to any selected participant who is a Director (including any independent non-executive director), such grant must first be approved by all the independent non-executive directors and in each case excluding any independent non-executive director who is the proposed selected participant.

Any awarded shares held by the trustee on behalf of a selected participant shall be vested by selected participant in accordance with the vesting conditions or vesting schedule as set out in the grant notice. Awarded shares which do not vest will be forfeited and may be re-granted to other selected participants by the Board. No share has been granted under the Award Scheme for the year ended 31 December 2018.

The trustee of the Award Scheme has purchased of 10,000,000 of the Company’s own ordinary shares on the Stock Exchange in January 2019.

On 15 January 2019, the Company granted 2,394,000 award shares (“Award Shares”) under the Award Scheme to employees of the Group. A total of 1,200,000, 597,000 and 597,000 of the Award Shares will vest on 14 January 2022, 14 January 2023 and 14 January 2024, respectively, subject to the accomplishment of certain non-market conditions. The fair value of the awarded shares amounted to RMB25,113,000 was determined with reference to the share price of the Company on date of grant of HK\$11.92 (equivalent to RMB10.49) that are not adjusted by the fair value of the dividends during the vesting periods in which the employees are not entitled to dividends during the vesting periods due to insignificant impact.

During the year ended 31 December 2020, share-based payment expense of RMB7,046,000 (2019: RMB6,721,000) has been recognised in profit or loss and no Awarded Shares were forfeited.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 36. LONG TERM INCENTIVE PROGRAMS (continued)

### (c) Share option scheme adopted by a subsidiary

During the year ended 31 December 2018, Novarock Biotherapeutics Limited (“Novarock”) adopted a share option scheme pursuant to which Novarock may grant options to its full-time employees and eligible persons as defined therein to subscribe for its ordinary shares.

During the year ended 31 December 2020, 3,500 options were forfeited and no options were exercised or cancelled. As at 31 December 2020, there are 125,500 options with an exercise price of US\$22 per share outstanding.

During the year ended 31 December 2020, share-based payment expense of RMB2,080,000 (2019: nil) has been recognised in profit or loss.

## 37. ACQUISITION OF SUBSIDIARIES AND ASSETS

### For the year ended 31 December 2019

#### (a) Business combination

On 4 January 2019, the Group entered into an agreement with an independent third party to acquire 100% interest in Yong Shun Technology Development Limited and its wholly-owned subsidiaries, Shanghai JMT-BIO Technology Co., Ltd. and Shanghai JMT-BIO Pharmaceutical Co., Ltd. (“Yong Shun Group”) for a cash consideration of RMB252,880,000. The acquisition has been accounted for using the acquisition method of accounting since its completion on 11 January 2019. Yong Shun Group is principally engaged in research and development of innovative biological drugs.

*Fair value of assets acquired and liabilities recognised at the date of acquisition*

	RMB'000
<b>Non-current assets</b>	
Property, plant and equipment	8,698
Intangible assets (note)	280,048
<b>Current assets</b>	
Trade receivables	143
Deposits, prepayments and other receivables	4,663
Bank balances and cash	1,293
<b>Current liabilities</b>	
Trade payables	(3,674)
Other payables	(44,496)
<b>Non-current liabilities</b>	
Deferred tax liabilities	(42,007)
<b>Total identifiable net assets acquired</b>	<u>204,668</u>

*Note:* The intangible assets mainly represent the IPR&Ds acquired which are not yet available for use and are not amortised but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 37. ACQUISITION OF SUBSIDIARIES AND ASSETS (continued)

For the year ended 31 December 2019 (continued)

(a) **Business combination** (continued)

Goodwill arising on acquisition

	RMB'000
Consideration transferred	252,880
Less: recognised amount of identifiable net assets acquired	<u>(204,668)</u>
Goodwill arising on acquisition	<u>48,212</u>

Goodwill arose on the acquisition of Yong Shun Group because of the expected synergies, revenue growth, future market development and the assembled workforce of Yong Shun Group. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition was expected to be deductible for tax purpose.

The acquisition-related costs incurred were insignificant.

Net cash outflow on acquisition of subsidiaries

	RMB'000
Cash consideration paid	252,880
Bank balances and cash acquired	<u>(1,293)</u>
Net cash outflow	<u>251,587</u>

Yong Shun did not have any significant contribution to the Group's revenue for the year ended 31 December 2019. Included in the profit for the year was a loss of RMB89,771,000 attributable to the additional business generated by Yong Shun.

The acquisition of Yong Shun Group was completed on 11 January 2019. Accordingly, the impact to the Group's revenue and profit for the year would have been immaterial had the acquisition been completed on 1 January 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 37. ACQUISITION OF SUBSIDIARIES AND ASSETS (continued)

For the year ended 31 December 2019 (continued)

### (b) Assets acquisitions

During the year ended 31 December 2019, the following assets acquisitions have been accounted for as acquisition of assets as they did not operate any business prior to the dates of acquisitions.

- (i) On 1 February 2019, the Group entered into an agreement to acquire 100% equity interest in 上海聯寅物業管理有限公司 (“Shanghai Lianyin”) from independent third parties at a cash consideration of RMB96,899,000 and settle loan from former equity owner of RMB78,285,000. The acquisition, which was completed on 6 March 2019, enabled the Group to acquire leasehold land and property for its research and development centre in Shanghai; and
- (ii) On 28 March 2019, the Group entered into an agreement to acquire 100% equity interest in 蘇州久富電子有限公司 (“Suzhou Jiufu”) from independent third parties at a consideration of RMB18,941,000 and settle loan from former equity owner of RMB62,059,000. The acquisition, which was completed on 9 April 2019, enabled the Group to acquire leasehold land and property for its research and development centre in Suzhou.

Assets acquired and liabilities recognised at the dates of acquisitions

	<b>Shanghai Lianyin</b>	<b>Suzhou Jiufu</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	116,043	71,302	187,345
Right-of-use assets	59,005	9,698	68,703
<b>Current assets</b>			
Bank balances and cash	136	—	136
<b>Total assets acquired</b>	175,184	81,000	256,184
Less: Loan from former equity owners	(78,285)	(62,059)	(140,344)
	<u>96,899</u>	<u>18,941</u>	<u>115,840</u>
<b>Net cash outflow on acquisition of assets</b>			
Cash consideration			
— Equity interest	96,899	18,941	115,840
— Loan from former equity owners	78,285	62,059	140,344
Bank balances and cash acquired	(136)	—	(136)
Net cash outflow	<u>175,048</u>	<u>81,000</u>	<u>256,048</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 38. DISPOSAL OF SUBSIDIARIES

