Taxation

Cayman Islands

HUTCHMED (China) Limited is incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on profits, income, gains or appreciation earned by individuals or corporations. In addition, our payment of dividends, if any, is not subject to withholding tax in the Cayman Islands. For more information, see Item 10.E. “Taxation—Overview of Tax Implications of Various Other Jurisdictions—Cayman Islands Taxation.”

People’s Republic of China

Our subsidiaries and a joint venture incorporated in the PRC are governed by the EIT Law and regulations. Under the EIT Law, the standard EIT rate is 25% on taxable profits as reduced by available tax losses. Tax losses may be carried forward to offset any taxable profits for the following five years (extended to ten years for those with HNTE status, with effective from January 1, 2018). HUTCHMED Limited and our non-consolidated joint venture, Shanghai Hutchison Pharmaceuticals, have been successful in their respective applications to renew their HNTE status for three years from January 1, 2020 to December 31, 2022. Accordingly, these entities are eligible to a preferential EIT rate of 15% for the years ended/ending December 31, 2020, 2021 and 2022. HUTCHMED (Suzhou) Limited, a wholly owned subsidiary of HUTCHMED Limited, successful renewed its HNTE status for another three years from January 1, 2021 to December 31, 2023. Accordingly, it is eligible for a preferential EIT rate of 15% for the years ended December 31, 2021, 2022 and 2023.

For more information, see Item 10.E. “Taxation—Taxation in the PRC.” Please also see Item. 3 “Key Information—Risk Factors—Other Risks and Risks Relating to Doing Business in China—Our business benefits from certain PRC government tax incentives. The expiration of, changes to, or our PRC subsidiaries/joint venture failing to continuously meet the criteria for these incentives could have a material adverse effect on our operating results by significantly increasing our tax expenses.”

According to the EIT Law and its implementation regulations, dividends declared after January 1, 2008 and paid by PRC foreign-invested enterprises to their non-PRC parent companies will be subject to PRC withholding tax at 10% unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is a tax resident and which specifically exempts or reduces such withholding tax, and such tax exemption or reduction is approved by the relevant PRC tax authorities. Pursuant to the tax arrangement between PRC and Hong Kong, if a shareholder of the PRC enterprise is a Hong Kong tax resident and directly holds a 25% or more equity interest in the PRC enterprise and is considered to be the beneficial owner of dividends paid by the PRC enterprise, such withholding tax rate may be lowered to 5%, subject to approval by the relevant PRC tax authorities. For more information, see Item 10.E. “Taxation—Taxation in the PRC” and “Taxation—Overview of Tax Implications of Various Other Jurisdictions— Hong Kong Taxation.”

Hong Kong

Our company and certain of its subsidiaries are subject to Hong Kong Profits Tax laws and regulations. Hong Kong has a two-tiered Profits Tax rates regime under which the first HK$2.0 million ($0.3 million) of assessable profits of qualifying corporations will be taxed at 8.25%, with the remaining assessable profits taxed at 16.5%. Hong Kong Profits Tax has been provided for at the relevant rates on the estimated assessable profits less estimated available tax losses, if any, of these entities as applicable.

Period-to-Period Comparison of Results of Operations

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenues

Our revenue increased by 56.2% from $228.0 million for the year ended December 31, 2020 to $356.1 million for the year ended December 31, 2021, which resulted from increased revenue in both the Oncology/Immunology and Other Ventures operations.

Revenue from Oncology/Immunology increased by 295.9% from $30.2 million for the year ended December 31, 2020 to $119.6 million for the year ended December 31, 2021, primarily due to an increase in revenue related to the sales of Elunate from $20.0 million for the year ended December 31, 2020 (of which $11.3 million was revenue from sales of goods primarily to Eli Lilly, $4.9 million was royalty revenue, and $3.8 million was revenue from promotion and marketing services to Eli Lilly which commenced in October 2020) to $53.5 million for the year ended December 31, 2021 (of which $15.8 million was revenue from sales of goods primarily to Eli Lilly, $10.3 million was royalty revenue and $27.4 million was revenue from promotion and marketing services to Eli Lilly). The increase was also attributable to revenue generated from the commercial launch of Sulanda of $11.6 million and Orpathys of $11.3 million (of which $6.5 million was revenue from sales of goods and $4.8 million was royalty revenue) in January 2021 and July 2021, respectively. In addition, revenue related to collaboration research and development services increased from $9.8 million for the year ended December 31, 2020 to $42.7 million for the year ended December 31, 2021, primarily attributable to the receipt of a $25.0 million milestone payment from AstraZeneca upon the commercial launch of Orpathys.

Revenue from our Other Ventures increased by 19.6% from $197.8 million for the year ended December 31, 2020 to $236.5 million for the year ended December 31, 2021, primarily due to an increase in sales of prescription drug products. Revenue from sales of prescription drugs increased by 23.6% from $165.1 million for the year ended December 31, 2020 to $204.1 million for the year ended December 31, 2021 primarily due to increased sales by our consolidated joint venture Hutchison Sinopharm. Revenue from the sales of our consumer health products remained relatively stable at $32.7 million and $32.4 million for the years ended December 31, 2020 and 2021, respectively.