### For the year ended 31 December 2020

- (i) On 10 March 2020, the Group has entered into an agreement with an independent third party to dispose of its entire 99.39% equity interest in Shijiazhuang Zhongrun Pharmaceutical Technology Limited (“Zhongrun Technology”) for a consideration of RMB503,046,000. The disposal was completed on 10 March 2020 with the Group losing control in Zhongrun Technology. During the year ended 31 December 2020, the cash consideration of RMB352,132,000 are received and the remaining balance is classified as other receivables as at 31 December 2020. The net assets of Zhongrun Technology at the date of disposal were as follows:

#### Net cash inflow arising on disposal:

	<i>RMB'000</i>
Cash consideration received on 10 March 2020	50,304
Cash consideration received during the year ended 31 December 2020	301,828
Less: bank balances and cash disposed of	<u>(243,632)</u>
	<u>108,500</u>

#### Analysis of assets and liabilities over which control was lost:

	<i>RMB'000</i>
Property, plant and equipment	52,743
Right-of-use assets	31,606
Other receivables	58,438
Bank balances and cash	243,632
Other payables	<u>(169,604)</u>
Net assets disposed of	<u>216,815</u>

#### Gain on disposal of a subsidiary:

Consideration	503,046
Non-controlling interest	1,316
Net assets disposed of	<u>(216,815)</u>
Gain on disposal	<u>287,547</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 38. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended 31 December 2020 (continued)

(ii) On 16 April 2020, the Group has entered into an agreement with an independent third party to dispose of its 49.5% equity interest in CSPC Zhongcheng Pharmaceutical Logistic Co., Limited and its subsidiary ("Zhongcheng Logistics Group") for a consideration of RMB34,650,000. The disposal was completed on 30 April 2020 with the Group losing control in Zhongcheng Logistics Group. Pursuant to the relevant agreements and revised articles of association of Zhongcheng Logistics, the Group has joint control over the strategic financial and operating decisions relating to the relevant activities of Zhongcheng Logistics Group. Accordingly, Zhongcheng Logistics Group became a joint venture of the Group with effect from 1 May 2020 and has since been accounted for using the equity method of accounting. The net assets of Zhongcheng Logistics Group at the date of disposal were as follows:

### Net cash outflow arising on disposal:

	RMB'000
Cash consideration	34,650
Less: bank balances and cash disposed of	<u>(432,825)</u>
	<u><u>(398,175)</u></u>

### Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	827,178
Right-of-use assets	117,812
Interest in a joint venture	257
Inventories	67,254
Trade receivables	295,744
Other receivables	91,534
Bills receivables	133,744
Trade receivables due from related companies	101,409
Restricted bank deposits	57,522
Bank balances and cash	432,825
Trade payables	(230,682)
Other payables	(340,703)
Contract liabilities	(40,759)
Bills payables	(267,610)
Amounts due to intergroup companies	(1,131,492)
Borrowing	<u>(70,000)</u>
Net assets disposed of	<u><u>44,033</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 38. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended 31 December 2020 (continued)

(ii) (continued)

### Gain on disposal of a subsidiary:

	RMB'000
Consideration received	34,650
Non-controlling interest	440
Fair value of equity interest retained in Zhongcheng Logistics Group at the date of disposal	36,297
Net assets disposed of	<u>(44,033)</u>
Gain on disposal	<u>27,354</u>

(iii) The Group lost control over YZY Biopharma upon cancellation of the contractual arrangement with certain shareholders of YZY Biopharma (as mentioned in note 4) on 1 April 2020. Accordingly, YZY Biopharma ceased to be a subsidiary and became an associate of the Group with effect from 1 April 2020 and has been accounted for in the consolidated financial statements using the equity method of accounting. The net assets of YZY Biopharma at the date of deemed disposal were as follows:

### Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	77,170
Right-of-use assets	9,711
Goodwill	38,981
Other intangible assets	631,906
Inventories	4,129
Other receivables	8,998
Bank balances and cash	9,753
Trade payable	(13,341)
Other payables	(21,383)
Amounts due to intergroup companies	(9,118)
Borrowing	(23,000)
Deferred tax liabilities	<u>(96,921)</u>
Net assets disposed of	<u>616,885</u>

### Loss on deemed disposal of a subsidiary:

Net assets disposed of	(616,885)
Non-controlling interest	346,617
Fair value of equity interest retained in YZY Biopharma at the date of deemed disposal	<u>251,230</u>
Loss on deemed disposal	<u>(19,038)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 38. DISPOSAL OF SUBSIDIARIES (continued)

### For the year ended 31 December 2019

- (i) On 28 May 2019, the Group has entered into an agreement with an independent third party to dispose of its entire equity interest in Shijiazhuang Puentang Traditional Chinese Medicine Clinic Co., Ltd. ("Puentang"), for a consideration of RMB10,000,000. The disposal was completed on 28 May 2019 with the Group losing control in Puentang. The net assets of Puentang at the date of disposal were as follows:

#### Net cash inflow arising on disposal:

	RMB'000
Cash consideration	10,000
Less: bank balances and cash disposed of	<u>(925)</u>
	<u>9,075</u>

#### Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	4,022
Inventories	260
Trade receivables	341
Other receivables	215
Bank balances and cash	925
Other payables	<u>(785)</u>
Net assets disposed of	<u>4,978</u>

#### Gain on disposal of a subsidiary:

Consideration received	10,000
Net assets disposed of	<u>(4,978)</u>
Gain on disposal	<u>5,022</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 38. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended 31 December 2019 (continued)

(ii) On 25 October 2019, the Group has entered into an agreement with an independent third party to dispose of its entire equity interest in Loyang Zhongcheng Pharmaceutical Limited (“Loyang Zhongcheng”) for a consideration of RMB3,277,000. The disposal was completed on 25 October 2019 with the Group losing control in Loyang Zhongcheng. The net assets of Loyang Zhongcheng at the date of disposal were as follows:

### Net cash inflow arising on disposal:

	RMB'000
Cash consideration	3,277
Less: bank balances and cash disposed of	<u>(2,077)</u>
	<u><u>1,200</u></u>

### Analysis of assets and liabilities over which control was lost:

	RMB'000
Other receivables	420
Bank balances and cash	2,077
Other payables	<u>(5)</u>
Net assets disposed of	<u><u>2,492</u></u>

### Gain on disposal of a subsidiary:

Consideration received	3,277
Net assets disposed of	<u>(2,492)</u>
Gain on disposal	<u><u>785</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 39. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2020 RMB'000	2019 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	1,458,616	1,494,280
Other commitments arising from unlisted equity investments in partnerships	661,053	395,324
Other commitments arising from research and development projects	147,873	164,700
	<u>1,458,616</u>	<u>1,494,280</u>

## 40. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowing as disclosed in note 30 and amounts due to related companies, amount due to an associate and amounts due to joint ventures in note 43, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

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

## 41. FINANCIAL INSTRUMENTS

### 41a. Categories of financial instruments

	2020 RMB'000	2019 RMB'000
<b>Financial assets</b>		
FVTPL		
– other financial assets	1,239,585	592,940
– structured bank deposits	1,535,207	1,838,159
FVTOCI		
– other financial assets	637,439	485,528
– bills receivables	1,225,479	–
Amortised cost	12,153,571	8,905,699
	<u>12,153,571</u>	<u>8,905,699</u>
<b>Financial liabilities</b>		
Amortised cost	4,608,898	4,604,177
FVTPL		
– contingent consideration payable	24,346	18,130
	<u>24,346</u>	<u>18,130</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS *(continued)*

### 41b. Financial risk management objectives and policies

The major financial instruments of the Group include trade receivables, bills receivables, other receivables, amounts due from related companies, amounts due from joint ventures, amount due from an associate, other financial assets, bank deposits, structured bank deposits, restricted bank deposits, bank balances and cash, trade payables, other payables, bills payables, amounts due to joint ventures, an associate and related companies and borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### **Market risk**

##### *(i) Currency risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in US\$, listed equity investments denominated in HK\$, unlisted investment in partnerships and funds denominated in US\$ and bank balances and cash denominated in US\$ and HK\$, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
HK\$	<b>7,768</b>	—	<b>164,701</b>	76,230
US\$	<b>1,136</b>	35,340	<b>876,689</b>	639,861

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS *(continued)*

### 41b. Financial risk management objectives and policies *(continued)*

#### **Market risk** *(continued)*

##### (i) *Currency risk (continued)*

Sensitivity analysis

The Group is mainly exposed to currency risk of HK\$ and US\$.

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against HK\$ and US\$ is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% (2019: 5%) change in foreign currency rates. The post-tax profit would decrease by the below amounts where RMB strengthens 5% (2019: 5%) against the relevant currency. For a 5% (2019: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and other equity.

	HK\$ Impact (i)		US\$ Impact (ii)	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Post-tax profit	<b>(6,277)</b>	(3,049)	<b>(35,022)</b>	(24,181)

(i) This is mainly attributable to the exposure to outstanding HK\$ denominated bank balances not subject to cash flow hedges at the end of the reporting period.

(ii) This is mainly attributable to the exposure to outstanding US\$ denominated bank balances and trade receivables not subject to cash flow hedges at the end of the reporting period.

##### (ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate bank borrowing (see note 30 for details of this borrowing), which was raised from a bank in the PRC and lease liabilities (see note 32 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

No sensitivity is presented for variable-rate bank balances and fixed-rate bank borrowing as the Directors considered that the relevant interest rate risk is minimal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS *(continued)*

### 41b. Financial risk management objectives and policies *(continued)*

#### **Market risk** *(continued)*

##### *(iii) Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities for long-term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk.

#### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective listed equity instruments had been 5% (2019: 5%) higher/lower:

- Other reserves would increase/decrease by RMB1,805,000 (2019: RMB2,106,000) for the Group as a result of the changes in fair value of the listed equity investments measured at FVTOCI.

#### **Credit risk and impairment assessment**

As at 31 December 2020, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

The Group's concentration of credit risk by geographical locations on trade receivables is mainly in the PRC. The Group has concentration of credit risk as 23% (31 December 2019: 31%) and 36% (31 December 2019: 44%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

#### *Trade receivables arising from contracts with customers*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS (continued)

### 41b. Financial risk management objectives and policies (continued)

#### Credit risk and impairment assessment (continued)

##### Trade receivables arising from contracts with customers (continued)

Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has applied the simplified approach to measure the loss allowance at lifetime ECL. Except for trade receivables with significant outstanding and credit-impaired balances which are assessed individually, the Group determines the ECL on the remaining balances by using a provision matrix grouped by common risk characteristic. As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Trade receivables with significant outstanding balances individually and with aggregate gross carrying amount of RMB1,067,797,000 as at 31 December 2020 (2019: RMB1,224,779,000) are assessed individually. These balances are from counterparties which have low risk of default and usually settle within credit period. The exposure to credit risk for these balances are assessed within lifetime ECL with an average loss rate of approximately 0.02% (2019: 0.03%), impairment allowance of RMB259,000 (2019: RMB317,000) was provided by the Group as at 31 December 2020. Trade receivables with credit-impaired and with aggregate gross carrying amount of RMB6,240,000 as at 31 December 2020 (2019: nil) are assessed individually and impairment allowance of RMB6,240,000 (2019: nil) was provided by the Group as at 31 December 2020.

The remaining trade receivables with gross carrying amount of RMB1,347,258,000 (2019: RMB1,048,751,000) are assessed based on debtors' aging. The following table provides information about the exposure to credit risk for trade receivables which are assessed within lifetime ECL (not credit-impaired) as at 31 December 2020 and 2019.

#### Gross carrying amount

	Average loss rate			
	2020	2019	2020	2019
			RMB'000	RMB'000
Current (not past due)	0.12%	0.13%	1,167,113	923,474
1 – 270 days past due	4.92%	4.46%	172,784	112,015
More than 270 days past due	81.34%	62.86%	7,361	13,262
			<u>1,347,258</u>	<u>1,048,751</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS *(continued)*

### 41b. Financial risk management objectives and policies *(continued)*

#### **Credit risk and impairment assessment** *(continued)*

*Trade receivables arising from contracts with customers (continued)*

The estimated loss rates are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific trade receivable is updated.

As at 31 December 2020, the Group provided RMB15,937,000 (2019: RMB14,369,000) impairment allowance for trade receivables based on the provision matrix other than those significant outstanding balances. Impairment allowance of RMB6,240,000 (2019: nil) was made on credit-impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired) <i>RMB'000</i>	Lifetime ECL (credit- impaired) <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	12,061	—	12,061
Impairment losses recognised	14,686	—	14,686
Impairment losses reversed	(12,061)	—	(12,061)
At 31 December 2019	<b>14,686</b>	—	<b>14,686</b>
Transfer to credit-impaired	<b>(5,761)</b>	<b>5,761</b>	—
Impairment losses recognised	<b>18,139</b>	<b>2,422</b>	<b>20,561</b>
Impairment losses reversed	<b>(10,868)</b>	—	<b>(10,868)</b>
Write-offs	—	<b>(1,943)</b>	<b>(1,943)</b>
At 31 December 2020	<b>16,196</b>	<b>6,240</b>	<b>22,436</b>

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivable is over two years past due, whichever occurs earlier.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS *(continued)*

### 41b. Financial risk management objectives and policies *(continued)*

#### **Credit risk and impairment assessment** *(continued)*

##### *Bank deposits/bank balances/restricted bank deposits/structured bank deposits*

The credit risks on bank deposits, bank balances, restricted bank deposits and structured bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2020, the gross carrying amounts of bank deposits, bank balances, restricted bank deposits and structured bank deposits are RMB430,000,000, RMB7,259,458,000, RMB36,571,000 and RMB1,535,207,000, respectively (2019: nil, RMB4,118,236,000, RMB186,293,000 and RMB1,838,159,000, respectively) and the 12m ECL is considered immaterial for both years.