Cost of Revenues

Our cost of revenues increased by 37.0% from $188.5 million for the year ended December 31, 2020 to $258.2 million for the year ended December 31, 2021. This increase was primarily due to increased sales by both the Oncology/Immunology and Other Ventures operations.

Cost of revenues from Oncology/Immunology increased by 270.0% from $12.1 million for the year ended December 31, 2020 to $44.8 million for the year ended December 31, 2021, primarily due to an increase in sales of Elunate, including the provision of promotion and marketing services to Eli Lilly which commenced in October 2020, and the commencement of sales of Sulanda which launched in January 2021 and Orpathys which launched in July 2021.

Cost of revenues from our Other Ventures increased by 21.0% from $176.4 million for the year ended December 31, 2020 to $213.4 million for the year ended December 31, 2021, which was primarily due to increased sales.

Cost of revenues as a percentage of our revenues decreased from 82.7% to 72.5% across these periods primarily due to the increase in revenue from Oncology/Immunology which has higher margins than Other Ventures.

Research and Development Expenses

Our research and development expenses incurred by Oncology/Immunology increased by 71.1% from $174.8 million for the year ended December 31, 2020 to $299.1 million for the year ended December 31, 2021, which was primarily due to an $84.2 million increase in CROs and other clinical trial related costs and a $40.1 million increase in employee compensation related and other costs. These increased costs were due to a significant expansion of clinical activities in the United States and rapid organizational growth to support such expansion. In particular, this increase was attributable to the expansion of the fruquintinib, savolitinib, surufatinib, amdizalisib, HMPL-306, HMPL-760 development programs and a $10.0 million payment in connection with our in-licensing agreement for tazemetostat. As a result, research and development expenses as a percentage of our revenue increased from 76.7% to 84.0% across these periods.

Selling Expenses

Our selling expenses increased by 233.7% from $11.3 million for the year ended December 31, 2020 to $37.8 million for the year ended December 31, 2021, primarily attributable to the commencement of marketing activities following the commercial launch of Sulanda in January 2021. Selling expenses as a percentage of our revenues increased from 5.0% to 10.6% across these periods.

Administrative Expenses

Our administrative expenses increased by 78.5% from $50.0 million for the year ended December 31, 2020 to $89.3 million for the year ended December 31, 2021. This was primarily due to a $29.2 million increase in administrative expenses incurred by Oncology/Immunology, which was mainly related to increased staff cost to support the expansion of our clinical activities. This increase was also attributable to preparation costs for the potential launch of marketed products in the United States and other countries. Administrative expenses as a percentage of our revenues increased from 21.9% to 25.1% across these periods.

Gain on Divestment of An Equity Investee

We had a gain on divestment of an equity investee of $121.3 million for the year ended December 31, 2021, before applicable capital gain taxes and amounts attributable to non-controlling interests, which is related to the disposal of our shareholding interest in Hutchison Baiyunshan.

Other Income/(Expense)

We had net other income of $6.9 million for the year ended December 31, 2020 compared to net other expense of $8.7 million for the year ended December 31, 2021. The change was primarily due to a $12.5 million fair value loss recorded on a warrant to purchase shares of Epizyme in 2021, a decrease in interest income of $1.2 million due to lower bank deposit rates, and a decrease in foreign currency exchange gains of $1.6 million.

Income Tax Expense

Our income tax expense increased from $4.8 million for the year ended December 31, 2020 to $11.9 million for the year ended December 31, 2021, primarily due to the capital gains taxes related to the disposal of our shareholding interest in Hutchison Baiyunshan.

Equity in Earnings of Equity Investees

Our equity in earnings of equity investees, net of tax, decreased by 23.3% from $79.0 million for the year ended December 31, 2020 to $60.6 million for the year ended December 31, 2021. This change was primarily due to the disposal of our shareholding interest in Hutchison Baiyunshan in September 2021.

Shanghai Hutchison Pharmaceuticals

The following table shows a summary of the results of operations of Shanghai Hutchison Pharmaceuticals for the years indicated. The consolidated financial statements of Shanghai Hutchison Pharmaceuticals are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2021		2020	
	($'000)	%	($'000)	%
Revenue	332,648	100.0	276,354	100.0
Cost of sales	(77,559)	(23.3)	(72,163)	(26.1)
Selling expenses	(131,821)	(39.6)	(111,892)	(40.5)
Administrative expenses	(22,627)	(6.8)	(17,907)	(6.5)
Other net operating income	4,759	1.4	3,473	1.3
Taxation charge	(15,896)	(4.8)	(10,833)	(3.9)
Profit for the year	89,388	26.9	67,020	24.3
Equity in earnings of equity investee attributable to our company	44,678	13.4	33,502	12.1

Shanghai Hutchison Pharmaceuticals' revenue increased by 20.4% from $276.4 million for the year ended December 31, 2020 to $332.6 million for the year ended December 31, 2021, primarily due to an increase in sales of She Xiang Bao Xin pills, a vasodilator used in the treatment of heart conditions. Sales of She Xiang Bao Xin pills increased by 22.8% from $250.0 million for the year ended December 31, 2020 to $ 307.1 million for the year ended December 31, 2021.