##### *Bills receivables*

The credit risk of bills receivables is limited because the counterparties are mainly banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2020, the gross carrying amount of bills receivables is RMB764,070,000 (2019: RMB1,993,083,000) and the 12m ECL is considered immaterial for both years.

##### *Amounts due from related companies*

In order to minimise the credit risk, the Group will assess the credit quality of related companies. Other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. The Group measures the loss allowance at lifetime ECL. As at 31 December 2020, the gross carrying amounts of trade receivables due from related companies is RMB144,260,000 (2019: RMB140,183,000).

For the purpose of impairment assessment for trade receivables and other receivables from related companies, the lifetime ECL and 12m ECL are considered to be immaterial after considering counterparties' financial background and creditability.

##### *Amounts due from joint ventures*

The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2020, the gross carrying amount of amounts due from joint ventures is RMB924,511,000 (2019: RMB219,827,000). Impairment of RMB37,500,000 (2019: RMB10,767,000) on amounts due from joint ventures was provided by the Group as at 31 December 2020.

For the purpose of impairment assessment for amounts due from joint ventures, exposure to credit risk for those balances are assessed individually with 12m ECL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS *(continued)*

### 41b. Financial risk management objectives and policies *(continued)*

#### **Credit risk and impairment assessment** *(continued)*

##### *Amount due from an associate*

The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2020, the gross carrying amount of amount due from an associate is RMB82,428,000 (2019: nil).

The Group regularly monitors the business performance of the associate. The Group's credit risk in this balance is mitigated after considering associate's financial background and creditability. For the year ended 31 December 2020, the Group assessed the ECL for amount due from an associate is insignificant and thus no loss allowance is recognised.

##### *Other receivables*

For other receivables which represented consideration receivable for disposal of a subsidiary, the management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. Impairment of RMB1,694,000 (2019: nil) was provided by the Group as of 31 December 2020.

#### **Liquidity risk**

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

As at 31 December 2020, the Group has available unutilised bank loan facilities of RMB373,800,000 (2019: RMB497,500,000). Details of which are set out in note 30.

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

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS (continued)

### 41b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

As at 31 December 2020

	Weighted average effective interest rate %	Less than 1 month or on demand RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 3 years RMB'000	More than 3 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>Non-derivative financial liabilities</b>								
Trade payables	–	192,876	1,011,690	–	–	–	1,204,566	1,204,566
Other payables	–	3,015,534	–	–	–	–	3,015,534	3,015,534
Bills payables	–	–	22,000	15,000	–	–	37,000	37,000
Amounts due to joint ventures	–	239,630	–	–	–	–	239,630	239,630
Amounts due to related companies	–	13,168	–	–	–	–	13,168	13,168
Borrowing								
– fixed-rate	2.1	–	99,556	–	–	–	99,556	99,000
Lease liabilities	4.4	16,961	14,567	94,506	74,423	31,546	232,003	217,714
		<u>3,478,169</u>	<u>1,147,813</u>	<u>109,506</u>	<u>74,423</u>	<u>31,546</u>	<u>4,841,457</u>	<u>4,826,612</u>
<b>Derivative</b>								
Contingent consideration payable	4.9	<u>24,346</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>24,346</u>	<u>24,346</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS (continued)

### 41b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

As at 31 December 2019

	Weighted average effective interest rate %	Less than 1 month or on demand RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 3 years RMB'000	More than 3 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>Non-derivative financial liabilities</b>								
Trade payables	–	169,183	941,700	–	–	–	1,110,883	1,110,883
Other payables	–	2,913,998	–	–	–	–	2,913,998	2,913,998
Bills payables	–	1,820	54,024	260,293	–	–	316,137	316,137
Amount due to a joint venture	–	104,678	–	–	–	–	104,678	104,678
Amounts due to related companies	–	10,854	–	–	–	–	10,854	10,854
Amount due to an associate	–	124,627	–	–	–	–	124,627	124,627
Borrowing								
– fixed-rate	5.2	–	263	23,217	–	–	23,480	23,000
Lease liabilities	4.4	8,051	14,776	62,908	94,111	1,855	181,701	164,535
		<u>3,333,211</u>	<u>1,010,763</u>	<u>346,418</u>	<u>94,111</u>	<u>1,855</u>	<u>4,786,358</u>	<u>4,768,712</u>
<b>Derivative</b>								
Contingent consideration payable	4.9	18,130	–	–	14,608	–	32,738	32,053
		<u>18,130</u>	<u>–</u>	<u>–</u>	<u>14,608</u>	<u>–</u>	<u>32,738</u>	<u>32,053</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS (continued)

### 41c. Fair value measurement of financial instruments

#### (i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liability	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2020 RMB'000	31 December 2019 RMB'000				
Equity securities listed in the PRC	—	536	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity securities listed in Hong Kong	36,102	42,120	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unquoted investments	1,840,922	1,035,812	Level 3	Where recent transaction prices of underlying investments is not available, discount cash flows is used for valuation.  Discount cash flows — in this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets.	Estimated discount rate  Long-term pre-tax operating margin	The higher the estimated discount rate, the lower the fair value, vice versa.  The higher the long- term pre-tax operating margin, the higher the fair value, vice versa.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS (continued)

### 41c. Fair value measurement of financial instruments (continued)

#### (i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

Financial assets/ financial liability	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2020 RMB'000	31 December 2019 RMB'000				
Bills receivables	1,225,479	—	Level 2	Discounted cash flow at a discount rate that reflects the credit risk of issuers	N/A	N/A
Structured bank deposits	1,535,207	1,838,159	Level 2	Expected yields of underlying investments in and commodities, bonds and funds invested by bank at a discount rate that reflects the credit risk of the bank	N/A	N/A
Contingent consideration payable in a business combination	24,346	32,053	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Probability of the achievement of certain milestone events	The higher the probability, the higher the fair value, vice versa.

There were no transfers between levels in the current year.

Unrealised fair value gain of RMB240,898,000 included in other comprehensive income for the year ended 31 December 2020 is related to other financial assets measured at FVTOCI held at 31 December 2020 and are reported as changes of "other reserves".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. FINANCIAL INSTRUMENTS (continued)

### 41c. Fair value measurement of financial instruments (continued)

#### (i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 and 2 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports to the Directors every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

#### (ii) Reconciliation of Level 3 Measurements

	Unquoted investments RMB'000	Contingent consideration payable RMB'000 (Note)
At 1 January 2019	606,002	32,274
Total gains	203,586	12,728
Purchase of unquoted investments	313,492	—
Disposal of unquoted investments	(12,195)	—
Transfer to interest in an associate	(75,073)	—
Payment of contingent consideration	—	(12,949)
At 31 December 2019	<b>1,035,812</b>	<b>32,053</b>
Total gains		
— in other comprehensive income	<b>296,135</b>	—
— in profit or loss	<b>531,097</b>	<b>10,423</b>
Purchase of unquoted investments	<b>216,024</b>	—
Disposal of unquoted investments	<b>(190,946)</b>	—
Transfer to interests in associates	<b>(47,200)</b>	—
Payment of contingent consideration	—	<b>(18,130)</b>
At 31 December 2020	<b>1,840,922</b>	<b>24,346</b>

Note: Pursuant to the sales and purchase agreement for the acquisition of YZY Biopharma in 2018, the Group was required to pay an additional consideration up to RMB55,426,000 if milestone events in relation to two biospecific antibodies can be achieved by the respective agreed timeline from 2018 to 2020. The fair value of such contingent arrangement amounted to RMB24,346,000 at 31 December 2020 (2019: RMB32,053,000).

#### (iii) Fair value of financial instruments that are recorded at amortised cost

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due		Dividend payable to		Lease	Bills	Total
	Borrowing	to related	Dividend	controlling	liabilities	payable	
	RMB'000	companies	payable	interests			RMB'000
	(note 30)	(note 43)	(note 12)		(note 32)		
At 1 January 2019	70,589	28,425	—	—	180,504	1,654,470	1,933,988
Financing cash flows	(47,589)	(17,571)	(965,385)	(2,910)	(64,564)	(1,504,583)	(2,602,602)
Dividend declared	—	—	965,385	2,910	—	—	968,295
Increase in bills payables (note)	—	—	—	—	—	166,250	166,250
New leases entered	—	—	—	—	48,995	—	48,995
Foreign exchange translation	—	—	—	—	(400)	—	(400)
At 31 December 2019	<b>23,000</b>	<b>10,854</b>	—	—	<b>164,535</b>	<b>316,137</b>	<b>514,526</b>
Financing cash flows	<b>167,090</b>	—	<b>(1,527,694)</b>	<b>(7,729)</b>	<b>(102,643)</b>	—	<b>(1,470,976)</b>
Finance costs recognised	<b>1,910</b>	—	—	—	<b>10,322</b>	—	<b>12,232</b>
Dividend declared	—	—	<b>1,527,694</b>	<b>7,729</b>	—	—	<b>1,535,423</b>
Disposal of a subsidiary (note 38)	<b>(70,000)</b>	—	—	—	—	—	<b>(70,000)</b>
Deemed disposal of a subsidiary (note 38)	<b>(23,000)</b>	—	—	—	—	<b>(267,610)</b>	<b>(290,610)</b>
Decrease in bills payables	—	—	—	—	—	<b>(11,527)</b>	<b>(11,527)</b>
New leases entered	—	—	—	—	<b>141,653</b>	—	<b>141,653</b>
Leases modified	—	—	—	—	<b>7,853</b>	—	<b>7,853</b>
Foreign exchange translation	—	—	—	—	<b>(4,006)</b>	—	<b>(4,006)</b>
Non-financing cash flow	—	<b>2,314</b>	—	—	—	—	<b>2,314</b>
At 31 December 2020	<b>99,000</b>	<b>13,168</b>	—	—	<b>217,714</b>	<b>37,000</b>	<b>366,882</b>

Note: During the year ended 31 December 2018, bills receivables issued by group companies for settlement of intragroup transactions were discounted to bank without recourse for proceeds of RMB1,504,583,000 and the related liabilities were included in bills payables as at 31 December 2018, which were settled during 2019. The related cash flows were presented as financing cash flows in the consolidated statement of cash flows, while movement in other bills payables which were trade in nature were presented as operating cash flows for both of the reporting periods. No such transactions were noted during the years ended 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 43. RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Other than those disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following significant transactions with related parties and the balances with them at the end of the reporting period are as follows:

### (i) Related companies

Name of company	Nature of transactions/balances	2020 RMB'000	2019 RMB'000
CSPC Holdings Company Limited ("CHL") (note a), and its subsidiaries and associates (the "CHL Group")	Sale of pharmaceutical products	466,409	490,228
	Rental expense	966	10,541
	Payment of lease liabilities	79,861	67,861
	Purchase of steam	29,902	27,583
	Recharge of utility expenses	2,977	3,473
	Warehouse service income	510	11,320
	Rental income	271	12,681
	Purchase of low cost consumables	3,002	58
	Purchase of pharmaceutical products	<u>18,805</u>	<u>15,661</u>
	Balance due from/to the CHL Group		
— trade receivables (note b)			
	aged 0-90 days	104,198	140,183
	aged 91-180 days	39,216	—
	aged 181-365 days	<u>465</u>	<u>—</u>
		143,879	140,183
— other receivables (note c)		381	—
— trade payables (note b)			
	aged 0-90 days	(488)	—
	aged 91-180 days	(1,876)	—
	aged more than 180 days	(5,523)	—
— other payables (note c)		(5,281)	(10,854)
— lease liabilities		<u>(91,654)</u>	<u>(159,683)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 43. RELATED PARTY DISCLOSURES (continued)

### (ii) Joint ventures

Name of company	Nature of transactions/balances	2020 RMB'000	2019 RMB'000	
Huarong	Purchase of raw materials	192,847	129,647	
	Recharge of utility expenses	284	135,371	
	Sales of raw materials	154,018	216,938	
	Sales of property, plant and equipment	68	—	
	Purchase of electricity	1,730	—	
	Provision of incineration service fee	485	—	
		<b>—</b>	<b>—</b>	
	Balance due from/to Huarong			
	— trade receivables (note b) aged 0-90 days	77	—	
	— other receivables (note c)	16,598	17,975	
— trade payables (note b) aged 0-90 days	(29,063)	—		
aged 91-180 days	(32,915)	—		
— other payables (note c)	(8,740)	(104,678)		
	<b>—</b>	<b>—</b>		
Yantai Jiashi	Balance due from Yantai Jiashi			
	— other receivables	—	40,653	
	— other payables	(29,348)	—	
	<b>—</b>	<b>—</b>		
Bioworkshops	Provision of research and development services	33,675	—	
	Provision of utility services	2,329	—	
	Provision of management services	758	—	
	Rental income	3,386	—	
	Imputed interest income	11,912	—	
		<b>—</b>	<b>—</b>	
	Balance due from/to Bioworkshop			
	— trade receivables (note b) aged 0-90 days	1,067	—	
	— other receivables — non-current (note d)	245,930	150,432	
	— trade payables (note b) aged 0-90 days	(7,015)	—	
— other payables (note c)	(94)	—		
	<b>—</b>	<b>—</b>		
Zhongcheng Logistics Group	Purchase of raw materials	607,230	—	
	Provision of utility services	74	—	
	Sales of pharmaceutical products	193,968	—	
	Purchase of property, plant and equipment	2,748	—	
	Provision of incineration service fee	139	—	
	Warehouse service income	1,642	—	
	Payment on lease liabilities	12,394	—	
		<b>—</b>	<b>—</b>	
	Balance due from/to Zhongcheng Logistics Group			
	— trade receivables (note b) aged 0-90 days	1,157	—	
aged 91-180 days	795	—		
	<b>—</b>	<b>—</b>		
— other receivable (note e)	621,387	—		
— lease liabilities	(66,753)	—		
— trade payables (note b) aged 0-90 days	(40,100)	—		
— other payables (note c)	(92,355)	—		
	<b>—</b>	<b>—</b>		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 43. RELATED PARTY DISCLOSURES (continued)