Cost of sales increased by 7.5% from $72.2 million for the year ended December 31, 2020 to $77.6 million for the year December 31, 2021, primarily due to higher sales of She Xiang Bao Xin pills. Shanghai Hutchison Pharmaceuticals' revenue increased at a higher rate than cost of sales due to an increased proportion of sales of higher margin She Xiang Bao Xin pills.

Selling expenses increased by 17.8% from $111.9 million for the year ended December 31, 2020 to $131.8 million for the year ended December 31, 2021, as a result of increased spending on marketing and promotional activities to support the increase in sales.

Administrative expenses increased by 26.4% from $17.9 million for the year ended December 31, 2020 to $22.6 million for the year ended December 31, 2021, primarily due to an increase in research and development expenses for new products.

Other net operating income increased by 37.0% from $3.5 million for the year ended December 31, 2020 to $4.8 million for the year ended December 31, 2021, primarily due to an increase in government grants and interest income.

Taxation charge increased by 46.7% from $10.8 million for the year ended December 31, 2020 to $15.9 million for the year ended December 31, 2021, primarily due to an increase in taxable profit.

As a result of the foregoing, profit increased by 33.4% from $67.0 million for the year ended December 31, 2020 to $89.4 million for the year ended December 31, 2021. Our equity in earnings of equity investees contributed by this joint venture was $33.5 million and $44.7 million for the years ended December 31, 2020 and 2021, respectively.

Hutchison Baiyunshan

The following table shows a summary of the results of operations of Hutchison Baiyunshan for the periods indicated. The consolidated financial statements of Hutchison Baiyunshan are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Period Ended September 28, 2021		Year Ended December 31, 2020	
	($'000)	%	($'000)	%
Revenue	209,528	100.0	232,368	100.0
Cost of sales	(98,462)	(47.0)	(115,564)	(49.7)
Selling expenses	(74,425)	(35.5)	(74,066)	(31.9)
Administrative expenses	(21,659)	(10.3)	(25,664)	(11.0)
Gain on return of land	16,433	7.8	84,667	36.4
Other net operating income	5,306	2.5	6,071	2.6
Taxation charge	(4,840)	(2.3)	(16,494)	(7.1)
Profit attributable to equity holders of Hutchison Baiyunshan	31,850	15.2	91,276	39.3
Equity in earnings of equity investee attributable to our company	15,919	7.6	45,641	19.6

Fluctuations in revenue, cost of sales, administrative expenses and other net operating income between the periods presented is primarily due to the disposal of Hutchison Baiyunshan on September 28, 2021.

Selling expenses as a percentage of revenue increased by 3.6% from 31.9% for the year ended December 31, 2020 to 35.5% for the period ended September 28, 2021, primarily due to an increase in advertising expenses for brand building activities.

Gain on return of land was related to a one-time gain from land compensation for a return of land use rights to the Guangzhou government, and the majority of the compensation amount was received and recognized in 2020.

Taxation charge decreased by 70.7% from $16.5 million for the year ended December 31, 2020 to $4.8 million for the period ended September 28, 2021, primarily due to a decrease in gain on return of land between these periods.

As a result of the foregoing, profit attributable to equity holders of Hutchison Baiyunshan decreased by 65.1% from $91.3 million for the year ended December 31, 2020 to $31.9 million for the period ended September 28, 2021. Our equity in earnings of equity investees contributed by this joint venture was $45.6 million and $15.9 million for the year ended December 31, 2020 and the period ended September 28, 2021, respectively.

For more information on the financial results of our non-consolidated joint ventures, see "—Key Components of Results of Operations— Equity in Earnings of Equity Investees."

Net Loss

As a result of the foregoing, our net loss increased from $115.5 million for the year ended December 31, 2020 to $167.0 million for the year ended December 31, 2021. Net loss attributable to our company increased from $125.7 million for the year ended December 31, 2020 to $194.6 million for the year ended December 31, 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenue increased by 11.3% from $204.9 million for the year ended December 31, 2019 to $228.0 million for the year ended December 31, 2020, which was caused by increased revenue from both Oncology/Immunology and Other Ventures operations.