### (iii) Associates

Name of company	Nature of balance	2020 RMB'000	2019 RMB'000
Guoxin	Balance due to Guoxin — capital injection payable (note 18)	—	124,627
YZY Biopharma	Balance due from YZY Biopharma — other receivable (note f)	82,428	—

Notes:

- Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significant influence over the Company and exercises control over CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.
- The general credit period for trade receivables and payables is 90 days (2019: 90 days).
- Amounts are unsecured, repayable on demand and non-interest bearing.
- Amount is unsecured and with imputed interest computed using the prevailing market interest rate of 4.75% per annum for comparable long term borrowings, approximately RMB145,193,000 of the balance is denominated in US\$.
- Amount is unsecured, non-interest bearing and repayable on demand except for a balance of RMB511,401,000 (net of impairment of RMB24,499,000) which bears interest rate of 4.00% per annum with terms of two to three years.
- Amount is unsecured, repayable on demand and bears interest rate of 8.00% per annum.

### (iv) Compensation to key management personnel

The details of the compensation paid to the executive directors of the company are set out in note 9.

## 44. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs which contribution is matched by employees.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group established a 401(k) savings trust plan ("401(k) Plan"), a defined contribution plan and is funded by employers and employees, in the US that qualifies as an Inland Revenue Service ("IRS") deferred salary arrangement under Section 401(k) of the US Internal Revenue Code. Under the 401(k) Plan, participating employees may elect to contribute up to a maximum amount subject to certain IRS limitations.

During the year, the contributions made by the Group relating to the above arrangements were RMB97,128,000 (2019: RMB142,693,000), of which RMB894,000 (2019: RMB874,000) and RMB2,886,000 (2019: RMB2,077,000) were attributable to the Mandatory Provident Fund Scheme in Hong Kong and 401(k) Plan in the US, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL SUBSIDIARIES

### 45.1 General information of subsidiaries

The directors are of the opinion that a complete list of particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries as at 31 December 2020 which principally affect the results or assets of the Group.

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activity
				2020		2019		
				Directly %	Indirectly %	Directly %	Indirectly %	
Dragon Merit Holdings Limited	Hong Kong	Limited liability	RMB639,800,001	—	100	—	100	Investment holding
Yong Shun Technology Development Limited	Hong Kong	Limited liability	HK\$10,000	—	100	—	100	Investment holding
CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd	The PRC	Foreign investment enterprise with limited liability	US\$27,345,500	100	—	100	—	Manufacture and sale of vitamin C products
CSPC Hebei Zhongnuo Pharmaceutical Co., Ltd	The PRC	Sino-foreign equity joint venture with limited liability	RMB678,555,900	88.82	10.57	88.82	10.57	Manufacturing and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	100	—	100	—	Research and development of pharmaceutical products
CSPC Yinhu Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB150,000,000	—	89.45	—	89.45	Manufacture and sale of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Limited liability	RMB170,000,000	—	75	—	75	Manufacture and sales of health supplement products

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL SUBSIDIARIES (continued)

### 45.1 General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activity
				2020		2019		
				Directly %	Indirectly %	Directly %	Indirectly %	
CSPC NBP Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB413,594,300	54.06	45.94	54.06	45.94	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Co., Ltd. ("Ouyi")	The PRC	Foreign investment enterprise with limited liability	RMB300,000,000	—	100	—	100	Manufacture and sales of pharmaceutical products
CSPC Innovation Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB420,000,000	—	75	—	75	Manufacture and sales of caffeine products
CSPC Baike (Shandong) Biopharmaceutical Co., Ltd. ("Baike Shandong")	The PRC	Limited liability	RMB734,700,000	33.62	66.38	68.61	31.39	Manufacture and sales of pharmaceutical product
CSPC Shengxue Glucose Co., Ltd.	The PRC	Limited liability	RMB261,910,000	—	100	—	100	Manufacture and sales of pharmaceutical products
Hebei Jialing Pharmaceutical Limited	The PRC	Limited liability	RMB35,000,000	—	60	—	60	Sales of pharmaceutical products
Hebei Zhongnuo GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB30,000,000	—	75	—	75	Manufacture and sales of health supplement products
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB50,000,000	—	75	—	75	Sales of health supplement products
CSPC Huanglu Medical Equipment (Taizhou) Limited	The PRC	Limited liability	RMB32,000,000	—	60	—	60	Sales of pharmaceutical equipments

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL SUBSIDIARIES (continued)

### 45.1 General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activity
				2020		2019		
				Directly %	Indirectly %	Directly %	Indirectly %	
CSPC Hebei Meiwei Modernised Chinese Medicine Co., Ltd	The PRC	Limited liability	RMB50,000,000	–	70	–	70	Sales of pharmaceutical products
CSPC Neimenggu Zhongnuo Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB66,867,900	–	99.39	–	99.39	Manufacture and sales of pharmaceutical products
Shijiazhang Ouyihe Medical Trading Co., Ltd.	The PRC	Foreign Investment enterprise with Limited liability	RMB200,000,000	100	–	100	–	Sales of pharmaceutical products
Xinshi Biopharmaceutical Limited	The PRC	Limited liability	RMB132,800,000	–	100	–	100	Research and development of pharmaceutical products
CSPC Shanghai Co., Ltd. (formerly known as Shanghai Qianzhong Trade Co., Ltd.)	The PRC	Limited liability	RMB800,000,000	–	100	–	100	Investment holding
Hebei Children's Hospital of Integrated Traditional Chinese and Western Medicine	The PRC	Others	RMB1,500,000	–	100	–	100	Provision of medical service
Hebei Enshi Pharmaceutical Technology Limited	The PRC	Limited liability	RMB12,000,000	37.35	37.35	37.35	37.35	Research and development of pharmaceutical products
Shanghai Yishi Pharmaceutical Technology Co., Ltd	The PRC	Limited liability	RMB10,000,000	–	100	–	100	Research and development of pharmaceutical products