Revenue from Oncology/Immunology increased by 12.8% from $26.8 million for the year ended December 31, 2019 to $30.2 million for the year ended December 31, 2020, primarily due to an increase in revenue related to the sale of Elunate from $10.8 million for the year ended December 31, 2019 (of which $2.7 million was royalty revenue and $8.1 million was revenue from sales to Eli Lilly) to $20.0 million for the year ended December 31, 2020 (of which $4.9 million was royalty revenue, $11.3 million was revenue from sales of goods primarily to Eli Lilly and $3.8 million was revenue from promotion and marketing services to Eli Lilly which commenced in October 2020) as a result of the inclusion of Elunate in the 2020 China NRDL. Elunate was included on China's NRDL at an approximately 60% discount to its initial retail price. The inclusion of Elunate resulted in a substantial improvement in sales volume due to the availability of third-party reimbursements. This increase was offset in part by a decrease in revenue related to collaboration research and development services from $15.5 million for the year ended December 31, 2019 to $9.8 million for the year ended December 31, 2020 as there was less clinical activity subject to reimbursement from our collaboration partners.

Revenue from our Other Ventures increased by 11.0% from $178.1 million for the year ended December 31, 2019 to $197.8 million for the year ended December 31, 2020, primarily due to an increase in sales of prescription drug products. Revenue from sales of prescription drugs increased by 17.0% from $141.1 million for the year ended December 31, 2019 to $165.1 million for the year ended December 31, 2020 primarily due to increased sales by our consolidated joint venture Hutchison Sinopharm. The increase was offset in part by lower provision of services which decreased from $2.6 million for the year ended December 31, 2019 to nil for the year ended December 31, 2020 after the discontinuation of our distribution of Seroquel in May 2019. This increase was also offset in part by a decrease in sales of consumer health products which decreased by 4.9% from $34.4 million for the year ended December 31, 2019 to $32.7 million for the year ended December 31, 2020. This decrease was primarily attributable to decreased sales of infant nutrition products.

Our Other Ventures' results of operations are affected by seasonality. For more information, see "—Factors Affecting our Results of Operations—Other Ventures—Seasonality."

Cost of Revenues

Our cost of revenues increased by 17.7% from $160.2 million for the year ended December 31, 2019 to $188.5 million for the year ended December 31, 2020. This increase was primarily due to increased sales by our Other Ventures. Our cost of revenues increased at a higher rate than revenue due to an increased proportion of sales of lower margin products by Hutchison Sinopharm. As a result, cost of revenues as a percentage of our revenues increased from 78.2% to 82.7% across these periods.

Research and Development Expenses

Our research and development expenses incurred by Oncology/Immunology increased by 26.5% from $138.2 million for the year ended December 31, 2019 to $174.8 million for the year ended December 31, 2020, which was primarily attributable to a $18.1 million increase in payments to CROs and other clinical trial related costs and a $18.5 million increase in employee compensation related and other costs. These increased costs were due to a significant expansion of clinical activities in the United States and rapid organizational growth to support such expansion. In particular, this increase was attributable to the expansion of the fruquintinib, surufatinib, HMPL-306 and amdizalisib development programs. As a result, research and development expenses as a percentage of our revenue increased from 67.4% to 76.7% across these periods.

Selling Expenses

Our selling expenses decreased by 17.4% from $13.7 million for the year ended December 31, 2019 to $11.3 million for the year ended December 31, 2020, primarily due to decreased marketing activities after the COVID-19 outbreak. Selling expenses as a percentage of our revenues from our Other Ventures decreased from 7.7% to 5.6% across these periods.

Administrative Expenses

Our administrative expenses increased by 27.6% from $39.2 million for the year ended December 31, 2019 to $50.0 million for the year ended December 31, 2020. This was primarily due to $7.0 million increase in administrative expenses incurred by Oncology/Immunology, which was mainly related to increased staff cost to support the expansion of our clinical activities. There was also an increase of $3.0 million in administrative expenses incurred by our corporate head office for organizational expansion. Administrative expenses as a percentage of our revenues increased from 19.1% to 21.9% across these periods.

Other Income/(Expense)

We had net other income of $5.3 million for the year ended December 31, 2019, compared to net other income of $6.9 million for the year ended December 31, 2020. The increase was primarily due to foreign currency exchange gains of $3.0 million, offset in part by a decline in interest income of $1.7 million due to lower bank deposit rates.

Income Tax Expense

Our income tax expense increased from $3.3 million for the year ended December 31, 2019 to $4.8 million for the year ended December 31, 2020 primarily due to the accrual of withholding tax on the undistributed earnings in relation to the gain on return of land by Hutchison Baiyunshan.

Equity in Earnings of Equity Investees

Our equity in earnings of equity investees, net of tax, increased by 94.2% from $40.7 million for the year ended December 31, 2019 to $79.0 million for the year ended December 31, 2020. This change was primarily due to the one-time gain on return of land recorded by our former non-consolidated joint venture, Hutchison Baiyunshan, of which our attributable portion recorded to equity in earnings of equity investees, net of tax, was $36.0 million for the year ended December 31, 2020.

Shanghai Hutchison Pharmaceuticals

The following table shows a summary of the results of operations of Shanghai Hutchison Pharmaceuticals for the years indicated. The consolidated financial statements of Shanghai Hutchison Pharmaceuticals are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2020		2019	
	($'000)	%	($'000)	%
Revenue	276,354	100.0	272,082	100.0
Cost of sales	(72,163)	(26.1)	(77,313)	(28.4)
Selling expenses	(111,892)	(40.5)	(110,591)	(40.6)
Administrative expenses	(17,907)	(6.5)	(14,761)	(5.4)
Other net operating income	3,473	1.3	2,941	1.1
Taxation charge	(10,833)	(3.9)	(11,015)	(4.0)
Profit for the year	67,020	24.3	61,301	22.5
Equity in earnings of equity investee attributable to our company	33,502	12.1	30,654	11.3

Shanghai Hutchison Pharmaceuticals' revenue increased by 1.6% from $272.1 million for the year ended December 31, 2019 to $276.4 million for the year ended December 31, 2020, primarily due to an increase in sales of She Xiang Bao Xin pills, a vasodilator used in the treatment of heart conditions. Sales of She Xiang Bao Xin pills increased by 4.4% from $239.5 million for the year ended December 31, 2019 to $250.0 million for the year ended December 31, 2020. Additionally, revenue from Shanghai Hutchison Pharmaceuticals' distribution business decreased from $11.1 million for the year ended December 31, 2019 to $5.4 million for the year ended December 31, 2020, primarily due to lower provision of services after the discontinuation of our distribution of Seroquel.

Cost of sales decreased by 6.7% from $77.3 million for the year ended December 31, 2019 to $72.2 million for the year ended December 31, 2020, primarily due to the discontinuation of our distribution of Seroquel. Additionally, Shanghai Hutchison Pharmaceuticals' revenue increased at a higher rate than cost of sales due to an increased proportion of sales of higher margin She Xiang Bao Xin pills.

Selling expenses increased by 1.2% from $110.6 million for the year ended December 31, 2019 to $111.9 million for the year ended December 31, 2020, in line with the increase in revenues.

Administrative expenses increased by 21.3% from $14.8 million for the year ended December 31, 2019 to $17.9 million for the year ended December 31, 2020, primarily due to an increase in research and development expenses for new products.

Other net operating income is primarily comprised of government grants and interest income. Other net operating income increased by 18.1% from $2.9 million for the year ended December 31, 2019 to $3.5 million for the year ended December 31, 2020, primarily due to higher interest income of $0.4 million.

Taxation charge decreased by 1.7% from $11.0 million for the year ended December 31, 2019 to $10.8 million for the year ended December 31, 2020, primarily due to more tax concessions received in the year ended December 31, 2020.

As a result of the foregoing, profit increased by 9.3% from $61.3 million for the year ended December 31, 2019 to $67.0 million for the year ended December 31, 2020. Our equity in earnings of equity investees contributed by this joint venture was $30.7 million and $33.5 million for the years ended December 31, 2019 and 2020, respectively.

Hutchison Baiyunshan

The following table shows a summary of the results of operations of our former non-consolidated joint venture, Hutchison Baiyunshan, for the years indicated. The consolidated financial statements of Hutchison Baiyunshan are prepared in accordance with IFRS as issued by the IASB and are presented separately elsewhere in this annual report.

	Year Ended December 31,			
	2020		2019	
	($'000)	%	($'000)	%
Revenue	232,368	100.0	215,403	100.0
Cost of sales	(115,564)	(49.7)	(100,279)	(46.6)
Selling expenses	(74,066)	(31.9)	(74,013)	(34.4)
Administrative expenses	(25,664)	(11.0)	(23,817)	(11.1)
Gain on return of land	84,667	36.4	—	—
Other net operating income	6,071	2.6	5,626	2.6
Taxation charge	(16,494)	(7.1)	(3,634)	(1.7)
Profit attributable to equity holders of Hutchison Baiyunshan	91,276	39.3	19,792	9.2
Equity in earnings of equity investee attributable to our company	45,641	19.6	9,899	4.6

Hutchison Baiyunshan's revenue increased by 7.9% from $215.4 million for the year ended December 31, 2019 to $232.4 million for the year ended December 31, 2020, primarily due to an increase in sales of Banlangen, an anti-viral product, after the COVID-19 outbreak.

Cost of sales increased by 15.2% from $100.3 million for the year ended December 31, 2019 to $115.6 million for the year ended December 31, 2020, primarily due to an increase in raw material costs for Banlangen.

Selling expenses remained stable at $74.0 million and $74.1 million for the years ended December 31, 2019 and 2020, respectively.

Administrative expenses increased by 7.8% from $23.8 million for the year ended December 31, 2019 to $25.7 million for the year ended December 31, 2020, primarily due to an increase in general overhead costs incurred.

Other net operating income is primarily comprised of government grants, interest income, brand-licensing income and rental income. Other net operating income increased by 7.9% from $5.6 million for the year ended December 31, 2019 to $6.1 million for the year ended December 31, 2020, primarily due to higher government grants of $0.3 million and higher brand-licensing income of $0.2 million.