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL SUBSIDIARIES (continued)

### 45.1 General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activity
				2020		2019		
				Directly %	Indirectly %	Directly %	Indirectly %	
CSPC Xingshi Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB50,000,000	—	99.39	—	99.39	Research and development of pharmaceutical products
Shanghai Runshi Pharmaceutical Technology Co., Ltd	The PRC	Limited liability	RMB10,000,000	—	89	—	89	Research and development of pharmaceutical products
CSPC Megalith Biopharmaceutical Co., Ltd	The PRC	Limited liability	RMB200,000,000	—	100	—	100	Manufacture of pharmaceutical products
CSPC Jiangsu Zhongcheng Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB100,000,000	—	100	—	100	Sale of pharmaceutical products
Beijing Kangchuanglian Biopharmaceutical Technology Research Co., Ltd	The PRC	Limited liability	RMB5,000,000	—	100	—	100	Research and development of pharmaceutical products
Conjupro Bioerapeutics Inc.	USA	Limited liability	US\$9,512	—	100	—	100	Research and development of pharmaceutical products
CSPC Healthcare Inc.	USA	Limited liability	US\$74,400	—	100	—	100	Sales of pharmaceutical products
CSPC Dopphen Corporation	USA	Limited liability	US\$381,440	—	100	—	100	Research and development of pharmaceutical products

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL SUBSIDIARIES (continued)

### 45.1 General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activity
				2020		2019		
				Directly %	Indirectly %	Directly %	Indirectly %	
Megalith Pharmaceuticals Inc.	USA	Limited liability	US\$1,000	—	100	—	100	Research and development of pharmaceutical products
AlaMab Therapeutics, Inc.	USA	Limited liability	US\$500	—	85	—	85	Research and development of pharmaceutical products
Novarock Biotherapeutics Limited	USA	Limited liability	US\$399	—	71.15	—	71.15	Research and development of pharmaceutical products
CSPC Innovation USA Inc.	USA	Limited liability	US\$50,000	—	75	—	75	Sale of pharmaceutical products
CSPC Dermay Europe GMBH	Germany	Limited liability	EUR50,000	—	100	—	100	Sale of pharmaceutical products
CSPC Deryang Europe GMBH	Germany	Limited liability	EUR50,000	—	75	—	75	Sale of pharmaceutical products
Shanghai JMT-BIO Technology Co., Ltd.	The PRC	Limited liability	RMB70,000,000	—	100	—	100	Research and development of pharmaceutical products
Shanghai JMT-BIO Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB20,000,000	—	100	—	100	Research and development of pharmaceutical products

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL SUBSIDIARIES (continued)

### 45.1 General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activity
				2020		2019		
				Directly %	Indirectly %	Directly %	Indirectly %	
Shanghai Novarock Biopharmaceutical Co. Ltd.	The PRC	Limited liability	US\$10,000,000	–	71.15	–	71.15	Research and development of pharmaceutical products
Shanghai Alamab Biopharmaceutical Co. Ltd.	The PRC	Limited liability	US\$10,000,000	–	85	–	85	Research and development of pharmaceutical products

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

### 45.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
				RMB'000	RMB'000	RMB'000	RMB'000
CSPC XNW	The PRC	25%	25%	75,393	55,262	671,084	602,691
YZY Biopharma	The PRC	–	60.44%	–	(43,567)	–	357,609
Individually immaterial subsidiaries with non-controlling interests						97,701	96,142
						<b>768,785</b>	<b>1,056,442</b>

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL OF SUBSIDIARIES (continued)

### 45.2 Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

#### YZY Biopharma

	2019 RMB'000
Current assets	19,092
Non-current assets	720,644
Current liabilities	(46,685)
Non-current liabilities	(96,961)
Equity attributable to owners of the Company	238,481
Non-controlling interests	<u>357,609</u>
	2019 RMB'000
Revenue	—
Expenses	<u>(72,084)</u>
Loss for the year	<u>(72,084)</u>
Loss and total comprehensive expense attributable to owners of the Company	(28,517)
Loss and total comprehensive expense attributable to the non-controlling interests	<u>(43,567)</u>
Loss and total comprehensive expense for the year	<u>(72,084)</u>
Dividends paid to non-controlling interests	<u>—</u>
Net cash outflow from operating activities	(60,899)
Net cash outflow from investing activities	(9,671)
Net cash inflow from financing activities	<u>46,504</u>
Net cash outflow	<u>(24,066)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 45. PRINCIPAL OF SUBSIDIARIES (continued)

### 45.2 Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

#### CSPC XNW

	2020 RMB'000	2019 RMB'000
Current assets	1,913,048	1,899,838
Non-current assets	1,041,855	869,949
Current liabilities	(234,242)	(335,077)
Non-current liabilities	(33,761)	(30,653)
Equity attributable to owners of the Company	2,015,816	1,801,366
Non-controlling interests	<u>671,084</u>	<u>602,691</u>
Revenue	1,289,212	1,197,383
Expenses	<u>(978,369)</u>	<u>(922,454)</u>
Profit for the year	<u>310,843</u>	<u>274,929</u>
Profit and total comprehensive income attributable to owners of the Company	235,450	219,667
Profit and total comprehensive income attributable to the non-controlling interests	<u>75,393</u>	<u>55,262</u>
Profit and total comprehensive income for the year	<u>310,843</u>	<u>274,929</u>

Note: Shares of CSPC XNW was listed on the Shenzhen Stock Exchange with effect from 22 March 2019, the profit and total comprehensive income of CSPC XNW for the period from 22 March 2019 to 31 December 2019 was approximately RMB221,137,000 .