Taxation charge increased by 354% from $3.6 million for the year ended December 31, 2019 to $16.5 million for the year ended December 31, 2020, primarily due to a tax of $12.7 million on a one-time gain on return of land for the year ended December 31, 2020.

As a result of the foregoing and the one-time gain on return of land of $84.7 million related to land compensation received from the Guangzhou government, profit attributable to equity holders of Hutchison Baiyunshan increased by 361% from $19.8 million for the year ended December 31, 2019 to $91.3 million for the year ended December 31, 2020. Our equity in earnings of equity investees contributed by this joint venture was $9.9 million and $45.6 million for the years ended December 31, 2019 and 2020, respectively.

For more information on the financial results of our non-consolidated joint ventures, see "—Key Components of Results of Operations— Equity in Earnings of Equity Investees."

Net Loss

As a result of the foregoing, our net loss increased from $103.7 million for the year ended December 31, 2019 to $115.5 million for the year ended December 31, 2020. Net loss attributable to our company increased from $106.0 million for the year ended December 31, 2019 to $125.7 million for the year ended December 31, 2020.

B. Liquidity and Capital Resources

To date, we have taken a multi-source approach to fund our operations, including through cash flows generated and dividend payments from our Oncology/Immunology and Other Ventures operations, service and milestone and upfront payments from our collaboration partners, bank borrowings, investments from other third parties, proceeds from our listings on various stock exchanges and follow-on offerings.

Our Oncology/Immunology operations have historically not generated significant profits or have operated at a net loss, as creating potential global first-in-class or best-in-class drug candidates requires a significant investment of resources over a prolonged period of time. As a result, we anticipate that we may need additional financing for our Oncology/Immunology operations in future periods. See Item 3.D. "Risk Factors—Risks Relating to Our Oncology/Immunology Operations and Development of Our Drug Candidates—Historically, our in house research and development division, which is included in our Oncology/Immunology operations, has not generated significant profits or has operated at a net loss. Our future profitability is dependent on the successful commercialization of our drug candidates."

As of December 31, 2021, we had cash and cash equivalents of $377.5 million and short-term investments of $634.2 million and unutilized bank facilities of $157.4 million. Substantially all of our bank deposits are at major financial institutions, which we believe are of high credit quality. As of December 31, 2021, we had $26.9 million in bank loans, all of which was related to a term loan from HSBC. The total weighted average cost of bank borrowings for the year ended December 31, 2021 was 1.08% per annum. For additional information, see "—Loan Facilities."

Certain of our subsidiaries and joint ventures, including those registered as wholly foreign-owned enterprises in China, are required to set aside at least 10.0% of their after-tax profits to their general reserves until such reserves reach 50.0% of their registered capital. In addition, certain of our joint ventures are required to allocate certain of their after-tax profits as determined in accordance with related regulations and their respective articles of association to the reserve funds upon their board approval. Profit appropriated to the reserve funds for our subsidiaries and joint ventures incorporated in the PRC was approximately $51,000, $44,000 and $89,000 for the years ended December 31, 2019, 2020 and 2021, respectively.

In addition, as a result of PRC regulations restricting dividend distributions from such reserve funds and from a company's registered capital, our PRC subsidiaries are restricted in their ability to transfer a certain amount of their net assets to us as cash dividends, loans or advances. This restricted portion amounted to $0.1 million as of December 31, 2021. Although we do not currently require any such dividends, loans or advances from our PRC subsidiaries to fund our operations, should we require additional sources of liquidity in the future, such restrictions may have a material adverse effect on our liquidity and capital resources. For more information, see Item 4.B. "Business Overview—Regulation—PRC Regulation of Foreign Currency Exchange, Offshore Investment and State-Owned Assets—Regulation on Investment in Foreign invested Enterprises—Regulation on Dividend Distribution."

In addition, our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals held $50.0 million in cash and cash equivalents and no bank borrowings as of December 31, 2021. Such cash and cash equivalents are only accessible by us through dividend payments from the joint venture. The level of dividends declared by the joint venture is subject to agreement each year between us and our joint venture partner based on the profitability and working capital needs of the joint venture. As a result, we cannot guarantee that the joint venture will continue to pay dividends to us in the future at the same rate we have enjoyed in the past, or at all, which may have a material adverse effect on our liquidity and capital resources. For more information, see Item 3.D. "Risk Factors—Risks Relating to Sales of our Internally Developed Drugs and Other Drugs—As a significant portion of the operations of our Other Ventures is conducted through joint venture, we are largely dependent on the success of our joint venture and our receipt of dividends or other payments from our joint venture for cash to fund our operations and our investment in joint venture subject to liquidity risk."

We believe that our current levels of cash and cash equivalents, short-term investments, along with cash flows from operations, dividend payments and unutilized bank borrowings, will be sufficient to meet our anticipated cash needs for at least the next 12 months. In the long term, we believe that we can meet our need for cash through revenues generated from marketed products, public and private sales of our securities and the potential disposals of our remaining non-core businesses. However, we may require additional financing in order to fund all of the clinical development efforts that we plan to undertake to accelerate the development of our clinical-stage drug candidates. For more information, see Item 3.D. "Risk Factors—Risks Relating to Our Financial Position and Need for Capital."

	Year Ended December 31,		
	2021	2020	2019
		($'000)	
Cash Flow Data:			
Net cash used in operating activities	(204,223)	(62,066)	(80,912)
Net cash (used in)/generated from investing activities	(306,320)	(125,441)	119,028
Net cash generated from/(used in) financing activities	650,028	296,434	(1,493)
Net increase in cash and cash equivalents	139,485	108,927	36,623
Effect of exchange rate changes	2,427	5,546	(1,502)
Cash and cash equivalents at beginning of the year	235,630	121,157	86,036
Cash and cash equivalents at end of the year	377,542	235,630	121,157

Net Cash used in Operating Activities

Net cash used in operating activities was $62.1 million for the year ended December 31, 2020, compared to net cash used in operating activities of $204.2 million for the year ended December 31, 2021. The net change of $142.1 million was primarily attributable to higher operating expenses of $259.8 million from $424.6 million for the year ended December 31, 2020 to $684.4 million for the year ended December 31, 2021, offset in part by an increase in revenues of approximately $128.1 million from $228.0 million for the year ended December 31, 2020 to $356.1 million for the year ended December 31, 2021.

Net cash used in operating activities was $80.9 million for the year ended December 31, 2019, compared to net cash used in operating activities of $62.1 million for the year ended December 31, 2020. The net change of $18.8 million was primarily attributable to an increase in dividends received from Shanghai Hutchison Pharmaceuticals and Hutchison Baiyunshan of $58.6 million from $28.1 million for the year ended December 31, 2019 to $86.7 million for the year ended December 31, 2020. The net change was partially offset by higher net losses, primarily due to an increase in research and development expenses of $36.6 million from $138.2 million for the year ended December 31, 2019 to $174.8 million for the year ended December 31, 2020.

Net Cash (used in)/generated from Investing Activities

Net cash used in investing activities was $125.4 million for the year ended December 31, 2020, compared to net cash used in investing activities of $306.3 million for the year ended December 31, 2021. The net change of $180.9 million was primarily attributable to an increase in net deposits in short-term investment of $331.1 million from $103.5 million for the year ended December 31, 2020 to $434.6 million for the year ended December 31, 2021. The net change was also attributable to the payment of $15.0 million during the year ended December 31, 2021 to acquire a warrant to purchase Epizyme shares. The net change was partially offset by the proceeds received from the divestment of Hutchison Baiyunshan of $159.1 million during the year ended December 31, 2021.

Net cash generated from investing activities was $119.0 million for the year ended December 31, 2019, compared to net cash used in investing activities of $125.4 million for the year ended December 31, 2020. The net change of $244.4 million was primarily attributable to a net withdrawal of deposits in short-term investments of $118.9 million for the year ended December 31, 2019 compared to a net deposit in short-term investments of $103.5 million for the year ended December 31, 2020. The net change was also attributable to a purchase of leasehold land of $11.6 million in Shanghai.

Net Cash generated from/(used in) Financing Activities

Net cash generated from financing activities was $296.4 million for the year ended December 31, 2020, compared to net cash generated from financing activities of $650.0 million for the year ended December 31, 2021. The net change of $353.6 million was primarily attributable to the net proceeds of $685.4 million from a private placement in April 2021 and from our public offering on the SEHK in June and exercise of the over-allotment option in July 2021, as compared to net proceeds of $310.0 million from our follow-on offering in the United States and private placements in 2020. This net change was partially offset by an increase in purchases of ADSs by the trustee of our LTIP for the settlement of certain equity awards which totaled $12.9 million for the year ended December 31, 2020 as compared to $27.3 million for the year ended December 31, 2021, as well as an increase in dividends paid to non-controlling shareholders of subsidiaries which totaled $1.5 million for the year ended December 31, 2020 as compared to $9.9 million for the year end December 31, 2021.

Net cash used in financing activities was $1.5 million for the year ended December 31, 2019, compared to net cash generated from financing activities of $296.4 million for the year ended December 31, 2020. The net change of $297.9 million was primarily attributable to net proceeds of $310.0 million from our follow-on offering in the United States in January and February 2020 and private placements in July 2020 and November 2020.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2021. For more information on bank borrowings and interest on bank borrowings, please see “—Loan Facilities.” Our purchase obligations relate to property, plant and equipment that are contracted for but not yet paid. Our lease obligations primarily comprise future aggregate minimum lease payments in respect of various factories, warehouse, offices and other assets under non-cancellable lease agreements. For more information on purchase obligations and lease obligations, please see “—Capital Expenditures.”