	2020 RMB'000	2019 RMB'000
Dividends paid to non-controlling interests	<u>—</u>	<u>—</u>
Net cash inflow from operating activities	349,072	315,384
Net cash inflow (outflow) from investing activities	346,166	(1,073,729)
Net cash (outflow) inflow from financing activities	(28,000)	1,074,818
Effect of foreign exchange rate changes	<u>(2,129)</u>	<u>2,267</u>
Net cash inflow	<u>665,109</u>	<u>318,740</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020 RMB'000	2019 RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	173	410
Investments in subsidiaries	8,324,944	8,749,844
Other financial asset	36,102	42,120
Amounts due from subsidiaries	2,260,895	1,490,285
Right of use assets	5,354	668
	<u>10,627,468</u>	<u>10,283,327</u>
<b>Current assets</b>		
Other receivables	125,531	1,093
Amounts due from subsidiaries	1,863,851	2,261,055
Amount due from a related company	179,168	—
Bank balances and cash	225,685	109,777
	<u>2,394,235</u>	<u>2,371,925</u>
<b>Current liabilities</b>		
Other payables	45,477	55,703
Tax liabilities	71,893	63,691
Lease liabilities	1,155	704
	<u>118,525</u>	<u>120,098</u>
<b>Net current assets</b>	<u>2,275,710</u>	<u>2,251,827</u>
<b>Total assets less current liabilities</b>	<u>12,903,178</u>	<u>12,535,154</u>
<b>Non-current liabilities</b>		
Lease liabilities	4,291	—
<b>Net assets</b>	<u>12,898,887</u>	<u>12,535,154</u>
<b>Capital and reserves</b>		
Share capital	10,899,412	10,899,412
Reserves	1,999,475	1,635,742
<b>Total equity</b>	<u>12,898,887</u>	<u>12,535,154</u>

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 15 March 2021 and are signed on its behalf by:

CAI Dongchen  
DIRECTOR

CHAK Kin Man  
DIRECTOR

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(continued)

### Movement in the Company's reserves

	Other reserve RMB'000	Treasury share reserve RMB'000	Share award reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2019	18,627	—	—	1,305,178	1,323,805
Profit for the year	—	—	—	1,392,225	1,392,225
Other comprehensive expense for the year	(20,918)	—	—	—	(20,918)
Total comprehensive (expense) income for the year	(20,918)	—	—	1,392,225	1,371,307
Dividend recognised as distribution	—	—	—	(965,385)	(965,385)
Disposal of other financial asset	(516)	—	—	516	—
Recognition of equity-settled share-based payments	—	—	6,721	—	6,721
Purchase of shares under share award scheme	—	(100,706)	—	—	(100,706)
At 31 December 2019	<b>(2,807)</b>	<b>(100,706)</b>	<b>6,721</b>	<b>1,732,534</b>	<b>1,635,742</b>
Profit for the year	—	—	—	1,887,404	1,887,404
Other comprehensive expense for the year	(3,023)	—	—	—	(3,023)
Total comprehensive (expense) income for the year	(3,023)	—	—	1,887,404	1,884,381
Dividend recognised as distribution	—	—	—	(1,527,694)	(1,527,694)
Recognition of equity-settled share-based payments	—	—	7,046	—	7,046
At 31 December 2020	<b>(5,830)</b>	<b>(100,706)</b>	<b>13,767</b>	<b>2,092,244</b>	<b>1,999,475</b>

## FINANCIAL SUMMARY

	For the year ended 31 December				2020 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
<b>Results</b>					
Revenue	10,575,530	13,386,479	17,716,540	22,103,192	<b>24,942,204</b>
Cost of sales	(5,181,498)	(5,303,764)	(5,979,187)	(6,192,211)	<b>(6,256,882)</b>
Gross profit	5,394,032	8,082,715	11,737,353	15,910,981	<b>18,685,322</b>
Other income	82,902	103,366	139,742	243,783	<b>264,736</b>
Other gains or losses	(6,904)	(50,953)	155,195	48,450	<b>376,816</b>
Selling and distribution expenses	(2,383,877)	(3,780,688)	(6,184,505)	(8,712,083)	<b>(9,377,620)</b>
Administrative expenses	(475,536)	(555,581)	(656,597)	(748,509)	<b>(945,713)</b>
Research and development expenses	(344,685)	(703,458)	(1,342,101)	(2,000,426)	<b>(2,889,837)</b>
Other expenses	(623)	(79,083)	(26,125)	(142,015)	<b>(57,036)</b>
Share of results of associates	—	—	—	—	<b>(20,917)</b>
Share of results of joint ventures	23,563	8,892	43,554	58,407	<b>34,449</b>
Gain on deemed disposal of partial interest in an associate	—	—	—	—	<b>37,192</b>
Gain on disposal of subsidiaries	—	—	—	—	<b>314,901</b>
Loss on deemed disposal of a subsidiary	—	—	—	—	<b>(19,038)</b>
Finance costs	(35,663)	(23,182)	(74,337)	(32,426)	<b>(12,232)</b>
Profit before tax	2,253,209	3,002,028	3,792,179	4,626,162	<b>6,391,023</b>
Income tax expense	(446,401)	(594,252)	(733,760)	(892,810)	<b>(1,162,013)</b>
Profit for the year	<u>1,806,808</u>	<u>2,407,776</u>	<u>3,058,419</u>	<u>3,733,352</u>	<b><u>5,229,010</u></b>
Profit for the year attributable to:					
Owners of the Company	1,796,226	2,399,484	3,080,802	3,714,106	<b>5,159,655</b>
Non-controlling interests	<u>10,582</u>	<u>8,292</u>	<u>(22,383)</u>	<u>19,246</u>	<b><u>69,355</u></b>
	<u>1,806,808</u>	<u>2,407,776</u>	<u>3,058,419</u>	<u>3,733,352</u>	<b><u>5,229,010</u></b>
	<i>RMB cents</i> (Restated) <i>(note)</i>	<i>RMB cents</i> (Restated) <i>(note)</i>	<i>RMB cents</i> (Restated) <i>(note)</i>	<i>RMB cents</i> (Restated) <i>(note)</i>	<b><i>RMB cents</i></b>
Earnings per share					
Basic	<u>15.70</u>	<u>20.52</u>	<u>25.71</u>	<u>31.07</u>	<b><u>43.16</u></b>
Diluted	<u>15.59</u>	<u>20.52</u>	<u>N/A</u>	<u>31.07</u>	<b><u>43.16</u></b>

Note: The earnings per share has been adjusted for the effect of the bonus issues on 3 July 2020 and 29 October 2020.

## FINANCIAL SUMMARY

	As at 31 December				2020 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
<b>Assets and liabilities</b>					
Total assets	13,210,366	17,988,805	23,216,837	26,318,322	<b>30,070,206</b>
Total liabilities	<u>(4,089,133)</u>	<u>(5,129,097)</u>	<u>(7,687,237)</u>	<u>(6,800,157)</u>	<b><u>(6,969,133)</u></b>
Net assets	<u>9,121,233</u>	<u>12,859,708</u>	<u>15,529,600</u>	<u>19,518,165</u>	<b><u>23,101,073</u></b>
Equity attributable to owners of the Company	9,046,325	12,788,655	15,052,260	18,461,723	<b>22,332,288</b>
Non-controlling interests	<u>74,908</u>	<u>71,053</u>	<u>477,340</u>	<u>1,056,442</u>	<b><u>768,785</u></b>
Total equity	<u>9,121,233</u>	<u>12,859,708</u>	<u>15,529,600</u>	<u>19,518,165</u>	<b><u>23,101,073</u></b>