	Payment Due by Period				
	Total	**Less Than 1 Year**	**1-2 Years**	**2-5 Years**	**More Than 5 Years**
			($’000)		
Bank borrowings	26,923	26,923	—	—	—
Interest on bank borrowings	104	104	—	—	—
Purchase obligations	44,204	42,519	125	1,560	—
Lease obligations	12,818	5,348	3,434	3,241	795
Total	84,049	74,894	3,559	4,801	795

Shanghai Hutchison Pharmaceuticals

The following table sets forth the contractual obligations of our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals as of December 31, 2021. Shanghai Hutchison Pharmaceuticals’ purchase obligations comprise capital commitments for property, plant and equipment contracted for but not yet paid. Shanghai Hutchison Pharmaceuticals’ lease obligations primarily comprise future aggregate minimum lease payments in respect of various offices under non-cancellable lease agreements.

	Payment Due by Period				
	Total	**Less Than 1 Year**	**1-2 Years**	**2-5 Years**	**More Than 5 Years**
			($’000)		
Purchase obligations	155	155	—	—	—
Lease obligations	3,149	859	784	1,506	—
Total	3,304	1,014	784	1,506	—

Loan Facilities

In November 2018, our subsidiary HUTCHMED Group (HK) Limited (formerly Hutchison China MediTech (HK) Limited), renewed a three-year revolving loan facility with HSBC. The facility amount of this loan was HK$234.0 million ($30.0 million) with an interest rate at the Hong Kong Inter-bank Offered Rate, or HIBOR, plus 0.85% per annum. This credit facility was guaranteed by us and included certain financial covenant requirements. The revolving loan facility expired in November 2021.

In May 2019, HUTCHMED Group (HK) Limited entered into additional credit facility arrangements with HSBC for the provision of unsecured credit facilities in the aggregate amount of HK$400.0 million ($51.3 million). The 3-year credit facilities include (i) a HK$210.0 million ($26.9 million) term loan facility and (ii) a HK$190.0 million ($24.4 million) revolving loan facility, both with an interest rate at HIBOR plus 0.85% per annum. These credit facilities are guaranteed by us and include certain financial covenant requirements. In October 2019, we drew down HK$210.0 million ($26.9 million) from the term loan facility and as of December 31, 2021, no amount was drawn from the revolving loan facility.

In August 2020, HUTCHMED Group (HK) Limited entered into a 24-month revolving credit facility with Deutsche Bank AG in the amount of HK$117.0 million ($15.0 million) with an interest rate at HIBOR plus 4.5% per annum. This revolving facility is guaranteed by us and includes certain financial covenant requirements. As of December 31, 2021, no amount was drawn from the revolving loan facility.

In October 2021, our subsidiary HUTCHMED Limited entered into a 10-year fixed asset loan facility agreement with Bank of China Limited for the provision of a secured credit facility of RMB754.9 million ($118.1 million) with an annual interest rate at the 5-year China Loan Prime Rate less 0.65%. This credit facility is guaranteed by HUTCHMED Limited’s immediate holding company, HUTCHMED Investment (HK) Limited (formerly Hutchison MediPharma (HK) Investment Limited), and secured by the underlying leasehold land and buildings, and includes certain financial covenant requirements. As of December 31, 2021, no amount was drawn from the fixed asset loan facility.

Our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals had no bank borrowings outstanding as of December 31, 2021.

Gearing Ratio

The gearing ratio of our group, which was calculated by dividing total interest-bearing loans by total equity, was 2.6% as of December 31, 2021, a decrease from 5.2% as of December 31, 2020. The decrease was primarily attributable to the increase in equity due to our primary offering of shares on the SEHK.

Capital Expenditures

We had capital expenditures of $8.6 million, $19.6 million and $16.8 million for the years ended December 31, 2019, 2020 and 2021, respectively. Our capital expenditures during these periods were primarily used for the purchases of leasehold land and property, plant and equipment for a new large-scale manufacturing facility for innovative drugs in Shanghai, China and to expand the HUTCHMED Limited research facilities and the manufacturing facility in Suzhou, China. Our capital expenditures have been primarily funded by cash flows from operations and proceeds from our initial public and follow-on offerings in Hong Kong and the United States and other equity offerings.

As of December 31, 2021, we had commitments for capital expenditures of approximately $44.2 million, primarily for the construction of the new manufacturing facility in Shanghai. We expect to fund these capital expenditures through cash flows from operations, bank borrowings and existing cash resources.

Our non-consolidated joint venture Shanghai Hutchison Pharmaceuticals had capital expenditures of $4.6 million, $2.4 million and $3.4 million for the years ended December 31, 2019, 2020 and 2021, respectively. These capital expenditures were primarily related to the renovation of new office and improvements to its production facilities in Shanghai. These capital expenditures were primarily funded through cash flows from operations of Shanghai Hutchison Pharmaceuticals.